

Grundy County Memorial Hospital
Grundy Center, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2011 and 2010**

Together with Independent Auditor's Report

Grundy County Memorial Hospital

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Grundy County Memorial Hospital

Officials
June 30, 2011

<u>Board of Commissioners</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
Dr. Jane Hasek	Chair	Reinbeck, IA	July 2011
Ron Saak	Vice-Chair	Grundy Center, IA	July 2012
Barbara Smith	Secretary	Grundy Center, IA	July 2013
Brenda Davis	Treasurer	Reinbeck, IA	July 2013
Jerry Bakker	Member	Grundy Center, IA	November 2010
Jane Dodd	Member	Reinbeck, IA	March 2011
Janet Eberline	Member	Grundy Center, IA	May 2011
Evie Haupt	Member	Wellsburg, IA	June 2011
T.J. Johnsrud	Member	Conrad, IA	July 2011
Dan Robertson	Member	Reinbeck, IA	July 2013
Marty Rouse	Member	Grundy Center, IA	June 2011

<u>Hospital Officials</u>	<u>Title</u>
Pamela K. Delagardelle	Chief Executive Officer
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, 2011 and 2010 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, 2011 and 2010, 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 26, 2011 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, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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, LLP

Omaha, Nebraska,
September 26, 2011.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2011 and 2010

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, 2011, 2010, and 2009. 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, 2011 and 2010

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.

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.

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** replacements and upgrades that totaled \$1.8 million in heating, cooling, air handling and electrical systems
- **Specialty Clinics** with six new exam rooms, two specialty procedure rooms, physician's dictation area and nurses' station
- **Emergency Department** with two emergency bays, a designated trauma/cardiac room and waiting area
- **Outpatient Therapies Department** for growing Physical Therapy, Occupational Therapy, Speech Therapy and Cardiac Rehab programs
- **Ambulatory Surgery** with the addition of pre-admitting and recovery beds and recliners
- **Operating Room** remodeling that included new doors and ventilation systems to decrease infection control risks
- **Radiology Department** with a CT scanner, dexascanner, mammography, sonography, and sleep studies equipment
- **Hospital Entry and Parking Area**
- **Healing Garden** adjacent to Long Term Care with cement walkways, a gazebo, a pergola, water fountains and 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.

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 of 2009. The new addition included the following areas:

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2011 and 2010

- **Inpatient Area.** The new 18-bed Inpatient Area includes eight medical/surgery, two larger hospice, one bariatric, one pediatric and six orthopedic rooms. Each room has its own bathroom, shower and family area. There are small nursing work stations between patient rooms for a more decentralized approach to charting, supplies, and medications. Additionally, the new unit has 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 is located next to the Inpatient Area and accommodates three patients.
- **Emergency Department.** The new Emergency Department offers three private treatment bays and a larger trauma room with capabilities for the simultaneous treatment of two patients. The new space also includes a larger waiting area, enclosed and climate-controlled ambulance garage, decontamination room, on-call physician sleep room and a consultation room.
- **Surgery.** Remodeling in the surgery area began in July, 2010 and 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 9 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 Emergency Department and Inpatient Area was completed and occupied June 2010. An Open House and Donor Appreciation Event for the public occurred June 9 and 10, 2010.

During FY 2011, the following construction projects were completed:

- **Dry storage & cooler/freezer** opened October 27, 2010
- **Surgery** pre- and post-operative areas opened November 4, 2010
- **Human Resources** area opened November 8, 2010
- **Patient Registration** opened January 13, 2011
- **East J Café** opened February 14, 2011
- **Surgery** clean/sterile area opened March 14, 2011

A Partner for Grundy County

GCMH Associates

The Hospital is a vital part of Grundy County. With a staff of 216, it is one of the county's largest employers. The total annual payroll and benefits for the Hospital reached \$8.8 million for the year ending June 30, 2011.

