

**GRUNDY COUNTY MEMORIAL HOSPITAL**  
Grundy Center, Iowa

**Basic Financial Statements and  
Supplementary Information  
June 30, 2008 and 2007**

**Together with Independent Auditor's Report**

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# Grundy County Memorial Hospital

Officials  
June 30, 2008

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<u>Board of Commissioners</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
Jerry Bakker	Chair	Grundy Center, IA	July 2009
Jane Hasek	Vice-Chair	Reinbeck, IA	July 2011
Barbara Smith	Secretary	Grundy Center, IA	July 2010
Marty Rouse	Treasurer	Grundy Center, IA	July 2009
Wayne Bracy	Member	Conrad, IA	July 2010
Brenda Davis	Member	Reinbeck, IA	July 2010
Jane Dodd	Member	Reinbeck, IA	July 2011
Janet Eberline	Member	Grundy Center, IA	July 2010
Evie Haupt	Member	Wellsburg, IA	July 2011
T.J. Johnsrud	Member	Conrad, IA	July 2011
Dan Robertson	Member	Reinbeck, IA	July 2009

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

## 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, 2008 and 2007 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, 2008 and 2007, 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 September 19, 2008, 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,  
September 19, 2008.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2008 and 2007

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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, 2008, 2007, and 2006. Please read it in conjunction with the Hospital's financial statements, which begin on page 13.

### 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 has an operating agreement with Allen Health System of Waterloo, Iowa and is an affiliate of the Iowa Health System.

#### 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 neighborhood and businesses completely surround the healthcare facility.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2008 and 2007

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### 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 resource sharing and joint purchasing. The 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, Phase I

Prior to the completion of the modernization project in May 2006, the Hospital was built strictly as an inpatient facility and 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

### Management's Discussion and Analysis June 30, 2008 and 2007

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#### 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, CPSI, 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 159, it is one of the county's largest employers. The total annual payroll and benefits for the Hospital reached \$5.7 million for the year ending June 30, 2008.

The expansion and modernization of Grundy County Memorial Hospital has lead to the creation of jobs.

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.

#### Medical Staff

The Grundy County Memorial Hospital Medical Staff has grown from 22 physicians in 2003 to a total of 137 members (6 active and 131 courtesy). The Medical Staff had 67 new providers apply for medical staff privileges during FY 2007-2008 and 17 relinquish privileges.

#### Economic Impact

According to Iowa Hospital Association statistics, Grundy County Memorial Hospital has an estimated economic impact of over \$6.8 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.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2008 and 2007

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### 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. GCMH partners with area schools to provide athletic trainer services for the youth. The Hospital also offers immunization clinics, occupational health services, education and drug-screenings throughout the county, thereby touching many lives.

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**

#### Strategic Initiatives

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

#### Major Strategic Accomplishments for 2008

- The master facility plan was updated March 2008. It includes a new Acute Care, Emergency Department, expanded Surgery, Radiology and Specialty Clinics. An adjacent medical office building was planned to include Cedar Valley Dialysis, Iowa Health Physician clinic, Therapy services and Cardiac Rehab.
- GCMH worked with the Iowa legislature to change the code of Iowa to increase the number of Board of Commissioners for veteran's memorial hospitals. As a result of the law change July 1, 2007, four new board members were added representing a variety of healthcare, business and academic backgrounds.
- A family practitioner was recruited for the Grundy Center Iowa Health Physician clinic and will begin January 1, 2009.
- Following the death of a full time ED doctor, the hospital successfully recruited and hired 3 Emergency Department physicians.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2008 and 2007

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### Financial Highlights

- The Hospital's cash and cash equivalents increased \$210,974 from 2007 to 2008 due to an increase in investment income and a decreased amount being set aside by the Board for capital improvements. From 2006 to 2007 there was a decrease of \$566,501.
- The Hospital's increase in net assets was \$406,859, 6.9% from June 30, 2007 to June 30, 2008 and \$655,516, 12.4% from June 30, 2006 to June 30, 2007.
- Net patient and service revenue before provision for bad debt increased \$1,008,594, 11.3% from 2007 to 2008 and \$953,375, 12.0% from 2006 to 2007.
- Operating expenses increased \$1,226,176, 14.3% from the year ending June 30, 2007 to June 30, 2008 and \$823,255, 10.6% from the year ending June 30, 2006 to June 30, 2007.

### 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.

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 13. The Hospital's net assets increased \$406,859, 6.9% from June 30, 2007 to June 30, 2008 and \$655,516, 12.4% from June 30, 2006 to June 30, 2007. (Refer to **Table 1**).

