

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2007 and 2006**

Together with Independent Auditor's Report

GRUNDY COUNTY MEMORIAL HOSPITAL

Grundy Center, Iowa

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GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

OFFICIALS

June 30, 2007

<u>Board of Commissioners</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
Jerry Bakker	Chair	Grundy Center, IA	April 2009
Wayne Bracy	Vice-Chair	Conrad, IA	April 2010
Jane Dodd	Secretary	Reinbeck, IA	April 2008
Marty Rouse	Treasurer	Grundy Center, IA	April 2009
Janet Eberline	Member	Grundy Center, IA	April 2010
Evie Haupt	Member	Wellsburg, IA	April 2008
Dan Robertson	Member	Reinbeck, IA	April 2008

<u>Hospital Officials</u>	<u>Title</u>
Pam Delagardelle	Administrator
Lisa A. Zinkula	Chief Financial Officer



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Roger E. Howard, CPA
Roger E. Thompson, CPA
Tom H. Schnack, CPA
Daniel L. Hassel, CPA
Dennis K. Grindle, CPA
Dennis R. Hein, CPA
Brent T. Frieauf, CPA
Barbara J. Fajen, CPA
Brian D. Green, CPA
Marty Dubas, CPA
Jerry O'Doherty, CPA

Independent Auditor's Report

To the Board of Commissioners of
Grundy County Memorial Hospital
Grundy Center, Iowa:

We have audited the accompanying balance sheets of GRUNDY COUNTY MEMORIAL HOSPITAL (Hospital), as of and for the years ended June 30, 2007 and 2006 and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grundy County Memorial Hospital as of June 30, 2007 and 2006, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2007, 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 the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on page 3 through 9 and page 28 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in Exhibits 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
October 15, 2007.

GRUNDY COUNTY MEMORIAL HOSPITAL

Grundy Center, Iowa

Management's Discussion and Analysis June 30, 2007 and 2006

Our discussion and analysis of Grundy County Memorial Hospital's (Hospital's) financial performance provides an overview of the Hospital and its financial activities for the fiscal years ended June 30, 2007, 2006, and 2005. Please read it in conjunction with the Hospital's financial statements, which begin on page 12.

Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the Hospital and its basic financial statements while providing an analytical overview of the Hospital's financial activities.
- The Hospital's financial statements consist of three statements - Balance Sheets; Statements of Revenue, Expenses, and Changes in Net Assets; and Statements of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.
- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

General Information

The Hospital

The Hospital is a 25-bed critical access hospital located in Grundy Center, Iowa. The Hospital also has a 55-bed long-term care unit. Grundy County Memorial Hospital is the only hospital in Grundy County and serves a population base of over 12,000 residents. The Hospital is an affiliate of Allen Health System of Waterloo, Iowa.

History

The Hospital was a private hospital operated in a home at 1209 6th Street in Grundy Center from about 1900 to 1905, under the direction of Drs. McAlvin, Thielen and McDowell. After discontinuance as a hospital, the house moved to 708 7th Street for a residence and was razed in 1965.

From 1921 to 1927, Dr. Locke H. Carpenter supplied hospital beds in connection with his office in the Carpenter Building, 617 G Avenue. Dr. Henry L. Mol established hospital facilities in connection with his office over the Corner Drug Store from 1929 to 1935.

Through the efforts of Dr. Mol and community leaders, the present Grundy County Memorial Hospital opened July 1, 1952, at its current location at 201 East J Avenue in Grundy Center as a 38-bed full service facility.

By 1967, the technical facilities were fast becoming obsolete. Moreover, the long term care of elderly people had become a need in the community. Expansion and adjustment of the original space was necessary. A bond issue for \$750,000 to match identical federal funds went before voters of the county. The vote passed, and the design, funding, construction, furnishing, and moving of the technical and administrative spread over nearly two and a half years. When finished, the 89-bed facility contained the most modern supportive amenities. Fifty-five patients could be cared for in the long-term care unit, a number that remains the same today. An open house and formal dedication in 1971 introduced the renovated hospital to the county.

Thirty-five years ago the newly constructed hospital stood alone on the east edge of town. Today, a new neighborhood has completely grown up around it.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Management's Discussion and Analysis
June 30, 2007 and 2006

Financial and Operations History

From 1983-2000, the Hospital continued to provide care despite struggling with the harsh economics that became part of rural healthcare. In 1993, the County Board of Supervisors believed maintaining a hospital in the county was critical to the medical and economic health of the area. They provided a subsidy and approved a bond referendum to pay the hospital's debt. The county has continued to subsidize the Hospital since that time.

A combination of factors helped heal the Hospital's finances. In 2000, Grundy County Memorial Hospital affiliated with Allen Hospital in Waterloo and reduced costs through joint purchasing and resource sharing. The independent Grundy County Memorial Hospital Board of Commissioners exercises joint authority for financial and long term planning, while Allen provides day-to-day operational management services. In addition, the Medicare Rural Hospital Flexibility Program allowed the Hospital to apply for status as a critical access hospital in order to receive full cost-based reimbursement for Medicare services. As a result, the Hospital began operating in the black, independent of the county subsidy.

With finances stabilized, the Hospital has added and enhanced services to meet the most common and most critical local needs.

Modernization Project

Prior to the completion of the modernization project in May 2006, the Hospital was built strictly as an inpatient facility. It had completely outgrown its outpatient areas. The building was in desperate need of updating. The GCMH Board of Commissioners prioritized the most urgent needs of the hospital and approved a \$6 million modernization plan to maximize efficiency, quality and convenience. The hospital implemented its plan the spring of 2004 to modernize the physical plant and continue to improve its technology to best serve the future healthcare needs of residents of Grundy County and the surrounding area.

Mechanical Systems

\$1.8 million in heating, cooling, air handling and electrical systems were replaced and upgraded.

Specialty Clinics

Six new exam rooms including two specialty procedure rooms were added, allowing easy access to surgery, lab and radiology. The nurse's station is close to the reception and charting area to allow two specialty clinics to operate at the same time.

Emergency Room

A designated trauma cardiac room was updated and two emergency bays are now in the department along with the addition of a waiting area.

Outpatient Therapy

This area included new square footage for the growing Physical Therapy, Occupational Therapy, Speech Therapy and Cardiac Rehab programs.

Ambulatory Surgery and Operating Rooms

Minor remodeling in the surgery area included new doors and ventilation systems to diminish infection control risks. A new Ambulatory Surgery Unit has improved patient safety, physician & customer satisfaction, and surgery volumes & efficiency with the addition of pre-admitting and recovery beds and recliners.

Radiology

This area features a new state of the art facility for the CT scanner, dexascan, mammography and sonography equipment. A new sleep studies program also resides in this new space. The layout allows for easy access to all rooms from a central radiology workroom.

GRUNDY COUNTY MEMORIAL HOSPITAL

Grundy Center, Iowa

Management's Discussion and Analysis June 30, 2007 and 2006

Hospital Entry and Parking Area

A new entry offers easy access to specialty clinics, the admissions area and outpatient services. The new waiting area allows for the seating of 50 people and handicap accessible public restrooms. A canopied drop-off at the front door has improved access for patients, long term care residents, families and visitors. An increase in outpatient services meant patients and visitors were forced to park in the street rather than in the hospital lot. Over 20 new spaces of additional parking were added.

Healing Garden

Although not planned as part of the modernization project, a healing garden was created for long-term care residents, patients, families, visitors and hospital Associates. A local high school student raised funds to construct cement walkways, a gazebo, a pergola, water fountains and plant over 1,000 trees, shrubs and perennials.

