

Grundy County Memorial Hospital
Grundy Center, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2009 and 2008**

Together with Independent Auditor's Report

Grundy County Memorial Hospital

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Grundy County Memorial Hospital

Officials
June 30, 2009

<u>Board of Commissioners</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
Dr. Jane Hasek	Chair	Reinbeck, IA	July 2011
Jerry Bakker	Vice-Chair	Grundy Center, IA	July 2012
Barbara Smith	Secretary	Grundy Center, IA	July 2010
Marty Rouse	Treasurer	Grundy Center, IA	July 2012
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
Ron Saak	Member	Grundy Center, IA	July 2012

<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, 2009 and 2008 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 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, 2009 and 2008, 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 23, 2009 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis and Budgetary Comparison Information on page 3 through 12 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying 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 23, 2009.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

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, 2009, 2008, and 2007. 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.

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.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

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 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 ability to allocate space to outpatient services. 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.

Phase I of the Modernization Project included the following plant improvements:

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. Two emergency bays and a waiting area have been added to the department.

Outpatient Therapies

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.

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 earlier 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.

Grundy County Memorial Hospital

Management's Discussion and Analysis

June 30, 2009 and 2008

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 Event 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 189, it is one of the county's largest employers. The total annual payroll and benefits for the Hospital reached \$7.153 million for the year ending June 30, 2009.

The growth, expansion and modernization of Grundy County Memorial Hospital has lead to the creation of almost 100 jobs since 2003.

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 139 members (8 active and 131 courtesy). The Medical Staff has 17 new providers apply for medical staff privileges during FY 2008-2009 and 15 relinquish privileges.

Economic Impact

According to Iowa Hospital Association statistics, Grundy County Memorial Hospital has an estimated economic impact of over \$7.9 million for the county each year. If the health sector increases or decreases in size, the medical health of the community, as well as the economic health of the community, are greatly affected. For the attraction of industrial firms, businesses, and retirees, it is crucial that the area have a quality health sector.

Community Partner

The Hospital also strives to be a good community partner. GCMH takes health education classes, health fairs and wellness opportunities out into its market area. GCMH collaborates 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.

The Hospital is committed to addressing anticipated future workforce issues in healthcare. GCMH is actively partnering with Hawkeye Community College, Northeast Iowa Area Health Education Center (AHEC) and area high schools to organize activities for kindergarten through high school students, offer Certified Nursing Assistant (CNA) classes, and collaborate on entry level college classes that foster interest in the pursuit of healthcare careers.

GCMH Administration and key staff are actively involved in the community-wide health needs assessment, planning and implementation strategies with public health, schools, businesses, community and county officials. The planning sessions focus on updating and resetting the vision for community health.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

Vision for the Future

Strategic Initiatives

In 2006, 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 during FY 2009 to address the focus for the Hospital, "best outcome, every patient, every time".

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 2009

- The 2008 Master Facility Plan (Modernization Phase II) was approved for implementation in October 2008. The project includes a new Acute Care, Emergency Department, and expanded Surgery Department. An adjacent medical office building was planned to include DaVita Dialysis, Iowa Health Physicians Clinic, Therapy Services and Cardiac Rehab.
- A new family practitioner began practicing January 2, 2009 at the Grundy Center Iowa Health Physicians Clinic and admitting inpatients at GCMH.
- A local emergency room physician was recruited to work full time in our ED beginning December 1, 2009
- The GCMH team cared for 39 total joint replacement patients; a 179% growth over last year.
- GCMH was recognized as one of the top twenty places in the Cedar Valley to work.
- GCMH was awarded the 2009 Grundy Center Business of Year at the Annual Grundy Center Chamber of Commerce Event

Modernization Project, Phase II

The GCMH Board of Commissioners approved moving forward with Phase II of the Modernization Project in October of 2008. The Hospital broke ground on the project late spring 2009. The project includes the following areas:

Acute Care

The new 18-bed acute care will include eight medical/surgery, six orthopedic, two larger hospice, one bariatric, and one pediatric room. Each room will have its own bathroom, shower and family area. Nurses will have work stations between patient rooms for a more decentralized approach to charting, supply management, and medication administration. Additionally, the new unit will have a physical therapy rehabilitation room for orthopedic patients, patient and family activity room, physician dictation area, and a large waiting area. An outpatient services room will also be located next to acute care and will accommodate three patients.

Emergency Department

The new emergency department will include three private treatment bays and a larger trauma room with capabilities for the simultaneous treatment of two patients. A larger waiting area, enclosed and climate-controlled ambulance garage, decontamination room, on-call physician sleep room and a consultation room will complete the department.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

Surgery

Remodeling in the surgery area includes additional space that was previously occupied by the emergency department. An enlarged Ambulatory Surgery Unit will provide improved customer satisfaction and patient privacy with nine closed bays while accommodating increased surgery volumes.

The Hospital Board of Commissioners and the Grundy County Board of Supervisors worked together to optimize the Hospital's borrowing potential by having the County issue general obligation bonds and enter into a loan agreement for these bonds with GCMH. The projected completion date for the Acute Care and Emergency Department is June 2010. Once these areas are completed and opened, renovation of the Surgery department will begin.