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2008 and 2007

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**Table 1: Assets, Liabilities, and Net Assets**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Assets:</b>			
Current assets	\$ 3,047,863	2,495,044	3,129,922
Capital assets, net	6,447,086	6,867,454	7,130,639
Other noncurrent assets	<u>2,835,843</u>	<u>3,183,289</u>	<u>1,453,249</u>
<b>Total assets</b>	<b><u>12,330,792</u></b>	<b><u>12,545,787</u></b>	<b><u>11,713,810</u></b>
<b>Liabilities:</b>			
Long-term debt outstanding	4,572,661	4,710,045	4,812,199
Other current and noncurrent liabilities	<u>1,428,004</u>	<u>1,912,474</u>	<u>1,633,859</u>
<b>Total liabilities</b>	<b><u>6,000,665</u></b>	<b><u>6,622,519</u></b>	<b><u>6,446,058</u></b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	1,874,425	2,157,409	2,318,675
Restricted for debt service	430,418	433,151	432,158
Unrestricted	<u>4,025,284</u>	<u>3,332,708</u>	<u>2,516,919</u>
<b>Total net assets</b>	<b><u>\$ 6,330,127</u></b>	<b><u>5,923,268</u></b>	<b><u>5,267,752</u></b>

### **Year Ending June 30, 2007 to June 30, 2008:**

The Hospital's total assets decreased \$214,995. This decrease is a result of a decrease in assets limited to use or restricted by the Board for capital improvements of \$340,857 and a decrease in capital assets, net due to increased accumulated depreciation while cash and cash equivalents increased \$210,974.

### **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 \$1,735,480 while cash and cash equivalents decreased \$566,501.

### Operating Results

In 2008, the Hospital's net assets increased by \$406,859, 6.9% while in 2007 the increase was \$655,516, 12.4%. (Refer to **Table 2**). These increases include an excess of revenue over expenses before capital grants and contributions of \$276,985 for June 30, 2008, \$550,141 for June 30, 2007 and \$309,301 for June 30, 2006.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2008 and 2007

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Operating Revenue:</b>			
Net patient service revenue	\$ 9,911,815	8,903,221	7,949,846
Provision for bad debt	(194,696)	(163,156)	(141,060)
Other operating revenue	<u>162,609</u>	<u>112,474</u>	<u>111,794</u>
<b>Total operating revenue</b>	<b>9,879,728</b>	<b>8,852,539</b>	<b>7,920,580</b>
<b>Operating Expenses:</b>			
Salaries and benefits	5,736,474	4,672,828	4,297,012
Purchased services and other	2,845,204	2,894,718	2,663,806
Depreciation and amortization	1,066,388	851,497	635,281
Interest	<u>180,533</u>	<u>183,380</u>	<u>183,069</u>
<b>Total operating expenses</b>	<b>9,828,599</b>	<b>8,602,423</b>	<b>7,779,168</b>
<b>Operating income</b>	<b>51,129</b>	<b>250,116</b>	<b>141,412</b>
<b>Nonoperating Revenue and Expenses:</b>			
County subsidy	163,000	163,000	163,000
Investment income	168,544	137,993	50,382
Noncapital grants and contributions	--	--	--
Other nonoperating revenue and expenses, net	<u>(105,688)</u>	<u>(968)</u>	<u>(45,493)</u>
<b>Total nonoperating revenue, net</b>	<b>225,856</b>	<b>300,025</b>	<b>167,889</b>
<b>Excess of revenue over expenses before capital grants and contributions</b>	<b>276,985</b>	<b>550,141</b>	<b>309,301</b>
<b>Capital grants and contributions</b>	<b>129,874</b>	<b>105,375</b>	<b>790,384</b>
<b>Increase in net assets</b>	<b>\$ <u>406,859</u></b>	<b><u>655,516</u></b>	<b><u>1,099,685</u></b>

### Operating Income

The first component of the overall change in the Hospital's net assets is its operating income - the difference between net patient service revenue and the expenses incurred to perform those services. For the year ending June 30, 2006, the Hospital reported an operating loss of \$141,412, for the year ending June 30, 2007, the Hospital reported operating income of \$250,166 and for the year ending June 30, 2008, the Hospital reported operating income of \$51,129.

### **Year Ending June 30, 2007 to June 30, 2008:**

The primary components of the operating income of \$51,129 are:

- Inpatient revenue increased \$237,827 and swing bed revenue decreased \$275,285, 24.9% and 24.7% from June 30, 2007 to June 30, 2008 due to a decrease in patient days and a change in the mix of days. Acute days decreased 11.2%, Skilled days decreased 28.6%, and Hospitality days decreased 24.0%. The Acute and Skilled days were positively offset by eleven total knee surgeries and three total hip surgeries.