The Outpatient Therapy area was completed and occupied November 2004. The new addition, including Lab, Radiology, Specialty Clinic and Lobby, was completed June 2005. The Surgery, Recovery Room and Emergency Department remodel was completed April 2006. The Parking Lot re-pavement, expansion, and new signage were completed the fall of 2006. An Open House and Donor Appreciation for the public occurred May 11, 2006.

Computer System Implementation

In the fall of 2005, a new financial and clinical software package was implemented to improve patient safety, clinical care & documentation, and support hospital operations. The conversion also included updating and adding hardware throughout the facility.

A Partner for Grundy County

GCMH Associates

The Hospital is a vital part of Grundy County. With a staff of 149, it is one of the county's largest employers. The total annual payroll and benefits for the hospital reached \$4.6 million for the year ending June 30, 2007.

The expansion and modernization of Grundy County Memorial Hospital has lead to the creation of several jobs over the last 3 years.

The Administrative Team and Hospital Board of Commissioners demonstrate their commitment to Hospital Associates by providing many opportunities for employee education as well as encouraging persons in lower skilled positions to train for higher skill level and professional positions within the organization.

Economic Impact

According to Iowa Hospital Association statistics, Grundy County Memorial Hospital has an estimated economic impact of over \$6.1 million for the county each year. If the health sector increases or decreases in size, the medical health of the community, as well as the economic health of the community, are greatly affected. For the attraction of industrial firms, businesses, and retirees, it is crucial that the area have a quality health sector.

Community Partner

The Hospital also strives to be a good community partner. GCMH takes health education classes, health fairs and wellness opportunities out into the county. The Hospital also offers immunization clinics, occupational health services, education and drug-screenings throughout the county, thereby touching many lives.

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Management's Discussion and Analysis
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GCMH Administration and key staff are actively involved in the community-wide health needs assessment, planning and implementation strategies with public health, school, business, community and county officials. The planning sessions focus on updating and resetting the vision for community health.

Vision for the Future

The GCMH Leadership Team, Medical Staff, and Board of Commissioners engaged consultants to update the Hospital's mission, vision, and strategic initiatives. The process included interviewing over 50 leaders from the county about their vision for improving health in their communities. A strategic plan was developed for FY 2006 – 2009.

The mission of Grundy County Memorial Hospital, "to improve the health of the people in the communities we serve through healing, caring and teaching" remains current. The vision was updated to address the focus for the next three years, "to provide exceptional quality and service".

The Strategic Initiatives for GCMH for FY 2006 – 2009 are:

- Improve clinical quality, patient safety, and customer service
- Further enhance the Hospital's culture
- Stabilize, expand, and strengthen the relationship with the Medical Staff
- Expand existing services and develop new services
- Seek to reposition long-term care services with others in the region
- Build stronger relationships with service area communities
- Continue to update and upgrade the Hospital's physical facilities
- Strengthen GCMH Board, Medical Staff, and Administrative Leadership
- Continue to enhance financial performance

Financial Highlights

- The Hospital's cash and cash equivalents decreased \$566,501 from 2006 to 2007 due to an increased amount being set aside by the Board for capital improvements. From 2005 to 2006 there was an increase of \$607,365.
- The Hospital's increase in net assets was \$655,516, 12.4% from June 30, 2006 to June 30, 2007 and \$1,099,685, 26.4% from June 30, 2005 to June 30, 2006.
- Net patient and service revenue before provision for bad debt increased \$953,375, 12.0% from 2006 to 2007 and \$1,633,605, 25.9% from 2005 to 2006.
- Operating expenses increased \$823,255, 10.6% from the year ending June 30, 2006 to June 30, 2007 and \$1,389,967, 21.8% from the year ending June 30, 2005 to June 30, 2006.

Financial Statements

The Balance Sheets and Statements of Revenue, Expenses, and Changes in Net Assets

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer the question of whether the Hospital, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

GRUNDY COUNTY MEMORIAL HOSPITAL
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Management's Discussion and Analysis
June 30, 2007 and 2006

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statements of Cash Flows

The Statements of Cash Flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in the cash balance during the reporting period.

Changes in the Hospital's Net Assets and Operating Results

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 12. The Hospital's net assets increased \$655,516, 12.4% from June 30, 2006 to June 30, 2007 and \$1,099,685, 26.4% from June 30, 2005 to June 30, 2006. (Refer to **Table 1**).

Table 1: Assets, Liabilities, and Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$ 2,495,044	3,129,922	2,371,879
Capital assets, net	6,867,454	7,130,639	6,227,822
Other noncurrent assets	<u>3,183,289</u>	<u>1,453,249</u>	<u>947,572</u>
Total assets	<u>12,545,787</u>	<u>11,713,810</u>	<u>9,547,273</u>
Liabilities:			
Long-term debt outstanding	4,710,045	4,812,199	3,959,305
Other current and noncurrent liabilities	<u>1,912,474</u>	<u>1,633,859</u>	<u>1,419,901</u>
Total liabilities	<u>6,622,519</u>	<u>6,446,058</u>	<u>5,379,206</u>
Net assets:			
Invested in capital assets, net of related debt	2,157,409	2,318,675	2,270,154
Restricted for debt service	433,151	432,158	429,590
Unrestricted	<u>3,332,708</u>	<u>2,516,919</u>	<u>1,468,323</u>
Total net assets	<u>\$ 5,923,268</u>	<u>5,267,752</u>	<u>4,168,067</u>

Year Ending June 30, 2006 to June 30, 2007:

The Hospital's total assets increased \$831,977. This increase is a result of an increase in assets limited to use or restricted by the Board for capital improvements of \$1,736,238 while cash and cash equivalents decreased \$566,501.

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Management's Discussion and Analysis
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Year Ending June 30, 2005 to June 30, 2006:

The Hospital's total assets increased \$2,166,537 primarily due to capital assets for the modernization project and increased cash and cash equivalents due to increased volumes. The Hospital's long-term debt outstanding increased \$852,894. This reflects the borrowing of \$650,000 for the computer system and \$290,000 for the modernization project.

Operating Results

In 2007, the Hospital's net assets increased by \$655,516, 12.4% while in 2006 the increase was \$1,099,685, 26.4%. (Refer to **Table 2**). These increases include an excess of revenue over expenses before capital grants and contributions of \$550,141 for June 30, 2007, \$309,301 for June 30, 2006 and \$104,240 for June 30, 2005.

Table 2: Condensed Statements of Revenue, Expenses and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenue:			
Net patient service revenue	\$ 8,903,221	7,949,846	6,316,214
Provision for bad debt	(163,156)	(141,060)	(116,884)
Other operating revenue	<u>112,474</u>	<u>111,794</u>	<u>145,985</u>
Total operating revenue	8,852,539	7,920,580	6,345,342
Operating Expenses:			
Salaries and benefits	4,672,828	4,297,012	3,815,293
Purchased services and other	2,894,718	2,663,806	2,218,627
Depreciation and amortization	851,497	635,281	332,946
Interest	<u>183,380</u>	<u>183,069</u>	<u>22,335</u>
Total operating expenses	8,602,423	7,779,168	6,389,201
Operating income (loss)	250,116	141,412	(43,859)
Nonoperating Revenue and Expenses:			
County subsidy	163,000	163,000	163,000
Investment income	137,993	50,382	16,144
Noncapital grants and contributions	--	--	17,483
Other nonoperating revenue and expenses, net	<u>(968)</u>	<u>(45,493)</u>	<u>(48,528)</u>
Total nonoperating revenue (expenses), net	300,025	167,889	148,099
Excess of revenue over expenses before capital grants and contributions	550,141	309,301	104,240
Capital grants and contributions	105,375	790,384	608,655
Increase in net assets	\$ <u>655,516</u>	<u>1,099,685</u>	<u>712,895</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
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Management's Discussion and Analysis
June 30, 2007 and 2006

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income (loss) - the difference between net patient service revenue and the expenses incurred to perform those services. For the year ending June 30, 2005, the Hospital reported an operating loss of \$43,859, for the year ending June 30, 2006, the Hospital reported operating income of \$141,412 and for the year ending June 30, 2007, the Hospital reported operating income of \$250,116.