Financial Highlights

- The Hospital's cash and cash equivalents increased \$632,102 from 2008 to 2009 due to an increase in cash received from patients and third-party payors due to volume increases. From 2007 to 2008 there was an increase of \$210,974.
- The Hospital's increase in net assets was \$483,167, 7.6% from June 30, 2008 to June 30, 2009 and \$406,859, 6.9% from June 30, 2007 to June 30, 2008.
- Net patient and service revenue before provision for bad debt increased \$2,522,878, 25.5% from 2008 to 2009 and \$1,008,594, 11.3% from 2007 to 2008.
- Operating expenses increased \$2,157,029, 21.9% from the year ending June 30, 2009 to June 30, 2009 and \$1,226,176, 14.3% from the year ending June 30, 2007 to June 30, 2008.

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 \$483,167, 7.6% from June 30, 2008 to June 30, 2009 and \$406,859, 6.9% from June 30, 2007 to June 30, 2008. (Refer to **Table 1**).

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

Table 1: Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current assets	\$ 3,500,074	3,047,863	2,495,044
Capital assets, net	7,855,716	6,447,086	6,867,454
Other noncurrent assets	2,238,303	2,935,843	3,183,289
Total assets	<u>13,594,093</u>	<u>12,430,792</u>	<u>12,545,787</u>
Liabilities:			
Long-term debt outstanding	4,413,146	4,572,661	4,710,045
Other current and noncurrent liabilities	2,367,653	1,528,004	1,912,474
Total liabilities	<u>6,780,799</u>	<u>6,100,665</u>	<u>6,622,519</u>
Net assets:			
Invested in capital assets, net of related debt	3,442,570	1,874,425	2,157,409
Restricted for debt service	430,289	430,418	433,151
Unrestricted	2,940,435	4,025,284	3,332,708
Total net assets	<u>\$ 6,813,294</u>	<u>6,330,127</u>	<u>5,923,268</u>

Year Ending June 30, 2008 to June 30, 2009:

The Hospital's total assets increased \$1,163,301. This increase is a result of an increase in cash and cash equivalents of \$614,102 and an increase in capital assets, net due to increased expense associated with the modernization project while other noncurrent assets decrease is a result of a decrease in assets limited to use or restricted by the Board for capital improvements of \$591,977.

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

The Hospital's total assets decreased \$114,995. This decrease is a result of a decrease in assets limited to use or restricted by the Board for capital improvements of \$341,883 and a decrease in capital assets, net due to increased accumulated depreciation while cash and cash equivalents increased \$210,974.

Operating Results

In 2009, the Hospital's net assets increased by \$483,167, 7.6% while in 2008 the increase was \$406,859, 6.9%. (Refer to **Table 2**). These increases include an excess of revenue over expenses before capital grants and contributions of \$283,167 for June 30, 2009, \$276,985 for June 30, 2008, and \$550,141 for June 30, 2007.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenue:			
Net patient service revenue	\$ 12,434,693	9,911,815	8,903,221
Provision for bad debt	(283,350)	(194,696)	(163,156)
Other operating revenue	147,329	162,609	112,474
Total operating revenue	12,298,672	9,879,728	8,852,539
Operating Expenses:			
Salaries and benefits	7,053,243	5,836,474	4,672,828
Purchased services and other	3,926,638	2,845,204	2,894,718
Depreciation and amortization	831,330	966,388	851,497
Interest	174,417	180,533	183,380
Total operating expenses	11,985,628	9,828,599	8,602,423
Operating income (loss)	313,044	51,129	250,116
Nonoperating Revenue and Expenses:			
County subsidy	163,000	163,000	163,000
Investment income	73,070	168,544	137,993
Other nonoperating revenue and expenses, net	(265,947)	(105,688)	(968)
Total nonoperating revenue (expenses), net	(29,877)	225,856	300,025
Excess of revenue over expenses before capital grants and contributions	283,167	276,985	550,141
Capital grants and contributions	200,000	129,874	105,375
Increase in net assets	\$ 483,167	406,859	655,516

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income (loss) - the difference between net patient service revenue and the expenses incurred to perform those services. For the year ending June 30, 2007, the Hospital reported an operating income of \$250,166, for the year ending June 30, 2008, the Hospital reported operating income of \$51,129, and for the year ending June 30, 2009, the Hospital reported operating income of \$313,044.

Year Ending June 30, 2008 to June 30, 2009:

The primary components of the operating income of \$313,044 are:

- Inpatient and swing bed revenue increased \$382,083, 45.7% from June 30, 2008 to June 30, 2009 due to an increase in patient days and a change in the mix of days. Acute days increased 47.8%, Skilled days increased 29.6%, and Hospitality days decreased 77.5%. The Acute and Skilled days were positively impacted by 31 total knee surgeries and eight total hip surgeries.
- Outpatient revenue increased \$1,995,555, 26.8% from 2008 to 2009. This increase is primarily due to:
 - Emergency Room visits increased from 1,881 visits to 2,204, an increase of 323 visits, 17.2%.
 - Lab procedures increased by 3,758, 5.5% from 2008 to 2009.
 - Operating room revenue increased \$457,064, 54.3% from 2008 to 2009.
 - Radiology volume increased 857 visits, 18.2% from 2008 to 2009. This increase primarily relates to the increased CT, General X-Ray, and MRI volume.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