## Grundy County Memorial Hospital

### Management's Discussion and Analysis June 30, 2008 and 2007

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- Outpatient revenue increased \$888,105, 13.5% from 2007 to 2008. This increase is primarily due to:
  - Emergency Room visits increased from 1,565 visits to 1,881, an increase of 316 visits, 20.2%.
  - Lab procedures increased by 1,807, 2.7% from 2007 to 2008.
  - Radiology volume increased 242 visits, 4.8% from 2007 to 2008. This increase primarily relates to the increased MRI and CT volume.
  - Cardiac Rehab volume increased from 1,153 visits to 1,539, an increase of 33.5%.
  - Wound Clinic had 268 visits and this program began at GCMH June 2007.
- Long-Term Care revenue increased \$155,953, 7.1%. This increase reflects an increase in days and an increase in rates effective July 1, 2007.
- Increases in salary and benefit costs for the Hospital's Associates of \$1,063,646, 22.8%.
- Purchased services and professional fees decreased \$233,178, 17.7% from 2007 to 2008.
- Increases in supplies and other expenses of \$151,938, 11.8%. This increase is a result of the increase in outpatient volume and surgical procedures (11 total knee and 3 total hip replacements).
- Depreciation and amortization expense increased \$214,891, 25.2%. This increase reflects equipment purchased in the year ending June 30, 2008.

#### 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.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2008 and 2007

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### 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, 2008, the Hospital had \$6,447,086 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. For the year ending June 30, 2008, the Hospital purchased capital assets costing \$735,801. Capital asset additions for the year ending June 30, 2007 were \$572,613 and for the year ending June 30, 2006 were \$1,546,858.

Capital asset additions for 2008 relate to the preparation of a master facility plan, the remodel of the hospice room, Long Term Care activities room and the orthopedic suite along with the purchase of a surgical table, lights and instruments, patient room furniture, computers / laptops, software and hardware for the Foundation's Black Baud application, office furniture, and the installation of the electric boiler and roof top chiller.

Capital asset additions for 2007 relate to 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 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 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.

On August 26, 2005, the Hospital entered into 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 into 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.

## Grundy County Memorial Hospital

### Management's Discussion and Analysis June 30, 2008 and 2007

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#### 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 continued 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; a nurse practitioner called to active military duty; and death of one ED physician. 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 providers to the area. Specialty physicians now offer onsite gynecology, general surgery, orthopedics, nephrology, cardiology, podiatry, urology, ophthalmology, dermatology, psychiatry, physiatrist, and audiologist services. A new family practitioner will be joining the Grundy Center Iowa Health Physicians Clinic in January 2009.

#### **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

## Balance Sheets

June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,088,658	877,684
Assets limited as to use or restricted	27,183	28,890
Receivables -		
Patient and resident, net of allowance for doubtful accounts of \$255,540 in 2008 and \$202,824 in 2007	1,375,739	1,190,174
Succeeding year County subsidy receivable	163,000	163,000
Other	29,276	16,378
Inventories	211,270	181,364
Prepaid expenses	35,737	37,554
Estimated third-party payor settlements	<u>117,000</u>	<u>--</u>
Total current assets	3,047,863	2,495,044
Assets limited as to use or restricted - less amounts required for current obligations	2,819,617	3,161,500
Capital assets, net	6,447,086	6,867,454
Other assets, net	<u>16,226</u>	<u>21,789</u>
Total assets	<u>\$ 12,330,792</u>	<u>12,545,787</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current maturities of long-term debt	170,591	149,454
Accounts payable	407,732	571,114
Accrued expenses -		
Accrued salaries, wages and vacation payable	644,500	514,887
Payroll taxes	37,660	21,492
Interest	13,585	13,584
Deferred revenue	161,527	135,017
Deferred revenue for succeeding year County subsidy receivable	163,000	163,000
Estimated third-party payor settlements	<u>--</u>	<u>493,380</u>
Total current liabilities	1,598,595	2,061,928
Long-term debt, net of unamortized discount and current maturities	<u>4,402,070</u>	<u>4,560,591</u>
Total liabilities	<u>6,000,665</u>	<u>6,622,519</u>
Net assets:		
Invested in capital assets, net of related debt	1,874,425	2,157,409
Restricted for debt service	430,418	433,151
Unrestricted	<u>4,025,284</u>	<u>3,332,708</u>
Total net assets	<u>6,330,127</u>	<u>5,923,268</u>
Total liabilities and net assets	<u>\$ 12,330,792</u>	<u>12,545,787</u>