Year Ending June 30, 2006 to June 30, 2007:

The primary components of the operating income of \$250,116 are:

- Inpatient and swing bed revenue decreased \$96,076, 4.9% from June 30, 2006 to June 30, 2007 due to a change in the mix of patient days. Acute days increased 14.0%, Skilled days decreased 16.0%, and Hospitality days decreased 18.7%. The Acute and Skilled days along with six total knee surgeries and one total hip surgery resulted in an increase in Therapy, Radiology, Lab and Pharmacy revenue.
- Outpatient revenue increased \$657,884, 11.1% from 2006 to 2007. This increase is primarily due to:
 - Emergency Room visits increased from 1,484 visits to 1,565, an increase of 84 visits, 5.7% while the acuity of visits also increased.
 - Lab procedures increased by 7,979, 13.6% from 2006 to 2007.
 - Radiology volume increased 254 visits, 5.9% from 2006 to 2007. This increase primarily relates to the CT to be located in house.
 - Sleep Study volume increased from 19 studies for the year ending June 30, 2006 to 36 studies for the year ending June 30, 2007. This program began at GCMH December 2005.
- Long-Term Care revenue increased \$96,430, 4.6%. This increase reflects a slight decrease in days and an increase in rates effective July 1, 2006.
- Increases in salary and benefit costs for the Hospital's Associates of \$375,816, 8.7%.
- Purchased services and professional fees increased \$104,747, 9.0% from 2006 to 2007.
- Increases in supplies and other expenses of \$128,253, 11.0%. This increase is a result of the increase in outpatient volume and surgical procedures (6 total knee and 1 total hip replacement).
- Depreciation and amortization expense increased \$216,216, 34.0%. The completion of the \$6,000,000 modernization, the implementation & purchase of a new computer system during the year ending June 30, 2006 impacted this year also. This increase also reflects equipment purchased in the year ending June 30, 2007.

Year Ending June 30, 2005 to June 30, 2006:

The primary components of the operating income of \$141,412 are:

- Inpatient and swing bed revenue increased \$432,068, 61.1% from June 30, 2005 to June 30, 2006 due to a change in the mix of patient days. Acute days increased 28.4%, Skilled days increased 71.6%, and Hospitality days decreased 29.5%. The increase in Acute and Skilled days resulted in an increase in Therapy, Radiology, Lab and Pharmacy revenue.
- Outpatient revenue increased \$937,320, 18.8% from 2005 to 2006. This increase is primarily due to:
 - Surgery volume increased from 335 procedures to 402, an increase of 67 procedures, 20.0%.

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- Emergency Room outpatient visits increased from 1,234 visits to 1,478, an increase of 244 visits, 19.7%.
- Radiology volume increased 446 visits, 10.2% from 2005 to 2006. This increase primarily relates to the purchase of a CT to be located in house.
- Began doing Sleep Studies December 2005. There were 19 studies done as of June 30, 2006.
- Long-Term Care revenue increased \$131,917, 6.7%. This increase reflects a slight increase in days and an increase in rates effective July 1, 2005.
- Increases in salary and benefit costs for the Hospital's Associates of \$481,719, 12.6%.
- Purchased services and professional fees increased \$171,087, 17.4% from 2005 to 2006.
- Increases in supplies and other expenses of \$168,503, 16.9%. This increase is a result of the increase in inpatient days, outpatient volume and surgical procedures.
- Depreciation and amortization expense increased \$302,355, 90.8%. This increase is due to the completion of the \$6,000,000 modernization, the implementation & purchase of a new computer system and the purchase of equipment.

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses consist primarily of the county subsidy, investment income, noncapital grants and contributions, and the gain (loss) on disposal of capital assets.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2007, the Hospital had \$6,867,454 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. For the year ending June 30, 2007, the Hospital purchased capital assets costing \$572,613. Capital asset additions for the year ending June 30, 2006 were \$1,546,858 and for the year ending June 30, 2005 were \$4,248,871.

Capital asset additions for 2007 relates the pavement of the main parking lot, remodel of the education room, sleep lab and ultrasound room and the purchase of patient room furniture, cardiac stress testing equipment, computers / laptops, E Form software application for the clinical computer system (CPSI), software and hardware for the E/Map application for the Emergency Department documentation, total hip & knee instruments for surgery and equipment for the PACs.

Capital assets additions for 2006 and 2005 primarily relate to the modernization project of the Hospital.

Debt

On March 1, 2004, the Hospital closed on the financing of \$4,025,000 in revenue bonds, "Series 2004 Bonds" pursuant to the authority contained in Chapter 347 of the Code of Iowa. Based on this code the Hospital's formal debt issuances, revenue bonds, cannot be issued without approval of the Grundy County Memorial Hospital Board of Commissioners by adoption of a resolution approving and authorizing the issuance of hospital revenue bonds. The Board of Commissioners approved this resolution and indicated that it was necessary and advisable for the Hospital to move forward with the revenue bond issuance for the purpose of (i) paying the cost of improvements to and renovation, construction, expansion, equipping and furnishing of an addition to and the existing space within the Hospital, (ii) funding a debt service reserve fund and (iii) paying the costs of issuance of the Bonds and costs related thereto. The payment of the Series 2004 Bonds is payable solely from the revenue of the Hospital.

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On August 26, 2005, the Hospital entered in to a loan agreement with Grundy National Bank of Grundy Center, Iowa for \$650,000 to finance the costs of the acquisition and installation of clinical and financial equipment and software. The Board of Commissioners adopted a resolution approving and authorizing the loan agreement. The Series 2005 Subordinate Hospital Revenue Note is payable solely from the net revenue of the Hospital but is subordinate to the Hospital's obligations to make payment under the Series 2004 Bonds.

On December 27, 2005, the Hospital entered in to a loan agreement with the Grundy County Rural Electric Cooperative of Grundy Center, Iowa for \$290,000. The Grundy County Rural Electric Cooperative filed an application and supporting material with the Rural Utilities Services requesting the loan for promoting rural economic development. This loan is an interest free loan over ten years. The loan was used to finance the modernization and expansion project of the Hospital. The Series 2005, Second Subordinate Hospital Revenue Note is payable solely from the net revenue of the Hospital but is subordinate to the Hospital's obligations to make payment under the Series 2004 Bonds and the Series 2005 Subordinate Hospital Revenue Note.

Other Economic Factors

Grundy County Memorial Hospital continues to work to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for Hospital officials. Potential challenges include:

- Expenses are expected to continue to increase.
- Aged Hospital facility has been modernized with the modernization project but the portion of the facility not updated with this project will require constant maintenance and upkeep.
- Potential changes in federal and state reimbursement for patient services.
- Loss of two primary care physicians to emergency services; one physician's assistant to a psychiatry clinic; and a nurse practitioner called to active military duty. These changes impact emergency department coverage and may potentially affect inpatient volumes until another family practitioner is recruited to Grundy Center.