The growth, expansion and modernization of Grundy County Memorial Hospital has led to the creation of over 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 141 Providers (8 active and 133 Courtesy). The Medical Staff had 57 new providers apply for Medical Staff privileges during FY 2010-2011 and 58 relinquishments. GCMH saw an increase in new providers and relinquishments because of the transition in radiology groups from St. Paul Radiology to Virtual Radiology.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2011 and 2010

Economic Impact

According to Iowa Hospital Association statistics, Grundy County Memorial Hospital has an estimated economic impact of over \$9.3 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.

As a commitment to the organization's mission of "improving the health of the people in the communities we serve", Hospital Associates are actively leading wellness committees in communities and at the county level. Numerous community outreach activities this year have been aimed at raising awareness about infection control and good hand hygiene using a "Germ Busters" theme.

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. Hospital leadership is also participating in a regional task force with four market area high schools to implement clinical internships at the hospital for the purpose of career exploration.

The Emergency Department Team has focused on providing continuing education for Emergency Medical Services (EMS) groups in the hospital's market area in 2011.

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.

Vision for the Future

Strategic Initiatives

In the fall of 2010, 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 leaders from the county about their vision for improving health in their communities. A strategic plan was developed for FY 2011 – 2013.

The mission of Grundy County Memorial Hospital, "to improve the health of the people in the communities we serve through healing, caring and teaching" and the vision of the Hospital is, "best outcome, every patient, every time".

The Strategic Initiatives for GCMH for FY 2011 – 2013 are:

- Elevate GCMH's high standards for clinical quality, patient safety, customer service and professionalism.
- Expand and seek greater alignment with the medical staff.
- Build a regional reputation for targeted services and develop new services.
- Partner in the development of a progressive aging retirement community.
- Increase market share and engage service area communities while creating greater support for GCMH.
- Further strengthen the GCMH board, medical staff, and leadership team.
- Improve and sustain financial performance.

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Management's Discussion and Analysis June 30, 2011 and 2010

Major Strategic Accomplishments for FY 2010-2011

- Completion of Phase II Construction and Modernization Project.
- Awarded \$1.8M Broadband Technology Opportunities Program (BTOP) Grant through the US Dept. of Commerce to install telehealth equipment in hospitals, physician offices, schools, and EMS for the purpose of improving access to healthcare in the rural area.
- Worked with Iowa Health Physicians to recruit a family practitioner, Dr. Eric Neverman, who will join the Grundy Center Family Medicine Clinic in 2015.
- **2010 Press Ganey Summit Award for Patient Satisfaction in Outpatient Services**
Presented to a hospital that sustains an overall rank above the 95th percentile for patient satisfaction in Outpatient databases for three years in a row.
- **2010 Press Ganey Summit Award for Patient Satisfaction in Emergency Services**
Presented to a hospital that sustains an overall rank above the 95th percentile for patient satisfaction in Emergency Department databases for three years in a row.
- **2011 IAHSA Quality First Award**
Recognized by Iowa Association of Homes and Services for the Aging for significant strides in quality improvement in the areas of falls prevention and medication errors.
- **2011 *Modern Healthcare's* Top 100 Best Places to Work in Healthcare Award**
Recognized by *Modern Healthcare* for creating and retaining an engaged healthcare workforce.
- **2011 Cedar Valley Top 20 Employers of Choice Award**
Nominated by GCMH Associates as an Employer of Choice; the hospital was chosen as a 2011 Cedar Valley Top 20 Employer of Choice from over 200 businesses nominated.

Financial Highlights

- The Hospital's cash and cash equivalents increased \$2,588,774 from 2010 to 2011 due to an increase in cash received from patients and third-party payors due to volume increases. From 2009 to 2010 there was an increase of \$249,133.
- The Hospital's increase in net assets was \$2,458,787, 33.8% from June 30, 2010 to June 30, 2011 and \$455,748, 6.7% from June 30, 2009 to June 30, 2010.
- Net patient and service revenue before provision for bad debt increased \$2,754,316, 20.1% from 2010 to 2011 and \$1,289,723, 10.4% from 2009 to 2010.
- Operating expenses increased \$2,731,121, 20.3% from the year ending June 30, 2010 to June 30, 2011 and \$1,499,090, 12.5% from the year ending June 30, 2009 to June 30, 2010.