See notes to the financial statements

# Grundy County Memorial Hospital

## Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	\$ 9,911,815	8,903,221
Provision for bad debts	<u>(194,696)</u>	<u>(163,156)</u>
Net patient and service revenue	9,717,119	8,740,065
Other operating revenue	<u>162,609</u>	<u>112,474</u>
Total operating revenue	<u>9,879,728</u>	<u>8,852,539</u>
OPERATING EXPENSES:		
Salaries	4,474,668	3,659,191
Employee benefits	1,261,806	1,013,637
Purchased services and professional fees	1,036,900	1,260,078
Utilities	272,323	255,882
Supplies and other expenses	1,443,707	1,291,769
Depreciation and amortization	1,066,388	851,497
Insurance	92,274	86,989
Interest	<u>180,533</u>	<u>183,380</u>
Total operating expenses	<u>9,828,599</u>	<u>8,602,423</u>
OPERATING INCOME	<u>51,129</u>	<u>250,116</u>
NONOPERATING REVENUE (EXPENSES), NET:		
Investment income	168,544	137,993
County subsidy	163,000	163,000
Loss on disposal of capital assets	<u>(105,688)</u>	<u>(968)</u>
Nonoperating revenue, net	<u>225,856</u>	<u>300,025</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	276,985	550,141
CAPITAL GRANTS AND CONTRIBUTIONS	<u>129,874</u>	<u>105,375</u>
INCREASE IN NET ASSETS	406,859	655,516
NET ASSETS, Beginning of year	<u>5,923,268</u>	<u>5,267,752</u>
NET ASSETS, End of year	<u>\$ 6,330,127</u>	<u>5,923,268</u>

See notes to financial statements

# Grundy County Memorial Hospital

## Statements of Cash Flows For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 8,947,684	9,014,649
Cash paid to employees for salaries and benefits	(5,590,693)	(4,561,276)
Cash paid to suppliers and contractors	(3,036,675)	(2,754,172)
Other receipts and payments, net	<u>149,711</u>	<u>113,341</u>
Net cash provided by operating activities	<u>470,027</u>	<u>1,812,542</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	(735,041)	(752,535)
Capital grants and contributions	129,874	105,375
Payments on long term debt	(148,487)	(113,258)
Interest paid on debt	<u>(180,533)</u>	<u>(183,380)</u>
Net cash used in capital and related financing activities	<u>(934,187)</u>	<u>(943,798)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Deposits to) withdrawals from assets limited as to use, net	343,590	(1,736,238)
Investment income	<u>168,544</u>	<u>137,993</u>
Net cash provided by (used in) investing activities	<u>512,134</u>	<u>(1,598,245)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	210,974	(566,501)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>877,684</u>	<u>1,444,185</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 1,088,658</u>	<u>877,684</u>

*See notes to financial statements*

# Grundy County Memorial Hospital

## Statements of Cash Flows (Continued) For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 51,129	250,116
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,066,388	851,497
Interest expense included in operating expenses	180,533	183,380
(Increase) decrease in current assets -		
Accounts receivable -		
Patient and resident	(185,565)	103,524
Other	(12,898)	867
Inventories	(29,906)	(26,927)
Prepaid expenses	1,817	(8,452)
Estimated third-party payor settlements - Medicare and Medicaid	(117,000)	--
Increase (decrease) in current liabilities -		
Accounts payable	(163,382)	175,925
Accrued salaries, wages and vacation payable	129,613	117,354
Payroll taxes	16,168	(5,802)
Deferred revenue	26,510	5,369
Estimated third-party payor settlements - Medicare and Medicaid	(493,380)	165,691
Net cash provided by operating activities	<u>\$ 470,027</u>	<u>1,812,542</u>

*See notes to financial statements*

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

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### (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 an 11 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.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

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*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding 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.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

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### 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, 2008 and 2007. These amounts are included in depreciation and amortization expense in the accompanying statements of revenue, expenses and changes in net assets.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

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### 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, 2008 and 2007.

### 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.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

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### S. *Investment Income*

Investment income consists 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, 2008 and 2007 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, 2008 and 2007.

**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, 2008 and 2007 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.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

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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 43% and 11%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2008, and 43% and 10%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2007. 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, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 1,193,443	955,616
Outpatient	7,449,071	6,560,966
Swingbed	838,026	1,113,311
Nursing Home	<u>2,349,184</u>	<u>2,193,231</u>
	11,829,724	10,823,124
Contractual adjustments:		
Medicare	(920,570)	(1,250,088)
Medicaid	(205,613)	(209,611)
Other	(761,747)	(447,843)
Charity care services	<u>(29,979)</u>	<u>(12,361)</u>
Total contractual adjustments	<u>(1,917,909)</u>	<u>(1,919,903)</u>
Net patient and resident service revenue before provision for bad debt	\$ <u>9,911,815</u>	<u>8,903,221</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, 2008 and 2007, are summarized as follows:

	<u>2008</u>	<u>2007</u>
Money market accounts	\$ 673,401	649,182
Certificates of deposit	<u>1,742,981</u>	<u>2,108,057</u>
	\$ <u>2,416,382</u>	<u>2,757,239</u>

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

### 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.

The amounts segregated as of June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Sinking Fund, cash and money market accounts	\$ 22,183	28,890
Debt Service Reserve Fund, certificates of deposit	\$ 403,235	404,261
	430,418	433,151
Less amounts required for current obligations	<u>(27,183)</u>	<u>(28,890)</u>
	<u>\$ 403,235</u>	<u>404,261</u>