Grundy County Memorial Hospital continues to recruit physicians to the area. Specialty physicians now offer onsite gynecology, general surgery, orthopedics, ENT, nephrology, cardiology, podiatry, urology, gastroenterology, dermatology, psychiatry, physiatrist, and audiologist services.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional financial information, contact the Hospital Administration Office, at 201 East J Avenue, Grundy Center, IA 50638.

GRUNDY COUNTY MEMORIAL HOSPITAL
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Balance Sheets
June 30, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 877,684	1,444,185
Assets limited as to use or restricted	28,890	28,255
Receivables -		
Patient and resident, net of allowance for doubtful accounts of \$202,824 in 2007 and \$199,484 in 2006	1,190,174	1,293,698
Succeeding year County subsidy receivable	163,000	163,000
Other	16,378	17,245
Inventories	181,364	154,437
Prepaid expenses	<u>37,554</u>	<u>29,102</u>
Total current assets	<u>2,495,044</u>	<u>3,129,922</u>
Assets limited as to use or restricted:		
By Board for capital improvements	2,757,239	1,021,759
Under Hospital Revenue Bonds	<u>404,261</u>	<u>404,138</u>
	<u>3,161,500</u>	<u>1,425,897</u>
Capital assets, net	<u>6,867,454</u>	<u>7,130,639</u>
Other assets, net	<u>21,789</u>	<u>27,352</u>
Total assets	\$ <u>12,545,787</u>	<u>11,713,810</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	149,454	123,090
Accounts payable -		
Trade	571,114	395,189
Construction	--	179,922
Accrued expenses -		
Accrued salaries, wages and vacation payable	514,887	397,533
Payroll taxes	21,492	27,294
Interest	13,584	13,584
Deferred revenue	135,017	129,648
Deferred revenue for succeeding year County subsidy receivable	163,000	163,000
Estimated third-party payor settlements	<u>493,380</u>	<u>327,689</u>
Total current liabilities	2,061,928	1,756,949
Long-term debt, net of unamortized discount and current maturities	<u>4,560,591</u>	<u>4,689,109</u>
Total liabilities	<u>6,622,519</u>	<u>6,446,058</u>
Net assets:		
Invested in capital assets, net of related debt	2,157,409	2,318,675
Restricted for debt service	433,151	432,158
Unrestricted	<u>3,332,708</u>	<u>2,516,919</u>
Total net assets	<u>5,923,268</u>	<u>5,267,752</u>
Total liabilities and net assets	\$ <u>12,545,787</u>	<u>11,713,810</u>

See notes to the financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL
 Grundy Center, Iowa

Statements of Revenue, Expenses and Changes in Net Assets
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	\$ 8,903,221	7,949,846
Provision for bad debts	<u>(163,156)</u>	<u>(141,060)</u>
Net patient and service revenue	8,740,065	7,808,786
Other operating revenue	<u>112,474</u>	<u>111,794</u>
Total operating revenue	<u>8,852,539</u>	<u>7,920,580</u>
OPERATING EXPENSES:		
Salaries	3,659,191	3,317,089
Employee benefits	1,013,637	979,923
Purchased services and professional fees	1,260,078	1,155,331
Utilities	255,882	240,514
Supplies and other expenses	1,291,769	1,163,516
Depreciation and amortization	851,497	635,281
Insurance	86,989	104,445
Interest	<u>183,380</u>	<u>183,069</u>
Total operating expenses	<u>8,602,423</u>	<u>7,779,168</u>
OPERATING INCOME	<u>250,116</u>	<u>141,412</u>
NONOPERATING REVENUE (EXPENSES), NET:		
Investment income	137,993	50,382
County subsidy	163,000	163,000
Loss on disposal of capital assets	<u>(968)</u>	<u>(45,493)</u>
Nonoperating revenue, net	<u>300,025</u>	<u>167,889</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	550,141	309,301
CAPITAL GRANTS AND CONTRIBUTIONS	<u>105,375</u>	<u>790,384</u>
INCREASE IN NET ASSETS	655,516	1,099,685
NET ASSETS, Beginning of year	<u>5,267,752</u>	<u>4,168,067</u>
NET ASSETS, End of year	<u>\$ 5,923,268</u>	<u>5,267,752</u>

See notes to financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 9,014,649	7,849,260
Cash paid to employees for salaries and benefits	(4,561,276)	(4,229,114)
Cash paid to suppliers and contractors	(2,754,172)	(2,554,273)
Other receipts and payments, net	<u>113,341</u>	<u>105,078</u>
Net cash provided by operating activities	<u>1,812,542</u>	<u>1,170,951</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County subsidy received	<u>163,000</u>	<u>163,000</u>
Net cash provided by noncapital financing activities	<u>163,000</u>	<u>163,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(752,535)	(1,722,097)
Capital grants and contributions	105,375	790,384
Proceeds from issuance of long term debt	--	1,755,000
Payments on long term debt	(113,258)	(913,209)
Interest paid on debt	<u>(183,380)</u>	<u>(199,797)</u>
Net cash used in capital and related financing activities	<u>(943,798)</u>	<u>(289,719)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to assets limited as to use, net	(1,736,238)	(510,768)
Investment income	<u>137,993</u>	<u>73,901</u>
Net cash provided by (used in) investing activities	<u>(1,598,245)</u>	<u>(436,867)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(566,501)	607,365
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,444,185</u>	<u>836,820</u>
CASH AND CASH EQUIVALENTS - End of year	\$ <u><u>877,684</u></u>	<u><u>1,444,185</u></u>

See notes to financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL
 Grundy Center, Iowa

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 250,116	141,412
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	851,497	635,281
Interest expense included in operating expenses	183,380	183,069
(Increase) decrease in current assets -		
Accounts receivable -		
Patient and resident	103,524	(140,082)
Other	867	(6,716)
Inventories	(26,927)	(10,400)
Prepaid expenses	(8,452)	6,048
Increase (decrease) in current liabilities -		
Accounts payable - Trade	175,925	113,885
Accrued salaries, wages and vacation payable	117,354	63,978
Payroll taxes	(5,802)	3,920
Deferred revenue	5,369	(17,808)
Estimated third-party payor settlements - Medicare and Medicaid	<u>165,691</u>	<u>198,364</u>
Net cash provided by operating activities	\$ <u>1,812,542</u>	<u>1,170,951</u>

See notes to financial statements

GRUNDY COUNTY MEMORIAL HOSPITAL

Grundy Center, Iowa

Notes to Financial Statements

June 30, 2007 and 2006

(1) Organization and Summary of Significant Accounting Policies

The Hospital is a 25-bed public hospital with an attached 55-bed nursing home located in Grundy Center, Iowa, organized under Chapter 37 of the Iowa Code and governed by a seven member Board of Commissioners elected for alternating terms of three years.

The following is a summary of significant accounting policies of Grundy County Memorial Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

For financial reporting purposes, Grundy County Memorial Hospital has included all the funds of the Hospital and Nursing Home, specifically all assets, liabilities, revenue and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. Grundy County Memorial Hospital has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The Balance Sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two precede categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

D. *Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenue 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 basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. *Use of Estimates*

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

F. Cash and Cash Equivalents

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

G. Patient and Resident Receivables

Patient and resident receivables are uncollateralized customer and third-party payor obligations. Unpaid patient and resident receivables are not assessed interest.