- Therapy visits increased from 5,653 visits to 6,331, an increase of 678 visits, 12.0%.
- Cardiac Rehab volume increased from 1,539 visits to 1,821, an increase of 18.3%.
- Wound Clinic visits increased from 268 for 2008 to 351 for 2009, an increase of 31.0%.
- Long-Term Care revenue increased \$129,059, 5.5%. This increase reflects an increase in days and an increase in rates effective July 1, 2008.
- Increases in salary and benefit costs for the Hospital's Associates of \$1,216,769, 20.8%.
- Purchased services and professional fees increased \$554,770, 53.5% from 2008 to 2009. This increase is a result of increased expense for anesthesia, mobile MRI and Ultrasound and the use of agency staffing for Long-Term Care.
- Increases in supplies and other expenses of \$495,733, 34.3%. This increase is a result of the increase in outpatient volume and surgical procedures (31 total knee and 8 total hip replacements).

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

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

- Inpatient and swing bed revenue decreased \$139,837, 14.3% 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.
- 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 \$1,163,646, 24.9%.
- 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 \$114,891, 13.5%. This increase reflects equipment purchased in the year ending June 30, 2008.

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.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009, the Hospital had \$7,855,716 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. For the year ending June 30, 2009, the Hospital purchased capital assets costing \$2,226,593. Capital asset additions for the year ending June 30, 2008 were \$735,801 and for the year ending June 30, 2007 were \$572,613.

Capital asset additions for 2009 relates the purchase of a 16 slice CT machine, a C-Arm, the remodel of the orthopedic suite along with the purchase of a surgical instruments, patient carts, glide scope, crash cart for Cardiac Rehab, patient room furniture, patient lifts, computers / laptops, server and network equipment, office furniture, and the modification of the sprinkler system on the second floor from a wet to a dry system.

Capital asset additions for 2008 relates 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 Foundations Black baud application, office furniture, and the installation of the electric boiler and roof top chiller.

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

Debt

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

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

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

The Hospital has entered into a construction commitment for a Modernization Project, Phase II. To finance the project, on July 28, 2009, the Hospital entered into a loan agreement with Grundy County, Iowa through an issuance of General Obligation Urban Renewal Notes, Series 2009, in the amount of \$16,020,000. The proceeds of the note were also used to refund the existing Series 2004 Hospital Revenue Bonds.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

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, 2009 and 2008

ASSETS	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 1,720,760	1,088,658
Assets limited as to use or restricted	27,435	27,183
Receivables -		
Patient and resident, net of allowance for doubtful accounts of \$241,084 in 2009 and \$255,540 in 2008	1,335,354	1,375,739
Succeeding year County subsidy receivable	163,000	163,000
Other	16,405	29,276
Inventories	213,046	211,270
Prepaid expenses	24,074	35,737
Estimated third-party payor settlements	--	117,000
Total current assets	<u>3,500,074</u>	<u>3,047,863</u>
Assets limited as to use or restricted - less amounts required for current obligations	2,227,640	2,819,617
Capital assets, net	7,855,716	6,547,086
Other assets, net	<u>10,663</u>	<u>16,226</u>
Total assets	<u>\$ 13,594,093</u>	<u>12,430,792</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	176,860	170,591
Accounts payable	814,123	507,732
Accrued expenses -		
Accrued salaries, wages and vacation payable	815,791	644,500
Payroll taxes	42,935	37,660
Interest	13,585	13,585
Deferred revenue	144,219	161,527
Deferred revenue for succeeding year County subsidy receivable	163,000	163,000
Estimated third-party payor settlements	<u>374,000</u>	<u>--</u>
Total current liabilities	<u>2,544,513</u>	<u>1,698,595</u>
Long-term debt, net of unamortized discount and current maturities	<u>4,236,286</u>	<u>4,402,070</u>
Total liabilities	<u>6,780,799</u>	<u>6,100,665</u>
Net assets:		
Invested in capital assets, net of related debt	3,442,570	1,974,425
Restricted for debt service	430,289	430,418
Unrestricted	<u>2,940,435</u>	<u>3,925,284</u>
Total net assets	<u>6,813,294</u>	<u>6,330,127</u>
Total liabilities and net assets	<u>\$ 13,594,093</u>	<u>12,430,792</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE:		
Net patient and service revenue before provision for bad debt	\$ 12,434,693	9,911,815
Provision for bad debts	<u>(283,350)</u>	<u>(194,696)</u>
Net patient and service revenue	12,151,343	9,717,119
Other operating revenue	<u>147,329</u>	<u>162,609</u>
Total operating revenue	<u>12,298,672</u>	<u>9,879,728</u>
OPERATING EXPENSES:		
Salaries	5,394,251	4,574,668
Employee benefits	1,658,992	1,261,806
Purchased services and professional fees	1,591,670	1,036,900
Utilities	293,883	272,323
Supplies and other expenses	1,939,440	1,443,707
Depreciation and amortization	831,330	966,388
Insurance	101,645	92,274
Interest	<u>174,417</u>	<u>180,533</u>
Total operating expenses	<u>11,985,628</u>	<u>9,828,599</u>
OPERATING INCOME	<u>313,044</u>	<u>51,129</u>
NONOPERATING REVENUE (EXPENSES), NET:		
Investment income	73,070	168,544
County subsidy	163,000	163,000
Loss on disposal of capital assets	<u>(265,947)</u>	<u>(105,688)</u>
Nonoperating revenue (expenses), net	<u>(29,877)</u>	<u>225,856</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	283,167	276,985
CAPITAL GRANTS AND CONTRIBUTIONS	<u>200,000</u>	<u>129,874</u>
INCREASE IN NET ASSETS	483,167	406,859
NET ASSETS, Beginning of year	<u>6,330,127</u>	<u>5,923,268</u>
NET ASSETS, End of year	<u>\$ 6,813,294</u>	<u>6,330,127</u>