### (5) **Composition of Patient Receivables**

Patient and resident receivables as of June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Patient and resident accounts	\$ 1,927,811	1,724,259
Less estimated third-party contractual adjustments	(296,533)	(331,261)
Less allowance for doubtful accounts	<u>(255,540)</u>	<u>(202,824)</u>
	<u>\$ 1,375,738</u>	<u>1,190,174</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>2008</u>	<u>2007</u>
Medicare	32%	34%
Medicaid	8	12
Commercial insurance	42	40
Patients and residents	<u>18</u>	<u>14</u>
	<u>100%</u>	<u>100%</u>

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

### (6) Capital Assets

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

	June 30, 2007	Additions	Transfers and Disposals	June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 10,850	139,255	(104,650)	45,455
Construction in progress	2,451	101,065	--	103,516
Total capital assets, not being depreciated	<u>13,301</u>	<u>240,320</u>	<u>(104,650)</u>	<u>148,971</u>
Capital assets, being depreciated:				
Land improvements	197,616	--	(3,868)	193,748
Buildings	8,190,795	--	(117,940)	8,072,855
Equipment	2,820,871	495,481	(100,397)	3,215,955
Vehicles	15,765	--	--	15,765
Total capital assets, being depreciated	<u>11,225,047</u>	<u>495,481</u>	<u>(222,205)</u>	<u>11,498,323</u>
Less accumulated depreciation:				
Land improvements	47,642	13,061	(3,814)	56,889
Buildings	2,865,802	512,105	(117,941)	3,259,966
Fixed equipment	1,451,538	520,614	(98,652)	1,873,500
Vehicles	5,912	3,941	--	9,853
Total accumulated depreciation	<u>4,370,894</u>	<u>1,049,721</u>	<u>(220,407)</u>	<u>5,200,208</u>
Total capital assets, being depreciated, net	<u>6,854,153</u>	<u>(554,240)</u>	<u>(1,798)</u>	<u>6,298,115</u>
Total capital assets, net	<u>\$ 6,867,454</u>	<u>(313,920)</u>	<u>(106,448)</u>	<u>6,447,086</u>
	June 30, 2006	Additions	Transfers and Disposals	June 30, 2007
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>

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

### (7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2008 and 2007 consisted of the following:

	June 30, 2007	Borrowings	Payments / Amortization	June 30, 2008	Due Within One Year
Hospital Revenue Bonds (A)	\$ 4,025,000	--	--	4,025,000	--
Discount on Hospital Revenue Bonds	(43,488)	--	11,104	(32,384)	--
Subordinate Hospital Revenue Note (B)	438,533	--	(127,341)	311,192	134,341
Notes Payable (C)	290,000	--	(21,146)	268,854	36,250
Net	<u>\$ 4,710,045</u>	<u>--</u>	<u>(137,384)</u>	<u>4,572,662</u>	<u>170,591</u>

  

	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 (B)	551,791	--	(113,258)	438,533	128,308
Notes Payable (C)	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>

- (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 Hospital has pledged future net revenues to repay the bonds. The interest rate on the Bonds is 4.05%.
- (B) 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 Hospital has pledged future net revenues to repay the loan. The loan is payable in monthly installments of \$12,148, including interest at 4.57% through September 2010.
- (C) 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 Hospital has pledged future net revenues to repay the loan. The loan is payable in monthly installments of \$3,021, without interest, beginning December 2007 through December 2015.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

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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>
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	36,250	--	36,250
2014 – 2016	<u>88,571</u>	<u>--</u>	<u>88,571</u>
	<u>\$ 4,605,046</u>	<u>505,910</u>	<u>5,110,956</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.

### (8) Pension and Retirement Benefits

The Hospital's associates are leased employees of Allen Health System. As a result, the associates 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 6% and 4% of participants' contributions in 2008 and 2007, respectively. Pension plan expense for the years ended June 30, 2008 and 2007 was \$218,470 and \$160,710, 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, 2008 and 2007 of \$54,574 and \$250,147, 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 associates; 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, 2008 and 2007 were \$702,904 and \$588,678, 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.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2008 and 2007

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### (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) 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, 2008 and 2007 follows:

	<u>(Unaudited)</u>	
	<u>2008</u>	<u>2007</u>
Assets	\$ <u>663,561</u>	<u>642,352</u>
Net assets	\$ <u>663,561</u>	<u>642,352</u>

The Hospital received \$29,874 and \$5,375 from the Foundation during the years ended June 30, 2008 and 2007, respectively, for the purchase of property and equipment. As of June 30, 2008, the Foundation has approximately \$33,000 of pledges receivable related to the Hospital's Project.