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

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

H. County Subsidy Receivable

County subsidy receivable is recognized on the budget approval date, which is the date that the budget is certified by the County Board of Supervisors. The succeeding year county subsidy receivable represents subsidies certified by the Board of Supervisors to be granted in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year county subsidy receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is granted.

I. Assets Limited as to Use or Restricted

By Board of Commissioners - Periodically, the Hospital's Board of Commissioners has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Under Hospital Revenue Bonds - These funds are used for the payment of principal and interest on the bonds and to provide funds for the construction of additions to and remodeling of the existing Hospital facilities.

J. Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Capital assets donated for Hospital operations are recorded at their estimated 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.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	10 to 50 years
Buildings and building improvements	10 to 50 years
Equipment, computers, and furniture	3 to 25 years

Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash that must be used to acquire capital assets are reported as capital grants and contributions.

K. Costs of Borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring these assets.

L. Deferred Debt Financing Costs

Deferred bond issuance costs are being amortized over the life of the related bonds on a straight-line basis. Amortization expense applicable to these bonds amounted to \$5,563 for the years ended June 30, 2007 and 2006. These amounts are included in depreciation and amortization expense in the accompanying statements of revenue, expenses and changes in net assets.

M. Compensated Absences

Hospital associates accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007 and 2006.

N. Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year County subsidy receivable and advance billings of nursing home revenue.

O. *Statements of Revenue, Expenses and Changes in Net Assets*

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses. County subsidies granted to finance the current year is included in non-operating revenue and peripheral or incidental transactions are reported as non-operating revenue and expenses.

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

Q. *Grants and Contributions*

From time to time, the Hospital receives contributions from Grundy County Memorial Hospital Foundation, as well as grants and contributions from individuals and private organizations. Revenue 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 revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

R. *Charity Care*

To fulfill its mission of community service, the Hospital provides care to patients and residents 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 and residents is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of these amounts. The resulting adjustments are recorded as adjustments to patient and resident service revenue, depending on the timing of the charity determination.

S. *Investment Income*

Investment income consists of entirely of interest on cash and deposits and is included in nonoperating revenue and expenses.

(2) **Deposits and Investments**

The Hospital's deposits in banks at June 30, 2007 and 2006 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 Commissioners; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Credit Risk: The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital had no investments as defined by Government Accounting Standards Board Statement No. 3 at June 30, 2007 and 2006.

Interest Rate Risk: The Hospital's investment policy allows for the investment of funds with varying maturities as a means of managing its exposure to fair value losses arising from changes in interest rates, so long as the maturities are consistent with the needs and uses of the Hospital's funds.

Investment return, including return on assets limited as to use, for the years ended June 30, 2007 and 2006 is included in investment income on the Statements of Revenue, Expenses and Changes in Net Assets.

(3) **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare 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 Medicare fiscal intermediary

Medicaid - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. Long-term care services are reimbursed at a prospectively determined rate per day of care. These rates vary accordingly to a patient classification system. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 46% and 11%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2007, and 45% and 12%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2006. Laws and regulations governing the Medicare and Medicaid 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.

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 955,616	714,912
Outpatient	6,560,966	5,880,818
Swingbed	1,113,311	1,257,939
Nursing Home	2,193,231	2,096,801
Clinic	--	22,264
	<u>10,823,124</u>	<u>9,972,734</u>
Contractual adjustments:		
Medicare	(1,250,088)	(1,290,987)
Medicaid	(209,611)	(241,762)
Other	(447,843)	(484,693)
Charity care services	<u>(12,361)</u>	<u>(5,446)</u>
Total contractual adjustments	<u>(1,919,903)</u>	<u>(2,022,888)</u>
Net patient and resident service revenue before provision for bad debt	<u>\$ 8,903,221</u>	<u>7,949,846</u>

(4) Assets Limited as to Use or Restricted

By Board

Cash deposits and investments designated by the Board for future capital improvements, as of June 30, 2007 and 2006, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Money market accounts	\$ 649,182	213,663
Certificates of deposit	<u>2,108,057</u>	<u>808,096</u>
	<u>\$ 2,757,239</u>	<u>1,021,759</u>

Hospital Revenue Bonds

In connection with the issuance of Grundy County Memorial Hospital, Hospital Revenue Bonds, Series 2004, the Hospital is required to maintain the following funds:

Sinking Fund – Established for the monthly deposit by the Hospital of 1/12th of the next annual principal payment and 1/6th of the next semi-annual interest payment. There are no annual principal payments required by the Hospital Revenue Bonds.

Debt Service Reserve Fund – Established for the deposit of the amount of the Series Reserve Fund Requirement on the date of issuance of the Series 2004 Bonds.

Project Fund – Established from the proceeds of the Hospital Revenue Bonds, Series 2004, to provide funds for the construction of additions to and remodeling of the existing Hospital facilities.

The amounts segregated as of June 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Sinking Fund, cash and money market accounts	\$ 28,890	28,020
Debt Service Reserve Fund, certificates of deposit	\$ 404,261	404,138
Project Fund, money market accounts and accrued interest	\$ --	235
	433,151	432,393
Less amounts required for current obligations	<u>(28,890)</u>	<u>(28,255)</u>
	<u>\$ 404,261</u>	<u>404,138</u>

(5) **Composition of Patient Receivables**

Patient and resident receivables as of June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Patient and resident accounts	\$ 1,724,259	1,785,789
Less estimated third-party contractual adjustments	(331,261)	(292,607)
Less allowance for doubtful accounts	<u>(202,824)</u>	<u>(199,484)</u>
	<u>\$ 1,190,174</u>	<u>1,293,698</u>

The Hospital grants credits without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	34%	40%
Medicaid	12	9
Commercial insurance	40	36
Patients and residents	14	15
	<u>100%</u>	<u>100%</u>

(6) Capital Assets

Capital assets and the related accumulated depreciation is summarized as follows:

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2007</u>
Capital assets, not being depreciated:				
Land	\$ 10,850	--	--	10,850
Construction in progress	7,876	137,791	(143,216)	2,451
Total capital assets, not being depreciated	<u>18,726</u>	<u>137,791</u>	<u>(143,216)</u>	<u>13,301</u>
Capital assets, being depreciated:				
Land improvements	101,501	117,970	(21,855)	197,616
Buildings	8,110,973	3,381	76,441	8,190,795
Equipment	2,506,808	313,471	592	2,820,871
Vehicles	15,765	--	--	15,765
Total capital assets, being depreciated	<u>10,735,047</u>	<u>434,822</u>	<u>55,178</u>	<u>11,225,047</u>
Less accumulated depreciation:				
Land improvements	65,027	10,558	(27,943)	47,642
Buildings	2,454,774	418,701	(7,673)	2,865,802
Fixed equipment	1,101,362	401,630	(51,454)	1,451,538
Vehicles	1,971	3,941	--	5,912
Total accumulated depreciation	<u>3,623,134</u>	<u>834,830</u>	<u>(87,070)</u>	<u>4,370,894</u>
Total capital assets, being depreciated, net	<u>7,111,913</u>	<u>(400,008)</u>	<u>142,248</u>	<u>6,854,153</u>
Total capital assets, net	<u>\$ 7,130,639</u>	<u>(262,217)</u>	<u>(968)</u>	<u>6,867,454</u>