Financial Statements

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

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

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2011 and 2010

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 \$2,458,787, 33.8% from June 30, 2010 to June 30, 2011 and \$455,748, 6.7% from June 30, 2009 to June 30, 2010. (Refer to **Table 1**).

Table 1: Assets, Liabilities, and Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 7,519,400	5,013,251	3,600,074
Capital assets, net	19,350,160	17,877,376	7,855,716
Other noncurrent assets	1,071,253	3,008,109	2,238,303
Total assets	<u>28,240,813</u>	<u>25,899,436</u>	<u>13,694,093</u>
Liabilities:			
Long-term debt outstanding	15,505,823	16,133,742	4,413,146
Other current and noncurrent liabilities	3,007,161	2,496,652	2,467,653
Total liabilities	<u>18,512,984</u>	<u>18,630,394</u>	<u>6,880,799</u>
Net assets:			
Invested in capital assets, net of related debt	3,919,379	3,427,644	3,442,570
Restricted for debt service	111,665	109,150	430,289
Unrestricted	5,696,785	3,732,248	2,940,435
Total net assets	<u>\$ 9,727,829</u>	<u>7,269,042</u>	<u>6,813,294</u>

Year Ending June 30, 2010 to June 30, 2011:

The Hospital's total assets increased \$2,341,377. This increase is a result of an increase in cash and cash equivalents \$2,588,774, an increase of \$1,472,784 in capital assets, net due to increased costs incurred associated with the modernization project, and an increase in patient and resident receivable of \$707,656, while other noncurrent assets decrease is a result of a decrease in assets limited as to use or restricted of \$2,193,179 primarily related to funds available for the modernization project.

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Management's Discussion and Analysis June 30, 2011 and 2010

Year Ending June 30, 2009 to June 30, 2010:

The Hospital's total assets increased \$12,205,343. This increase is a result of an increase of \$10,021,660 in capital assets, net due to increased expense associated with the modernization project, an estimated third-party payor settlements receivable of \$375,000, an increase in assets limited as to use or restricted of \$1,382,110 related to the modernization project.

Operating Results

In 2011, the Hospital's net assets increased by \$2,458,787, 33.8% while in 2010 the increase was \$455,748, 6.7%. (Refer to **Table 2**). These increases include an excess of revenue over expenses before capital grants and contributions of \$303,763 for June 30, 2011, \$285,412 for June 30, 2010, and \$283,167 for June 30, 2009.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenue:			
Net patient service revenue	\$ 16,478,732	13,724,416	12,434,693
Provision for bad debt	(400,786)	(298,600)	(283,350)
Other operating revenue	263,297	157,187	147,329
Total operating revenue	16,341,243	13,583,003	12,298,672
Operating Expenses:			
Salaries and benefits	8,816,239	7,919,268	7,053,243
Purchased services and other	4,783,902	4,154,126	3,926,638
Depreciation and amortization	1,960,417	1,329,217	831,330
Interest	655,281	82,107	174,417
Total operating expenses	16,215,839	13,484,718	11,985,628
Operating income	125,404	98,285	313,044
Nonoperating Revenue and Expenses:			
County subsidy	163,000	150,000	163,000
Investment income	39,330	41,372	73,070
Other nonoperating revenue and expenses, net	(23,971)	(4,245)	(265,947)
Total nonoperating revenue (expenses), net	178,359	187,127	(29,877)
Excess of revenue over expenses before capital grants and contributions	303,763	285,412	283,167
Capital grants and contributions	2,155,024	170,336	200,000
Increase in net assets	\$ 2,458,787	455,748	483,167

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Management's Discussion and Analysis June 30, 2011 and 2010

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income - the difference between net patient service revenue and the expenses incurred to perform those services. For the year ending June 30, 2009, the Hospital reported operating income of \$313,044; for the year ending June 30, 2010, the Hospital reported operating income of \$98,285; and for the year ending June 30, 2011, the Hospital reported operating income of \$125,404.