## Grundy County Memorial Hospital

### Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets Budget and Actual (Cash Basis) Required Supplementary Information June 30, 2008 and 2007

	<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>10,072,458</u>	<u>(676,645)</u>	<u>9,395,813</u>	<u>15,130,300</u>	<u>(5,734,487)</u>
	<u>10,235,458</u>	<u>(676,645)</u>	<u>9,558,813</u>	<u>15,293,300</u>	<u>(5,734,487)</u>
Expenses / Disbursements	<u>9,828,599</u>	<u>(137,170)</u>	<u>9,691,429</u>	<u>15,727,400</u>	<u>6,035,971</u>
Net	406,859	(539,475)	(132,616)	(434,100)	\$ <u><u>301,484</u></u>
Balance beginning of year	<u>5,923,268</u>	<u>(1,855,194)</u>	<u>4,068,074</u>	<u>4,068,074</u>	
Balance end of year	\$ <u><u>6,330,127</u></u>	<u><u>(2,394,669)</u></u>	<u><u>3,935,458</u></u>	<u><u>3,633,974</u></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.

For the year ended June 30, 2008, the Hospital's expenditures did not exceed the amount budgeted.

**Grundy County Memorial Hospital**

**Exhibit 1**

**Schedules of Net Patient and Resident Service Revenue  
For the Years Ended June 30, 2008 and 2007**

	2008				2007			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
<b>NURSING SERVICES:</b>								
Long term care	\$ 2,349,184	--	--	2,349,184	2,193,231	--	--	2,193,231
Swing bed	--	--	436,120	436,120	--	--	577,390	577,390
Adult and pediatric	399,038	--	--	399,038	397,605	--	--	397,605
Observation	--	37,736	--	37,736	192	60,639	--	60,831
Hospitality	32,201	--	--	32,201	40,023	--	--	40,023
	<u>2,780,423</u>	<u>37,736</u>	<u>436,120</u>	<u>3,254,279</u>	<u>2,631,051</u>	<u>60,639</u>	<u>577,390</u>	<u>3,269,080</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Laboratory	77,563	1,458,555	32,100	1,568,218	71,017	1,326,934	32,614	1,430,565
Radiology	59,558	1,364,484	5,198	1,429,240	48,042	1,224,487	5,143	1,277,672
Operating and recovery rooms	329,319	841,744	--	1,171,063	144,315	732,092	--	876,407
Emergency and outpatient service	10,188	1,153,925	329	1,164,442	5,724	1,030,828	599	1,037,151
Physical therapy	16,657	892,431	128,379	1,037,467	16,813	740,879	146,888	904,580
Pharmacy	146,324	718,069	139,970	1,004,363	144,719	785,216	261,989	1,191,924
Anesthesiology	56,448	268,495	--	324,943	18,534	109,656	--	128,190
Mobile services	8,442	240,995	1,702	251,139	7,374	180,460	4,104	191,938
Cardiac rehab	393	127,919	162	128,474	67	73,545	--	73,612
Electrocardiology	8,032	97,884	708	106,624	5,456	86,635	1,416	93,507
Sleep lab	--	99,435	--	99,435	--	80,100	--	80,100
Respiratory therapy	38,032	2,148	46,750	86,930	47,316	2,940	31,956	82,212
Occupational therapy	6,432	44,751	34,942	86,125	2,062	89,438	44,782	136,282
Wound clinic	310	49,175	--	49,485	--	--	--	--
Diabetic education	--	24,535	--	24,535	--	19,239	--	19,239
Speech therapy	--	10,052	8,206	18,258	--	7,743	6,430	14,173
Ambulance	4,506	5,460	3,460	13,426	6,357	7,683	--	14,040
Nutrition education	--	11,265	--	11,265	--	570	--	570
Central services and supply	--	13	--	13	--	1,882	--	1,882
	<u>762,204</u>	<u>7,411,335</u>	<u>401,906</u>	<u>8,575,445</u>	<u>517,796</u>	<u>6,500,327</u>	<u>535,921</u>	<u>7,554,044</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<u>\$ 3,542,627</u>	<u>7,449,071</u>	<u>838,026</u>	<u>11,829,724</u>	<u>3,148,847</u>	<u>6,560,966</u>	<u>1,113,311</u>	<u>10,823,124</u>
<b>LESS:</b>								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(1,887,930)				(1,907,542)
Provision for bad debts				(194,696)				(163,156)
Charity care services and other discounts, based on charges forgone				(29,979)				(12,361)
<b>NET PATIENT SERVICE REVENUE</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>9,717,119</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>8,740,065</u>

Other Operating Revenue  
 For the Years Ended June 30, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
Clinic rent and other	\$ 59,580	51,336
Cafeteria and vending	37,343	19,006
Grants	34,374	31,365
Miscellaneous	30,118	9,732
Medical records transcriptions	<u>1,194</u>	<u>1,035</u>
	<u>\$ 162,609</u>	<u>112,474</u>