	June 30, 2005	Additions	Transfers and Disposals	June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 10,850	--	--	10,850
Construction in progress	1,302,279	379,642	(1,674,045)	7,876
Total capital assets, not being depreciated	<u>1,313,129</u>	<u>379,642</u>	<u>(1,674,045)</u>	<u>18,726</u>
Capital assets, being depreciated:				
Land improvements	88,363	21,593	(8,455)	101,501
Buildings	6,346,829	387,050	1,377,094	8,110,973
Equipment	1,908,035	764,401	(165,628)	2,506,808
Vehicles	--	15,765	--	15,765
Total capital assets, being depreciated	<u>8,343,227</u>	<u>1,167,216</u>	<u>1,203,011</u>	<u>10,735,047</u>
Less accumulated depreciation:				
Land improvements	68,236	2,018	(5,227)	65,027
Buildings	2,220,957	352,979	(119,162)	2,454,774
Fixed equipment	1,139,341	263,173	(301,152)	1,101,362
Vehicles	--	1,971	--	1,971
Total accumulated depreciation	<u>3,428,534</u>	<u>620,141</u>	<u>(425,541)</u>	<u>3,623,134</u>
Total capital assets, being depreciated, net	<u>4,914,693</u>	<u>547,075</u>	<u>1,628,552</u>	<u>7,111,913</u>
Total capital assets, net	<u>\$ 6,227,822</u>	<u>926,717</u>	<u>(45,493)</u>	<u>7,130,639</u>

(7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2007 and 2006 consisted of the following:

	June 30, 2006	Borrowings	Payments / Amortization	June 30, 2007	Due Within One Year
Hospital Revenue Bonds (A)	\$ 4,025,000	--	--	4,025,000	--
Discount on Hospital Revenue Bonds	(54,592)	--	11,104	(43,488)	--
Subordinate Hospital Revenue Note (C)	551,791	--	(113,258)	438,533	128,308
Notes Payable (D)	290,000	--	--	290,000	21,146
Net	<u>\$ 4,812,199</u>	<u>--</u>	<u>(102,154)</u>	<u>4,710,045</u>	<u>149,454</u>

	June 30, 2005	Borrowings	Payments / Amortization	June 30, 2006	Due Within One Year
Hospital Revenue Bonds (A)	\$ 4,025,000	--	--	4,025,000	--
Discount on Hospital Revenue Bonds	(65,695)	--	11,103	(54,592)	--
Hospital Revenue and Pledge Anticipation Note (B)	--	815,000	(815,000)	--	--
Subordinate Hospital Revenue Note (C)	--	650,000	(98,209)	551,791	123,090
Notes Payable (D)	--	290,000	--	290,000	--
Net	<u>\$ 3,959,305</u>	<u>1,755,000</u>	<u>(902,106)</u>	<u>4,812,199</u>	<u>123,090</u>

- (A) On March 1, 2004, \$4,025,000 Hospital Revenue Bonds, Series 2004, were issued pursuant to the authority contained in Chapter 347 of the Code of Iowa and in conformity with a resolution of the Grundy County Memorial Hospital Board of Commissioners. The proceeds of the Bonds, net of discount of \$80,500, will be used to provide funds for the construction of additions to and remodeling of the existing Hospital facilities. The interest rate on the Bonds is 4.05%.
- (B) On July 7, 2005, the Hospital entered into a note payable to Grundy National Bank in the amount of \$815,000 due June 1, 2009. The proceeds of the note were used to provide funds for the construction of additions to and remodeling of the existing Hospital facilities. The interest rate on the note was 3.99%. The note was paid in full at June 30, 2006.
- (C) On August 26, 2005, the Hospital entered into a loan agreement with Grundy National Bank in the amount of \$650,000 to finance the implementation of new clinical and financial software. The loan is payable in monthly installments of \$12,148, including interest at 4.57% through September 2010.
- (D) On December 27, 2005, the Hospital entered into a rural development loan agreement with Grundy County Rural Electric Cooperative in the amount of \$290,000 to provide additional funds for the construction of additions to and remodeling of the existing Hospital facilities. The loan is payable in monthly installments of \$3,021, without interest, beginning December 2007 through December 2015.

Annual debt service requirements related to the long-term debt are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 149,454	180,478	329,932
2009	170,591	174,445	345,036
2010	176,860	168,176	345,036
2011	4,096,524	163,289	4,259,813
2012	36,250	--	36,250
2013 - 2016	<u>123,854</u>	<u>--</u>	<u>123,854</u>
	<u>\$ 4,753,533</u>	<u>686,388</u>	<u>5,439,921</u>

Under the terms of the Hospital Revenue Bonds, the Hospital is required to maintain certain funds which are included in the assets limited as to use or restricted in the accompanying financial statements.

A summary of interest expense and investment income on borrowed funds during the years ended June 30, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>
Interest cost:		
Capitalized	\$ --	16,728
Expensed	<u>183,380</u>	<u>183,069</u>
	<u>\$ 183,380</u>	<u>199,797</u>
Investment income:		
Capitalized	<u>\$ --</u>	<u>23,519</u>

(8) Pension and Retirement Benefits

The Hospital's employees are leased employees of Allen Health System. As a result, the employees participate in Allen Health System's defined contribution pension plan. Participants may make pre-tax contributions from 1% to 20% of eligible salaries. The Hospital contributes 2% of participants' eligible salaries and matches up to 50% of the first 4% of participants' contributions. Pension plan expense for the years ended June 30, 2007 and 2006 was \$160,710 and \$148,234, respectively.

(9) Operating Subsidy

Effective January 1, 1998, the Hospital entered into an operating agreement with Iowa Health System (Allen Health System). Under this agreement, the Board of Commissioners of Grundy County Memorial Hospital (Hospital Commission) and Allen Health System will jointly exercise certain powers of the Hospital Commission to operate the Hospital and share in the risk and benefits of operation. Included in the statements of revenue, expenses and changes in net assets as a result of this agreement are amounts due to Allen Health System as of June 30, 2007 and 2006 of \$250,147 and \$141,467, respectively.

(10) Hospital Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; 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.

The Hospital's leased employees participate in Allen Health System's Self-Funded Health Plan (Plan). The Plan's members include all employees of Allen Health System. The Hospital contributes monthly to the Plan. The Hospital's contributions to the Plan during the years ended June 30, 2007 and 2006 were \$588,678 and \$556,719, respectively. Stop-loss coverage is provided through a commercial insurance company.

The Hospital also participates in Allen Health System's Self-Funded Worker's Compensation Plan. The Worker's Compensation Plan also has stop-loss coverage through a commercial insurance company.

(11) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

(12) Commitments and Contingencies

Litigation

The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Hospital's future financial position or results from operations.

(13) Foundation

Grundy County Memorial Hospital Foundation (Foundation) was established to raise funds exclusively for the benefit of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore the Foundation is not reported with the Hospital under GASB Statement 39.

A summary of the Foundation's assets, liabilities and net assets, based on a modified cash basis, as of June 30, 2007 and 2006 follows:

	<u>(Unaudited)</u>	
	<u>2007</u>	<u>2006</u>
Assets	\$ <u>642,352</u>	<u>475,968</u>
Net assets	\$ <u>642,352</u>	<u>475,968</u>

The Hospital received \$5,375 and \$690,384 from the Foundation during the years ended June 30, 2007 and 2006, respectively, for the purchase of property and equipment. The Hospital also received \$-0- and \$19,165 from the Foundation for operating purposes during the years ended June 30, 2007 and 2006. As of June 30, 2007, the Foundation has approximately \$206,000 of pledges receivable related to the Hospital's Project.