Year Ending June 30, 2010 to June 30, 2011:

The primary components of the operating income of \$125,404 are:

- Inpatient and swing bed revenue increased \$1,684,503, 45.8% from June 30, 2010 to June 30, 2011 due to a increase in patient days and a change in the mix of day along with a room rate increase. Acute days increased 18.6%, Skilled days increased 35.4%, and Hospitality days decreased 66.7% between the years. The Acute and Skilled days were positively impacted by 37 total knee surgeries and one total hip surgery.
- Outpatient revenue increased \$2,488,551, 22.2% from 2010 to 2011. This increase is primarily due to:
 - Emergency Room visits increased from 2,403 visits to 2,755, an increase of 352 visits, 14.6%.
 - Lab revenue increased \$114,703, 6.4% from 2010 to 2011, as a result of an increase in rates effective July 1, 2010 to offset rising cost of supplies.
 - Operating room revenue increased \$170,867, 12.1% from 2010 to 2011 due to more complex surgeries being performed.
 - Radiology revenue increased \$606,139, 24.1% from 2010 to 2011. This increase primarily relates to increased radiology procedures performed.
 - Cardiac Rehab revenue increased \$65,456, 30.2% from 2010 to 2011.
 - Grundy County Memorial Orthopedic Hospital Clinic services began September 1, 2010, resulting in revenue of \$789,697.
- Long Term Care revenue increased \$258,383. This increase reflects an increase in days of 752, 4.3% and an increase in rates effective July 1, 2010.
- Increases in salary and benefit costs for the Hospital's Associates of \$816,637, 13.5%. FTEs increased from 128.27 for 2010 to 138.32 for 2011, an increase of 7.8%
- Purchased services and professional fees increased \$133,912, 8.5% from 2010 to 2011. This increase is a result of the physician fees relating to the opening of the GCMH Clinic.
- Increases in supplies and other expenses of \$433,958, 19.8%. This increase is a result of the increase in outpatient volume and surgical procedures (37 total knee, 9 total hip replacements, and 144 cataract surgeries).

Year Ending June 30, 2009 to June 30, 2010:

The primary components of the operating income of \$98,285 are:

- Inpatient and swing bed revenue increased \$57,731, 4.7% from June 30, 2009 to June 30, 2010 due to a decrease in patient days and a change in the mix of day which was offset by a room rate increase. Acute days decreased 37.1%, Skilled days increased 23.8%, and Hospitality days remained consistent between the years. The Acute and Skilled days were positively impacted by 32 total knee surgeries, 12 total hip surgeries and one total shoulder surgery.
- Outpatient revenue increased \$1,735,099, 18.4% from 2009 to 2010. This increase is primarily due to:
 - Emergency Room visits increased from 2,204 visits to 2,403, an increase of 199 visits, 9.0%.
 - Lab procedures increased by 6,660, 9.2% from 2009 to 2010.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2011 and 2010

- Operating room revenue increased \$136,892, 10.5% from 2009 to 2010.
- Radiology revenue increased \$386,132, 16.8% from 2009 to 2010. This increase primarily relates to the increased CT, MRI, and C-Arm volume.
- Therapy visits increased from 6,331 visits to 6,957, an increase of 626 visits, 9.9%.
- Cardiac Rehab revenue increased \$86,690, 6.7% from 2009 to 2010.
- Wound Clinic visits increased from 351 for 2009 to 388 for 2010, an increase of 10.5%.
- Long-Term Care revenue increased \$8,546. This increase reflects a decrease in days of 1,108, 5.9% which was offset by an increase in rates effective July 1, 2009.
- Increases in salary and benefit costs for the Hospital's Associates of \$866,025, 12.3%. FTEs increased from 120.54 for 2009 to 128.27 for 2010, an increase of 6.4%
- Purchased services and professional fees decreased \$22,901, 1.4% from 2009 to 2010. This decrease is a result of the decreased amount due to Allen Memorial Hospital of \$214,759 which was offset by an increase in expense for anesthesia and the use of agency staffing for Speech Therapy, Acute Care and Long-Term Care.
- Increases in supplies and other expenses of \$251,281, 13.0%. This increase is a result of the increase in outpatient volume and surgical procedures (32 total knee, 12 total hip replacements, 1 total shoulder, and 160 cataract surgeries).