Grundy County Memorial Hospital

Exhibit 3

Departmental Expenses

For the Years Ended June 30, 2008 and 2007

	2008				2007			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
<b>NURSING SERVICES:</b>								
Long term care	\$ 879,207	29,428	40,102	948,737	766,413	4,208	40,568	811,189
Adult and pediatric	259,870	14,163	23,379	297,412	231,028	30,569	28,151	289,748
Swing bed	225,268	219	6,347	231,834	225,951	1,361	2,130	229,442
Hospitality	43,938	--	--	43,938	45,547	--	--	45,547
	<u>1,408,283</u>	<u>43,810</u>	<u>69,828</u>	<u>1,521,921</u>	<u>1,268,939</u>	<u>36,138</u>	<u>70,849</u>	<u>1,375,926</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Emergency room	510,621	266,383	36,355	813,359	280,838	177,470	32,605	490,913
Operating and recovery room	174,195	74,322	241,289	489,806	154,637	102,991	140,242	397,870
Laboratory	169,893	110,257	176,716	456,866	238,865	6,672	298,739	329,276
Radiology	196,512	79,611	52,930	329,053	139,656	61,000	118,871	319,527
Physical therapy	262,846	18,511	9,331	290,688	124,973	170,016	14,824	309,813
Pharmacy	30,748	7,528	223,978	262,254	181,926	75,986	47,787	305,699
Medical records	50,658	12,162	15,389	78,209	45,078	16,978	14,143	76,199
Anesthesiology	--	62,559	2,258	64,817	--	42,361	2,243	44,604
Social services	44,649	--	695	45,344	42,809	--	580	43,389
Cardiac rehab	29,833	(2,712)	7,222	34,343	29,331	10,618	2,546	42,495
Specialty clinic	8,721	--	22,053	30,774	30,749	--	1,488	32,237
Sleep lab	--	28,235	255	28,490	9,210	--	21,073	30,283
Central services and supply	32,208	--	(5,348)	26,860	--	24,175	265	24,440
Respiratory therapy	--	--	13,789	13,789	5,259	5,906	899	12,064
Diabetic education	10,085	--	1,247	11,332	--	--	11,616	11,616
Electrocardiology	2,778	5,737	1,128	9,643	7,975	--	1,093	9,068
Wound clinic	5,030	399	4,146	9,575	5,216	--	1,651	6,867
Senior Life	6,150	--	1,215	7,365	3,702	645	832	5,179
Speech therapy	5,878	--	1,420	7,298	2,028	--	--	2,028
Ambulance	1,537	--	--	1,537	--	--	118	118
	<u>1,542,342</u>	<u>662,992</u>	<u>806,068</u>	<u>3,011,402</u>	<u>1,087,252</u>	<u>694,818</u>	<u>711,615</u>	<u>2,493,685</u>
<b>GENERAL SERVICES:</b>								
Plant operation and maintenance	131,303	37,405	348,057	516,765	123,890	22,834	322,663	469,387
Dietary	297,635	--	171,028	468,663	267,744	10,956	157,697	436,397
Housekeeping	130,010	6,348	23,965	160,323	118,986	4,068	24,817	147,871
Laundry and linen	25,726	92,815	934	119,475	30,110	82,563	2,125	114,798
	<u>564,674</u>	<u>136,568</u>	<u>543,984</u>	<u>1,265,226</u>	<u>540,730</u>	<u>120,421</u>	<u>507,302</u>	<u>1,168,453</u>
<b>ADMINISTRATIVE SERVICES</b>								
	939,369	193,530	296,150	1,429,049	762,270	408,701	257,885	1,428,856
<b>NONDEPARTMENTAL</b>								
Employee benefits	--	--	1,261,806	1,261,806	--	--	1,013,637	1,013,637
Depreciation and amortization	--	--	1,066,388	1,066,388	--	--	851,497	851,497
Interest	--	--	180,533	180,533	--	--	183,380	183,380
Insurance	--	--	92,274	92,274	--	--	86,989	86,989
	--	--	2,601,001	2,601,001	--	--	2,135,503	2,135,503
	<u>4,474,668</u>	<u>1,036,900</u>	<u>4,317,031</u>	<u>9,828,599</u>	<u>3,659,191</u>	<u>1,260,078</u>	<u>3,683,154</u>	<u>8,602,423</u>

**Patient and Resident Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2008 and 2007**

ANALYSIS OF AGING:

Days Since Discharge	2008		2007	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,122,841	58.25 %	838,735	48.63
31 - 60	331,722	17.21	387,591	22.48
61 - 90	134,997	7.00	128,349	7.44
91 - 120	58,868	3.05	51,234	2.97
120 - 180	79,632	4.13	106,882	6.20
> 180	<u>199,751</u>	<u>10.36</u>	<u>211,468</u>	<u>12.26</u>
	1,927,811	100.00 %	1,724,259	99.98
Less:				
Allowance for doubtful accounts	(255,540)		(202,824)	
Allowance for contractual adjustments	<u>(296,532)</u>		<u>(331,261)</u>	
	\$ <u>1,375,739</u>		\$ <u>1,293,698</u>	