See notes to financial statements

Grundy County Memorial Hospital

Statements of Cash Flows

For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 12,665,420	8,947,684
Cash paid for employee salaries and benefits	(6,976,677)	(5,590,693)
Cash paid to suppliers and contractors	(3,510,360)	(3,036,675)
Other receipts and payments, net	<u>160,200</u>	<u>149,711</u>
Net cash provided by operating activities	<u>2,338,583</u>	<u>470,027</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County subsidy received	<u>163,000</u>	<u>163,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(2,389,240)	(735,041)
Capital grants and contributions	200,000	129,874
Payments on long term debt	(170,619)	(148,487)
Interest paid on debt	<u>(174,417)</u>	<u>(180,533)</u>
Net cash used in capital and related financing activities	<u>(2,534,276)</u>	<u>(934,187)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from assets limited as to use, net	591,725	343,590
Investment income, net	<u>73,070</u>	<u>168,544</u>
Net cash provided by investing activities	<u>664,795</u>	<u>512,134</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	632,102	210,974
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,088,658</u>	<u>877,684</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 1,720,760</u>	<u>1,088,658</u>

See notes to financial statements

Grundy County Memorial Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 313,044	51,129
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	731,330	1,066,388
Interest expense included in operating expenses	174,417	180,533
(Increase) decrease in current assets -		
Receivables -		
Patients	40,385	(185,565)
Other	12,871	(12,898)
Inventories	(1,776)	(29,906)
Prepaid expenses	11,663	1,817
Estimated third-party payor settlements - Medicare and Medicaid	117,000	(117,000)
Increase (decrease) in current liabilities -		
Accounts payable	406,391	(163,382)
Accrued salaries, vacation and benefits payable	171,291	129,613
Payroll taxes	5,275	16,168
Deferred revenue	(17,308)	26,510
Estimated third-party payor settlements - Medicare and Medicaid	374,000	(493,380)
Net cash provided by operating activities	<u>\$ 2,338,583</u>	<u>470,027</u>

See notes to financial statements

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

(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.

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.

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

D. Measurement Focus and Basis of Accounting

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

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

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

E. Use of Estimates

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

F. Cash and Cash Equivalents

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

G. Patient and Resident Receivables

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

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

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

H. County Subsidy Receivable

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

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

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, 2009 and 2008. These amounts are included in depreciation and amortization expense in the accompanying statements of revenue, expenses and changes in net assets.

M. *Compensated Absences*

Hospital associates accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009 and 2008.

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.

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

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 and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Q. *Grants and Contributions*

From time to time, the Hospital receives contributions from Grundy County Memorial Hospital Foundation, as well as grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

R. *Charity Care*

To fulfill its mission of community service, the Hospital provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients and residents is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of these amounts. The resulting adjustments are recorded as adjustments to patient and resident service revenue, depending on the timing of the charity determination.

S. *Investment Income*

Investment income consists 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, 2009 and 2008 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.

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

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, 2009 and 2008.

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 or restricted, for the years ended June 30, 2009 and 2008 is included in investment income on the Statements of Revenue, Expenses and Changes in Net Assets.

(3) Net Patient Service Revenue

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary

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

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

Revenue from the Medicare and Medicaid programs accounted for approximately 39% and 9%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2009, and 43% and 11%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2008. 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. The 2009 net patient service revenue increased approximately \$300,000 due to removal of allowances that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews or investigations.

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 2,227,324	1,193,443
Outpatient	9,444,626	7,449,071
Swingbed	1,169,698	838,026
Nursing Home	<u>2,478,243</u>	<u>2,349,184</u>
	15,319,891	11,829,724
Contractual adjustments:		
Medicare	(1,575,659)	(920,570)
Medicaid	(187,252)	(205,613)
Other	(1,069,470)	(761,747)
Charity care services	<u>(52,817)</u>	<u>(29,979)</u>
Total contractual adjustments	<u>(2,885,198)</u>	<u>(1,917,909)</u>
Net patient and resident service revenue before provision for bad debt	\$ <u>12,434,693</u>	<u>9,911,815</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, 2009 and 2008, are summarized as follows:

	<u>2009</u>	<u>2008</u>
Money market accounts	\$ 1,622,999	673,401
Certificates of deposit	<u>201,787</u>	<u>1,742,981</u>
	\$ <u>1,824,786</u>	<u>2,416,382</u>

Hospital Revenue Bonds

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

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

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

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

The amounts segregated as of June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Sinking Fund, cash and money market accounts	\$ 27,435	27,183
Debt Service Reserve Fund, certificates of deposit	\$ 402,854	403,235
	430,289	430,418
Less amounts required for current obligations	<u>(27,435)</u>	<u>(27,183)</u>
	<u>\$ 402,854</u>	<u>403,235</u>