GRUNDY COUNTY MEMORIAL HOSPITAL
 Grundy Center, Iowa

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets
Budget and Actual (Cash Basis)

Required Supplementary Information

June 30, 2007 and 2006

	<u>Accrual Basis</u>			<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>General</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>		
Estimated amount to be raised by taxation	\$ 163,000	-	163,000	163,000	-
Estimated other revenues / receipts	<u>9,094,939</u>	<u>276,419</u>	<u>9,371,358</u>	<u>10,508,000</u>	<u>(1,136,642)</u>
	9,257,939	276,419	9,534,358	10,671,000	(1,136,642)
Expenses / Disbursements	<u>8,602,423</u>	<u>(237,802)</u>	<u>8,364,621</u>	<u>10,117,700</u>	<u>1,753,079</u>
Net	655,516	514,221	1,169,737	553,300	<u>\$ 616,437</u>
Balance beginning of year	<u>5,267,752</u>	<u>(2,369,415)</u>	<u>2,898,337</u>	<u>2,898,337</u>	
Balance end of year	<u>\$ 5,923,268</u>	<u>(1,855,194)</u>	<u>4,068,074</u>	<u>3,451,637</u>	

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

The Board of Commissioners 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 347 of the Code of Iowa. The Board of Commissioners certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

**Schedules of Net Patient and Resident Service Revenue
For the Years Ended June 30, 2007 and 2006**

	2007			2006				
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Long term care	\$ 2,193,231	--	--	2,193,231	2,096,801	--	--	2,096,801
Swing bed	--	--	577,390	577,390	--	--	686,393	686,393
Adult and pediatric	397,605	--	--	397,605	334,038	--	--	334,038
Observation	192	60,639	--	60,831	756	--	--	40,518
Hospitality	40,023	--	--	40,023	39,950	--	--	39,950
	<u>2,631,051</u>	<u>60,639</u>	<u>577,390</u>	<u>3,269,080</u>	<u>2,471,545</u>	<u>39,762</u>	<u>686,393</u>	<u>3,197,700</u>
OTHER PROFESSIONAL SERVICES:								
Laboratory	71,017	1,326,934	32,614	1,430,565	56,649	1,195,514	29,865	1,282,028
Radiology	48,042	1,224,487	5,143	1,277,672	35,519	869,987	3,657	909,163
Pharmacy	144,719	785,216	261,989	1,191,924	105,308	594,627	312,307	1,012,242
Emergency and outpatient service	5,724	1,030,828	599	1,037,151	5,797	804,577	2,306	812,680
Physical therapy	16,813	740,879	146,888	904,580	10,829	699,080	127,756	837,665
Operating and recovery rooms	144,315	732,092	--	876,407	36,161	925,654	--	961,815
Mobile services	7,374	180,460	4,104	191,938	14,676	326,235	419	341,330
Occupational therapy	2,062	89,438	44,782	136,282	2,873	72,311	46,452	121,636
Anesthesiology	18,534	109,656	--	128,190	11,369	101,844	--	113,213
Electrocardiology	5,456	86,635	1,416	93,507	5,313	81,486	1,127	87,926
Respiratory therapy	47,316	2,940	31,956	82,212	45,199	3,792	37,758	86,749
Sleep lab	--	80,100	--	80,100	--	45,600	--	45,600
Cardiac rehab	67	73,545	--	73,612	211	72,944	147	73,302
Diabetic education	--	19,239	--	19,239	--	21,021	--	21,021
Speech therapy	--	7,743	6,430	14,173	444	12,608	5,943	18,995
Ambulance	6,357	7,683	--	14,040	6,029	3,387	748	10,164
Central services and supply	--	1,882	--	1,882	3,791	10,389	3,061	17,241
Nutrition education	--	570	--	570	--	--	--	--
GCMH clinic	517,796	6,500,327	535,921	7,554,044	340,168	5,863,320	571,546	6,775,034
	<u>3,148,847</u>	<u>6,560,966</u>	<u>1,113,311</u>	<u>10,823,124</u>	<u>2,811,713</u>	<u>5,903,082</u>	<u>1,257,939</u>	<u>9,972,734</u>
GROSS PATIENT SERVICE REVENUE								
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(1,907,542)				(2,017,442)
Provision for bad debt				(163,156)				(141,060)
Charity care services and other discounts, based on charges forgone				(12,361)				(5,446)
NET PATIENT SERVICE REVENUE				<u>\$ 8,740,065</u>			\$	<u>\$ 7,808,786</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Other Operating Revenue
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Clinic rent and other	\$ 51,336	55,420
Grants	31,365	25,026
Cafeteria and vending	19,006	26,312
Miscellaneous	9,732	3,856
Medical records transcriptions	<u>1,035</u>	<u>1,180</u>
	<u>\$ 112,474</u>	<u>111,794</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Departmental Expenses
For the Years Ended June 30, 2007 and 2006

	2007				2006			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Long term care	766,413	4,208	40,568	811,189	762,673	4,587	30,395	797,655
Adult and pediatric	231,028	30,569	28,151	289,748	196,935	25,742	27,335	250,012
Swing bed	225,951	1,361	2,130	229,442	224,140	26,225	6,601	256,966
Hospitality	45,547	--	--	45,547	50,965	--	49	51,014
	<u>1,268,939</u>	<u>36,138</u>	<u>70,849</u>	<u>1,375,926</u>	<u>1,234,713</u>	<u>56,554</u>	<u>64,380</u>	<u>1,355,647</u>
OTHER PROFESSIONAL SERVICES:								
Emergency room	280,838	177,470	32,605	490,913	242,014	181,851	23,979	447,844
Laboratory	154,637	102,991	140,242	397,870	154,220	95,508	121,534	371,262
Pharmacy	23,865	6,672	298,739	329,276	19,356	14,337	216,128	249,821
Operating and recovery room	139,656	61,000	118,871	309,527	115,837	40,823	73,311	229,971
Physical therapy	124,973	170,016	14,824	309,813	81,308	195,604	12,035	288,947
Radiology	181,926	75,986	47,787	305,699	161,218	92,388	26,461	280,077
Medical records	45,078	16,978	14,143	76,199	36,935	16,057	9,985	62,977
Anesthesiology	--	42,361	2,243	44,604	--	30,045	2,088	32,133
Social services	42,809	--	560	43,369	40,507	--	399	40,906
Cardiac rehab	29,331	10,618	2,546	42,495	27,122	17,628	2,686	47,436
Central services and supply	30,749	--	1,488	32,237	30,060	--	5,890	35,950
Specialty clinic	9,210	--	21,073	30,283	9,672	--	26,253	35,925
Sleep lab	--	24,175	265	24,440	--	9,600	--	9,600
Electrocardiology	5,259	5,906	899	12,064	5,657	6,119	280	12,056
Respiratory therapy	--	--	11,616	11,616	--	--	9,645	9,645
Diabetic education	7,975	--	1,093	9,068	8,945	--	1,340	10,285
Senior Life	5,216	--	1,651	6,867	6,588	--	1,794	8,382
Speech therapy	3,702	--	832	5,179	--	7,868	--	7,868
Ambulance	2,028	--	--	2,028	767	--	--	767
Wound clinic	--	--	118	118	--	--	--	--
GCMH clinic	--	--	--	--	16,826	8,266	1,060	26,152
	<u>1,087,252</u>	<u>694,818</u>	<u>711,615</u>	<u>2,493,685</u>	<u>957,032</u>	<u>716,104</u>	<u>534,868</u>	<u>2,208,004</u>
GENERAL SERVICES:								
Plant operation and maintenance	123,890	22,834	322,663	469,387	119,675	23,485	297,637	440,797
Dietary	267,744	10,956	157,697	436,397	240,991	6,534	135,011	382,536
Housekeeping	116,986	4,068	24,817	147,871	119,183	3,743	30,782	153,708
Laundry and linen	30,110	82,563	2,125	114,798	27,050	74,122	1,884	103,056
	<u>540,730</u>	<u>120,421</u>	<u>507,302</u>	<u>1,168,453</u>	<u>506,899</u>	<u>107,884</u>	<u>465,314</u>	<u>1,080,097</u>
ADMINISTRATIVE SERVICES								
	762,270	408,701	257,885	1,428,856	618,445	274,789	339,468	1,232,702
			1,013,637	1,013,637	--	--	979,923	979,923
			851,497	851,497	--	--	635,281	635,281
			183,380	183,380	--	--	183,069	183,069
			86,989	86,989	--	--	104,445	104,445
			<u>2,135,503</u>	<u>2,135,503</u>	--	--	<u>1,902,718</u>	<u>1,902,718</u>
	<u>3,659,191</u>	<u>1,260,078</u>	<u>3,683,154</u>	<u>8,602,423</u>	<u>3,317,089</u>	<u>1,155,331</u>	<u>3,306,748</u>	<u>7,779,168</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Patient and Resident Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2007 and 2006