	2008	2007
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	51.82 days	54.03 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 202,824	199,484
Provision of uncollectible accounts	194,696	163,156
Recoveries of accounts previously written off	23,356	24,484
Accounts written off	<u>(165,336)</u>	<u>(184,300)</u>
Balance, end of year	\$ <u>255,540</u>	<u>202,824</u>

Inventories / Prepaid Expenses  
 For the Years Ended June 30, 2008 and 2007

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	<u>2008</u>	<u>2007</u>
INVENTORY:		
Pharmacy	\$ 97,391	71,033
Central supply	67,331	60,708
Laboratory	34,394	36,878
Dietary	8,627	8,144
Radiology	<u>3,527</u>	<u>4,601</u>
	<u>\$ 211,270</u>	<u>181,364</u>

**Insurance Coverage  
For the Years Ended June 30, 2008 and 2007**

Company	Property Covered	Amount of Coverage	Expiration Date
PIC Wisconsin	General Liability		12/15/2008
	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	
	Fire Damage	1,000,000	
	Medical Expense	10,000	
	Pollution Liability		
	Sublimit	250,000	12/15/2008
	Aggregate	250,000	
PIC Wisconsin	Hospital Professional Liability (claims made basis)		12/15/2008
	Per Professional Health Care Incident	1,000,000	
	Aggregate	3,000,000	
	Legal Expense (not Defense Costs)	10,000	
	Contractual Liability		
	Each Professional Health Care Incident	1,000,000	12/15/2008
	Aggregate	3,000,000	
PIC Wisconsin	Commercial Umbrella		12/15/2008
	General	1,000,000	
	Products and Completed Operations	1,000,000	
	Each Occurrence	1,000,000	
	Self Insured Retention	10,000	
PIC Wisconsin	Excess Professional Liability (Umbrella)		12/15/2008
	Each Professional Health Care Incident	1,000,000	
	Annual Aggregate	1,000,000	
Regent Insurance Company	Commercial Property		12/15/2008
	Building	15,091,929	
	Personal Property	3,526,000	
	Business Income with Extra Expense	3,039,306	
	Employee Dishonesty	100,000	
Regent Insurance Company	Auto Bodily Injury & Property Damage Liability	1,000,000	12/15/2008
	Medical Payments	5,000	
	Un/Underinsured Motorist	1,000,000	
	Physical Damage	Actual Cash Value	
Federal Insurance Company	Directors & Officers Liability	1,000,000	12/15/2008
Allen Health System	Worker's Compensation Liability (self-insured)	500,000	--
	Stop/loss coverage through commercial insurance carrier		

Financial Statistical Highlights  
For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Patient and Resident Days:		
Hospital -		
Adult and pediatric -		
Medicare	300	404
All other	198	157
Swing bed - skilled	848	1,188
Hospitality	<u>218</u>	<u>287</u>
	<u>1,564</u>	<u>2,036</u>
Nursing Home	<u>18,508</u>	<u>18,242</u>
Discharges:		
Hospital adult and pediatric -		
Medicare	104	136
All other	<u>61</u>	<u>46</u>
	<u>165</u>	<u>182</u>
Average length of stay:		
Hospital adult and pediatric -		
Medicare	2.88 days	2.97 days
All other	3.25 days	3.41 days
Observation equivalent days	44	84
Surgical procedures	393	390
Emergency Room visits	1,881	1,565
Full-time equivalents personnel	109.10	100.25

**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, 2008, 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 September 19, 2008. 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-08, 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 do not believe that Item II-A-08 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, 2008, 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-07, 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,  
September 19, 2008.

# Grundy County Memorial Hospital

## Schedule of Findings and Questioned Costs June 30, 2008

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### 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 not 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-08 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-08 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, 2008.
- III-B-08 Certified Budget: Hospital disbursements during the year ended June 30, 2008 did not exceed budgeted amounts.
- III-C-08 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-08 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

# Grundy County Memorial Hospital

## Schedule of Findings and Questioned Costs June 30, 2008

III-E-08 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.	\$ 789
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.	575
Board Member – President/CEO, Nucara Home Medical	Miscellaneous medical supplies.	229

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

III-F-08 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-08 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. The Hospital does not have a formal written investment policy as required by 12B.10B of the Code of Iowa.

III-H-08 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

## Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2008

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Finding	Status	Corrective Action Plan or Other Explanation
II-A-07	Segregation of duties over accounting functions	Unresolved, similar finding reported at II-A-08

# Grundy County Memorial Hospital

Audit Staff  
For the Year Ended June 30, 2008

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## This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Darren R. Osten, CPA, Manager

Jess D. Paisley, In-Charge

Brandon W. Jacobsen, Staff Auditor