(5) Composition of Patient Receivables

Patient and resident receivables as of June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Patient and resident accounts	\$ 1,882,180	1,927,811
Less estimated third-party contractual adjustments	(305,742)	(296,532)
Less allowance for doubtful accounts	<u>(241,084)</u>	<u>(255,540)</u>
	<u>\$ 1,335,354</u>	<u>1,375,739</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>2009</u>	<u>2008</u>
Medicare	34%	32%
Medicaid	8	8
Commercial insurance	41	42
Patients and residents	<u>17</u>	<u>18</u>
	<u>100%</u>	<u>100%</u>

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

(6) Capital Assets

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

	June 30, 2008	Additions	Transfers and Disposals	June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 45,455	262,132	--	307,587
Construction in progress	103,516	1,016,845	--	1,120,361
Total capital assets, not being depreciated	<u>148,971</u>	<u>1,278,977</u>	<u>--</u>	<u>1,427,948</u>
Capital assets, being depreciated:				
Land improvements	193,748	--	(3,811)	189,937
Buildings	8,072,855	--	(107,333)	7,965,522
Equipment	3,215,955	947,616	(176,353)	3,987,218
Vehicles	15,765	--	--	15,765
Total capital assets, being depreciated	<u>11,498,323</u>	<u>947,616</u>	<u>(287,497)</u>	<u>12,158,442</u>
Less accumulated depreciation:				
Land improvements	56,889	23,070	(3,294)	76,665
Buildings	3,159,966	432,749	(73,373)	3,519,342
Fixed equipment	1,873,500	354,903	(107,530)	2,120,873
Vehicles	9,853	3,941	--	13,794
Total accumulated depreciation	<u>5,100,208</u>	<u>814,663</u>	<u>(184,197)</u>	<u>5,730,674</u>
Total capital assets, being depreciated, net	<u>6,398,115</u>	<u>132,953</u>	<u>(103,300)</u>	<u>6,427,768</u>
Total capital assets, net	<u>\$ 6,547,086</u>	<u>1,411,930</u>	<u>(103,300)</u>	<u>7,855,716</u>

	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	412,105	(117,941)	3,159,966
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>949,721</u>	<u>(220,407)</u>	<u>5,100,208</u>
Total capital assets, being depreciated, net	<u>6,854,153</u>	<u>(454,240)</u>	<u>(1,798)</u>	<u>6,398,115</u>
Total capital assets, net	<u>\$ 6,867,454</u>	<u>(213,920)</u>	<u>(106,448)</u>	<u>6,547,086</u>

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2009 and 2008

(7) Construction Commitment and Subsequent Event

In May 2009, the Hospital entered into a construction commitment for Phase II of the Facility Modernization Project. The project consists of construction of new Emergency and Acute Care departments and a remodel to the surgery department. The estimated cost of the Project is \$13,500,000 and is anticipated to be completed in various phases by January 2011. Costs incurred as of June 30, 2009 amounted to approximately \$1,100,000.

To finance the project, on July 28, 2009, the Hospital entered into a loan agreement with Grundy County, Iowa through an issuance of General Obligation Urban Renewal Notes, Series 2009, in the amount of \$16,020,000. The proceeds of the notes were also used to refund the existing Series 2004 Hospital Revenue Bonds.

(8) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2009 and 2008 consisted of the following:

	June 30, 2008	Borrowings	Payments / Amortization	June 30, 2009	Due Within One Year
Hospital Revenue Bonds (A)	\$ 4,025,000	--	--	4,025,000	--
Discount on Hospital Revenue Bonds	(32,384)	--	11,103	(21,281)	--
Subordinate Hospital Revenue Note (B)	311,192	--	(134,369)	176,823	140,610
Notes Payable (C)	268,854	--	(36,250)	232,604	36,250
Net	<u>\$ 4,572,662</u>	<u>--</u>	<u>(159,516)</u>	<u>4,413,146</u>	<u>176,860</u>

	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>(137,383)</u>	<u>4,572,662</u>	<u>170,591</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, 2009 and 2008**

Annual debt service requirements related to the long-term debt incorporating the Series 2009 General Obligation Renewal Notes (see Note 7) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 176,860	626,777	803,637
2011	646,523	708,445	1,354,968
2012	626,250	783,730	1,309,980
2013	646,250	658,655	1,304,905
2014	661,250	632,730	1,293,980
2015 – 2029	<u>13,672,294</u>	<u>5,496,484</u>	<u>19,168,778</u>
	<u>\$ 16,429,427</u>	<u>8,806,821</u>	<u>25,236,248</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.

(9) 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% of participants’ contributions in 2009 and 2008. Pension plan expense for the years ended June 30, 2009 and 2008 was \$314,937 and \$218,470, respectively.

(10) 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, 2009 and 2008 of \$313,043 and \$54,574, respectively.

(11) 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, 2009 and 2008 were \$962,250 and \$702,904, 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, 2009 and 2008

(12) 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.