ANALYSIS OF AGING:

Days Since Discharge	2007		2006	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 838,735	48.65 %	971,816	54.41
31 - 60	387,591	22.48	253,538	14.20
61 - 90	128,349	7.44	113,059	6.33
91 - 120	51,234	2.97	104,617	5.86
120 - 180	106,882	6.20	155,127	8.69
> 180	211,468	12.26	187,632	10.51
	1,724,259	100.00 %	1,785,789	100.00
Less:				
Allowance for doubtful accounts	(202,824)		(199,484)	
Allowance for contractual adjustments	(331,261)		(292,607)	
	\$ 1,190,174		\$ 1,293,698	
			2007	2006
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE			49.70 days	60.47 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year			\$ 199,484	175,398
Provision of uncollectible accounts			163,156	141,060
Recoveries of accounts previously written off			24,485	26,948
Accounts written off			(184,300)	(143,922)
Balance, end of year			\$ 202,824	199,484

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Inventories / Prepaid Expenses
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
INVENTORY:		
Central supply	\$ 60,708	58,808
Pharmacy	71,033	57,666
Laboratory	36,878	26,173
Dietary	8,144	7,932
Radiology	<u>4,601</u>	<u>3,858</u>
	<u>\$ 181,364</u>	<u>154,437</u>
 PREPAID EXPENSES:		
Insurance	\$ 16,326	17,990
Maintenance contracts	8,962	6,793
Other	<u>12,266</u>	<u>4,319</u>
	<u>\$ 37,554</u>	<u>29,102</u>

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Insurance Coverage
For the Years Ended June 30, 2007 and 2006

Company	Property Covered	Amount of Coverage	Expiration Date
PIC Wisconsin	General Liability		12/15/2007
	Each Occurrence - Bodily Injury and Property Damage	1,000,000	
	Aggregate	3,000,000	
	Products and Completed Operations	1,000,000	
	Personal and Advertising Injury	1,000,000	
	Employee Benefits Liability Limit	1,000,000	
	Damage to Premises Rent to You Limited	1,000,000	
	Medical Expense	10,000	
PIC Wisconsin	Hospital Professional Liability (claims made basis)		12/15/2007
	Per Professional Health Care Incident	1,000,000	
	Aggregate	3,000,000	
	Legal Expense (not Defense Costs)	10,000	
PIC Wisconsin	Commercial Umbrella	1,000,000	12/15/2007
PIC Wisconsin	Excess Professional Liability (Umbrella)	1,000,000	12/15/2007
Regent Insurance Company	Commercial Property		12/15/2007
	Building	14,983,094	
	Personal Property	1,646,687	
	Business Income with Extra Expense	3,039,306	
	EDP Equipment	157,094	
	Various Other Property Coverage	108,835	
Regent Insurance Company	Auto Bodily Injury & Property Damage Liability	1,000,000	12/15/2007
	Medical Payments	5,000	
	Un/Underinsured Motorist	1,000,000	
	Hired Auto	Actual Cash Value	
Federal Insurance Company	Directors & Officers Liability	1,000,000	12/15/2007
Allen Health System	Worker's Compensation Liability (self-insured)	500,000	--
	Stop/loss coverage through commercial insurance carrier		

GRUNDY COUNTY MEMORIAL HOSPITAL
 Grundy Center, Iowa

Financial Statistical Highlights
 For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Patient and Resident Days:		
Hospital -		
Adult and pediatric -		
Medicare	404	335
All other	157	157
Swing bed - skilled	1,188	1,414
Hospitality	<u>287</u>	<u>353</u>
	<u>2,036</u>	<u>2,259</u>
 Nursing Home	<u>18,242</u>	<u>18,323</u>
 Discharges:		
Hospital adult and pediatric -		
Medicare	136	113
All other	<u>46</u>	<u>47</u>
	<u>182</u>	<u>160</u>
 Average length of stay:		
Hospital adult and pediatric -		
Medicare	2.97 days	2.96 days
All other	3.41 days	3.04 days
 Observation equivalent days	84	56
 Surgical procedures	390	402
 Emergency Room visits	1,565	1,484
 Full-time equivalents personnel	100.25	95.19

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

To the Board of Commissioners of
Grundy County Memorial Hospital
Grundy Center, Iowa:

We have audited the accompanying balance sheets of GRUNDY COUNTY MEMORIAL HOSPITAL (Hospital), as of June 30, 2007, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated October 15, 2007. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency, Item II-A-07, described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that Item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comment, item II-A-06, has not been resolved.

The Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Grundy County Memorial Hospital, and other parties to whom Grundy County Memorial Hospital may report. This report is not intended to and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Grundy County Memorial Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Seim, Johnson, Sestak + Quist, LLP

Omaha, Nebraska,
October 15, 2007.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Schedule of Findings and Questioned Costs

June 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements. The significant deficiency is considered a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – Due to a limited number of administrative personnel, a lack of segregation of duties exists. Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Hospital continue to monitor and improve its segregation of duties.

Response – Management is aware of this deficiency in internal control and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.

Conclusion – Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

- III-A-07 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2007.
- III-B-07 Certified Budget: Hospital disbursements during the year ended June 30, 2007 did not exceed budgeted amounts.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Schedule of Findings and Questioned Costs

June 30, 2007

- III-C-07 Questionable Expenditures: We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-07 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-07 Business Transactions: Business transactions between the Hospital officials and/or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Treasurer-Owner, Rouse Motors	Various supplies and minor repairs and maintenance to Hospital vehicles	\$ 606
Board Member – Mother of Daughter	Daughter received Herbert Hoover Uncommon Student Award for a service project at the Hospital. Payments made for reimbursement of costs for project.	1,016

We noted no transactions that we believe would represent a conflict of interest.

- III-F-07 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-07 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 were noted.
- III-H-07 Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. The Hospital has no employees as all employees are leased from Iowa Health System (Allen Health System), who jointly exercises certain powers of the Hospital commission to operate the Hospital. Therefore, the salaries of Iowa Health System employees were not published.

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2007

Finding	Status	Corrective Action Plan or Other Explanation
II-A-06	Segregation of duties over accounting functions	Unresolved, similar finding reported at II-A-07

GRUNDY COUNTY MEMORIAL HOSPITAL
Grundy Center, Iowa

Audit Staff
For the Year Ended June 30, 2007

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Darren R. Osten, CPA, Manager

Jess Paisley, Staff Auditor