(13) Foundation

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

A summary of the Foundation's assets, liabilities and net assets, based on a modified cash basis, as of June 30, 2009 and 2008 follows:

	<u>(Unaudited)</u>	
	<u>2009</u>	<u>2008</u>
Assets	\$ <u>1,741,861</u>	<u>663,561</u>
Net assets	\$ <u>1,741,861</u>	<u>663,561</u>

The Hospital received \$-0- and \$29,874 from the Foundation during the years ended June 30, 2009 and 2008, respectively, for the purchase of property and equipment. As of June 30, 2009, the Foundation has approximately \$17,000 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, 2009 and 2008

	<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>12,305,795</u>	<u>792,895</u>	<u>13,098,690</u>	<u>25,098,799</u>	<u>(12,000,109)</u>
	<u>12,468,795</u>	<u>792,895</u>	<u>13,261,690</u>	<u>25,261,799</u>	<u>(12,000,109)</u>
Expenses / Disbursements	<u>11,985,628</u>	<u>1,235,685</u>	<u>13,221,313</u>	<u>25,732,600</u>	<u>12,511,287</u>
Net	483,167	(442,790)	40,377	(470,801)	\$ <u>511,178</u>
Balance beginning of year	<u>6,330,127</u>	<u>(2,394,669)</u>	<u>3,935,458</u>	<u>3,935,458</u>	
Balance end of year	\$ <u>6,813,294</u>	<u>(2,837,459)</u>	<u>3,975,835</u>	<u>3,464,657</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, 2009, 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, 2009 and 2008**

	2009				2008			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Long term care	\$ 2,478,243	--	--	2,478,243	2,349,184	--	--	2,349,184
Swing bed	--	--	593,779	593,779	--	--	436,120	436,120
Adult and pediatric	623,462	--	--	623,462	399,038	--	--	399,038
Observation	--	65,828	--	65,828	--	37,736	--	37,736
Hospitality	10,158	--	--	10,158	32,201	--	--	32,201
	<u>3,111,863</u>	<u>65,828</u>	<u>593,779</u>	<u>3,771,470</u>	<u>2,780,423</u>	<u>37,736</u>	<u>436,120</u>	<u>3,254,279</u>
OTHER PROFESSIONAL SERVICES:								
Laboratory	99,340	1,613,698	29,743	1,742,781	77,563	1,458,555	32,100	1,568,218
Radiology	57,642	1,833,899	4,214	1,895,745	59,558	1,364,484	5,198	1,429,240
Operating and recovery rooms	894,232	1,298,808	--	2,193,040	329,319	841,744	--	1,171,063
Emergency and outpatient service	4,328	1,558,946	--	1,563,274	10,188	1,153,925	329	1,164,442
Physical therapy	56,437	1,031,346	181,392	1,269,175	16,657	892,431	128,379	1,037,467
Pharmacy	249,470	673,437	228,751	1,151,658	146,324	718,069	139,970	1,004,363
Anesthesiology	126,434	510,910	--	637,344	56,448	268,495	--	324,943
Mobile services	9,370	325,819	--	335,189	8,442	240,995	1,702	251,139
Cardiac rehab	170	130,088	--	130,258	393	127,919	162	128,474
Electrocardiology	5,766	132,364	2,232	140,362	8,032	97,884	708	106,624
Sleep lab	--	126,011	--	126,011	--	99,435	--	99,435
Respiratory therapy	71,327	6,239	55,469	133,035	38,032	2,148	46,750	86,930
Occupational therapy	17,857	27,726	63,172	108,755	6,432	44,751	34,942	86,125
Wound clinic	236	76,976	699	77,911	310	49,175	--	49,485
Diabetic education	--	15,335	--	15,335	--	24,535	--	24,535
Speech therapy	--	8,016	9,900	17,916	--	10,052	8,206	18,258
Ambulance	1,090	3,071	347	4,508	4,506	5,460	3,460	13,426
Nutrition education	5	6,042	--	6,047	--	11,265	--	11,265
Central services and supply	--	77	--	77	--	13	--	13
	<u>1,593,704</u>	<u>9,378,798</u>	<u>575,919</u>	<u>11,548,421</u>	<u>762,204</u>	<u>7,411,335</u>	<u>401,906</u>	<u>8,575,445</u>
GROSS PATIENT SERVICE REVENUE	<u>\$ 4,705,567</u>	<u>9,444,626</u>	<u>1,169,698</u>	<u>15,319,891</u>	<u>3,542,627</u>	<u>7,449,071</u>	<u>838,026</u>	<u>11,829,724</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(2,832,381)				(1,887,930)
Provision for bad debts				(283,350)				(194,696)
Charity care services and other discounts, based on charges forgone				(52,817)				(29,979)
NET PATIENT SERVICE REVENUE			\$	<u>12,151,343</u>		\$		<u>9,717,119</u>

Other Operating Revenue
 For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Clinic rent and other	\$ 56,755	59,580
Cafeteria and vending	45,210	37,343
Grants	30,581	34,374
Miscellaneous	13,440	30,118
Medical records transcriptions	<u>1,343</u>	<u>1,194</u>
	<u>\$ 147,329</u>	<u>162,609</u>

Grundy County Memorial Hospital

Exhibit 3

Departmental Expenses

For the Years Ended June 30, 2009 and 2008

	2009				2008			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Long term care	\$ 965,328	87,779	53,927	1,107,034	879,207	29,428	40,102	948,737
Adult and pediatric	353,208	33,815	34,742	421,765	259,870	14,163	23,379	297,412
Swing bed	234,579	--	682	235,261	225,268	219	6,347	231,834
Hospitality	9,697	--	--	9,697	43,938	--	--	43,938
	<u>1,562,812</u>	<u>121,594</u>	<u>89,351</u>	<u>1,773,757</u>	<u>1,408,283</u>	<u>43,810</u>	<u>69,828</u>	<u>1,521,921</u>
OTHER PROFESSIONAL SERVICES:								
Operating and recovery room	264,378	155,256	620,919	1,040,553	174,195	74,322	241,289	489,806
Emergency room	661,893	276,906	42,227	981,026	510,621	266,383	36,355	813,359
Laboratory	195,033	112,967	210,761	518,761	169,893	110,257	176,716	456,866
Radiology	233,667	96,261	40,950	370,878	196,512	79,611	52,930	329,053
Physical therapy	320,761	9,914	14,296	344,971	262,846	18,511	9,331	290,688
Pharmacy	40,089	11,087	260,718	311,894	30,748	7,528	223,978	262,254
Anesthesiology	--	156,932	6,563	163,495	--	62,559	2,258	64,817
Medical records	57,395	12,976	16,281	86,652	50,658	15,389	15,389	78,209
Central services and supply	55,569	--	7,632	63,201	32,208	--	(5,348)	26,860
Social services	49,281	--	995	50,276	44,649	--	695	45,344
Cardiac rehab	34,289	--	4,212	38,501	29,833	(2,712)	7,222	34,343
Sleep lab	--	35,750	--	35,750	--	28,235	255	28,490
Specialty clinic	10,471	--	19,492	29,963	8,721	--	13,789	13,789
Respiratory therapy	--	--	17,752	17,752	--	--	399	399
Wound clinic	8,007	--	5,813	13,820	5,030	5,737	4,146	9,575
Electrocardiology	2,195	7,105	255	9,555	2,778	--	1,128	9,643
Speech therapy	6,854	--	1,622	8,476	5,878	--	1,420	7,298
Diabetic education	5,935	--	975	6,910	10,085	--	1,247	11,332
Senior Life	5,240	--	865	6,105	6,150	--	1,215	7,365
Ambulance	548	--	--	548	1,537	--	--	1,537
	<u>1,951,605</u>	<u>875,154</u>	<u>1,272,328</u>	<u>4,099,087</u>	<u>1,542,342</u>	<u>662,992</u>	<u>806,068</u>	<u>3,011,402</u>
GENERAL SERVICES:								
Plant operation and maintenance	143,114	51,025	368,361	562,500	131,303	37,405	348,057	516,765
Dietary	317,845	19	195,912	513,776	297,635	--	171,028	468,663
Housekeeping	138,614	9,639	26,613	174,866	130,010	6,348	23,965	160,323
Laundry and linen	30,059	98,082	4,306	132,447	25,726	92,815	934	119,475
	<u>629,632</u>	<u>158,765</u>	<u>595,192</u>	<u>1,383,589</u>	<u>584,674</u>	<u>136,568</u>	<u>543,984</u>	<u>1,265,226</u>
	<u>1,250,202</u>	<u>436,157</u>	<u>276,452</u>	<u>1,962,811</u>	<u>1,039,369</u>	<u>193,530</u>	<u>296,150</u>	<u>1,529,049</u>
ADMINISTRATIVE SERVICES								
NONDEPARTMENTAL								
Employee benefits	--	--	1,658,992	1,658,992	--	--	1,261,806	1,261,806
Depreciation and amortization	--	--	831,330	831,330	--	--	966,388	966,388
Interest	--	--	174,417	174,417	--	--	180,533	180,533
Insurance	--	--	101,645	101,645	--	--	92,274	92,274
	<u>--</u>	<u>--</u>	<u>2,766,384</u>	<u>2,766,384</u>	<u>--</u>	<u>--</u>	<u>2,501,001</u>	<u>2,501,001</u>
	<u>5,394,251</u>	<u>1,591,670</u>	<u>4,999,707</u>	<u>11,985,628</u>	<u>4,574,668</u>	<u>1,036,900</u>	<u>4,217,031</u>	<u>9,828,599</u>

**Patient and Resident Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2009 and 2008**

ANALYSIS OF AGING:

Days Since Discharge	2009		2008	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,167,931	62.05 %	1,122,841	58.25
31 - 60	290,590	15.44	331,722	17.21
61 - 90	140,959	7.49	134,997	7.00
91 - 120	88,943	4.73	58,868	3.05
120 - 180	70,658	3.75	79,632	4.13
> 180	123,099	6.54	199,751	10.36
	<u>1,882,180</u>	100.00 %	<u>1,927,811</u>	100.00
Less:				
Allowance for doubtful accounts	(241,084)		(255,540)	
Allowance for contractual adjustments	<u>(305,742)</u>		<u>(296,532)</u>	
	<u>\$ 1,335,354</u>		<u>\$ 1,375,739</u>	
			<u>2009</u>	<u>2008</u>
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE			40.11 days	51.82 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year			\$ 255,540	202,824
Provision of uncollectible accounts			283,350	194,696
Recoveries of accounts previously written off			20,487	23,356
Accounts written off			<u>(318,293)</u>	<u>(165,336)</u>
Balance, end of year			<u>\$ 241,084</u>	<u>255,540</u>

**Inventories / Prepaid Expenses
For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
INVENTORY:		
Pharmacy	\$ 85,474	97,391
Central supply	88,237	67,331
Laboratory	27,100	34,394
Dietary	8,361	8,627
Radiology	<u>3,874</u>	<u>3,527</u>
	<u>\$ 213,046</u>	<u>211,270</u>
PREPAID EXPENSES:		
Insurance	\$ 18,153	17,844
Maintenance contracts	5,921	11,193
Other	<u>--</u>	<u>6,700</u>
	<u>\$ 24,074</u>	<u>35,737</u>

**Insurance Coverage
For the Years Ended June 30, 2009 and 2008**

Company	Property Covered	Limits	Expiration Date
PIC Wisconsin	General Liability (occurrence policy)		12/15/2009
	Each Occurrence	\$1,000,000	
	Personal & Advertising Injury	\$1,000,000	
	Employee Benefits Liability	\$1,000,000	
	General Aggregate	\$3,000,000	
	Damage to Premises Rented to You	\$1,000,000	
	Fire Damage	\$1,000,000	
	Products / Completed Operations Aggregate	\$1,000,000	
	Medical Expense	\$10,000	
		Pollution Liability	
	Sublimit	\$250,000	
	Aggregate	\$250,000	
PIC Wisconsin	Hospital Professional Liability (claims made)		12/15/2009
	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	
	Annual Aggregate	\$3,000,000	
PIC Wisconsin	Commercial Umbrella (occurrence policy)		12/15/2009
	General Aggregate (other than Prod/Compl Ops)	\$1,000,000	
	Products / Completed Operations Aggregate	\$1,000,000	
	Each Occurrence	\$1,000,000	
	Self Insured Retention	\$10,000	
PIC Wisconsin	Medical Professional Excess (Claims Made)		12/15/2009
	Each Professional Health Care Incident	\$1,000,000	
	Annual Aggregate	\$1,000,000	
Regent Insurance	Commercial Property		12/15/2009
	Blanket Building & Personal Property	\$19,231,293	
	Building	\$15,594,929	
	Personal Property	\$3,636,364	
	Business Income with Extra Expense	\$3,039,306	
	Employee Dishonesty - per occurrence	\$100,000	
Regent Insurance	Commercial Automobile (occurrence policy)		12/15/2009
	Liability	\$1,000,000	
	Medical Payments	\$5,000	
	Uninsured Motorist	\$1,000,000	
	Underinsured Motorist	\$1,000,000	
	Physical Damage	Actual Cash Value	
Federal Insurance	Director's & Officer's Liability	\$1,000,000	12/15/2009
Allen Health System	Worker's Compensation Liability (self-insured)	\$5,000,000	--
	Stop/loss coverage through commercial insurance carrier		

**Financial Statistical Highlights
For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Patient and Resident Days:		
Hospital -		
Adult and pediatric -		
Medicare	388	300
All other	348	198
Swing bed - skilled	1,099	848
Hospitality	<u>49</u>	<u>218</u>
	<u>1,884</u>	<u>1,564</u>
Nursing Home	<u>18,896</u>	<u>18,508</u>
Discharges:		
Hospital adult and pediatric -		
Medicare	117	104
All other	<u>87</u>	<u>61</u>
	<u>204</u>	<u>165</u>
Average length of stay:		
Hospital adult and pediatric -		
Medicare	3.32 days	2.88 days
All other	4.00 days	3.25 days
Observation equivalent days	77	44
Surgical procedures	562	393
Emergency Room visits	2,204	1,881
Full-time equivalents personnel	120.54	109.10



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 financial statements of Grundy County Memorial Hospital (Hospital), as of June 30, 2009, and have issued our report thereon dated September 23, 2009. 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-09, described in the accompanying schedule of findings and responses 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 responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2009, 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-08, has not been resolved.

The Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and responses. 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 23, 2009.

Grundy County Memorial Hospital

Schedule of Findings and Responses June 30, 2009

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-09 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-09 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, 2009.
- III-B-09 Certified Budget: Hospital disbursements during the year ended June 30, 2009 did not exceed budgeted amounts.
- III-C-09 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-09 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-09 Business Transactions: Business transactions between the Hospital officials and/or employees are detailed as follows:

Grundy County Memorial Hospital

Schedule of Findings and Responses June 30, 2009

Name, Title, and Business Connection	Transaction Description	Amount
Board Members	Reimbursement of travel expense for attending Iowa Hospital Association meeting.	\$ 448
Treasurer-Owner, Rouse Motors	Various supplies and minor repairs and maintenance to Hospital vehicles.	797
Board Member – Owner, AmericInn	Hotel stays.	132
Board Member – President/CEO, Nucara Home Medical	Miscellaneous medical supplies.	1,905

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

- III-F-09 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-09 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-09 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, 2009**

Finding	Status	Corrective Action Plan or Other Explanation
II-A-08	Segregation of duties over accounting functions	Unresolved, similar finding reported at II-A-09

Grundy County Memorial Hospital

Audit Staff

For the Year Ended June 30, 2009

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Darren R. Osten, CPA, Manager

Emily H. Nave, In-Charge

Andrew J. DeLashmutt, Staff Auditor