Nonoperating Revenue and Expenses

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

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2011, the Hospital had \$19,350,160 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. For the year ending June 30, 2011, the Hospital purchased capital assets costing \$3,425,165. Capital asset additions for the year ending June 30, 2010 were \$11,326,288 and for the year ending June 30, 2009 were \$2,226,593.

Capital asset additions for 2011 relates to the construction costs associated with the Phase II Modernization Project, parking lot expansion, call light system and technology for the new area, phone system and network equipment & lines associated, an access control system, utensils and equipment for East J cafe, shelving units, steam sterilizer, surgical instruments, infusion pumps, cardiac monitoring equipment, coagulation analyzer, dexta machine, telehealth equipment (cameras, televisions, laptops, etc.), exterior and interior signage and CPSI server.

Capital asset additions for 2010 relates to the construction costs associated with the Phase II Modernization Project, furniture/equipment (beds, recliners, chairs, pumps, lifts, shelving systems, etc), call light system and technology for the new areas, phone system and network equipment & lines associated, an access control system, general x-ray machine, CT injector, defibrators, surgical instruments including a colonoscope, hip fracture instruments & total joint instruments, cardiac monitoring equipment, exercise equipment for the new therapy services and cardiac rehab departments, computers, laptops, bar code scanners and servers for various areas of the hospital, along with office furniture.

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.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2011 and 2010

Debt

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. This loan was paid in full September 2010.

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. This loan is payable monthly through December 2015.

The Hospital has entered into a construction commitment for the 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 notes were also used to refund the existing Series 2004 Hospital Revenue Bonds. The Hospital has pledged future net revenues of the Hospital to pay for this loan. Interest is paid semi-annually with a varying rate between 4.25% and 4.75%. The first interest payment was June 2010 and the first principal payment was June 2011.

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,558,667	1,969,893
Assets limited as to use or restricted	186,707	758,196
Receivables -		
Patient and resident, net of allowance for doubtful accounts of \$431,244 in 2011 and \$306,941 in 2010	2,063,473	1,355,817
Succeeding year County subsidy receivable	263,000	263,000
Other	107,039	28,165
Inventories	225,842	244,953
Prepaid expenses	114,672	18,227
Estimated third-party payor settlements	--	375,000
	<u>7,519,400</u>	<u>5,013,251</u>
Total current assets		
Assets limited as to use or restricted - less amounts required for current obligations	1,257,299	2,878,989
Capital assets, net	19,350,160	17,877,376
Other assets, net	113,954	129,820
	<u>28,240,813</u>	<u>25,899,436</u>
Total assets		
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	626,250	646,523
Accounts payable -		
Trade	588,513	410,601
Capital related	299,050	649,046
Accrued expenses -		
Accrued salaries, wages and vacation payable	1,018,691	916,473
Payroll taxes	59,514	45,448
Interest	56,578	59,014
Deferred revenue	147,629	153,070
Deferred revenue for succeeding year County subsidy receivable	263,000	263,000
Estimated third-party payor settlements	574,186	--
	<u>3,633,411</u>	<u>3,143,175</u>
Total current liabilities		
Long-term debt, net of unamortized discount and current maturities	14,879,573	15,487,219
	<u>18,512,984</u>	<u>18,630,394</u>
Total liabilities		
Net assets:		
Invested in capital assets, net of related debt	3,919,379	3,427,644
Restricted for debt service	111,665	109,150
Unrestricted	5,696,785	3,732,248
	<u>9,727,829</u>	<u>7,269,042</u>
Total net assets		
Total liabilities and net assets	<u>\$ 28,240,813</u>	<u>25,899,436</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE:		
Net patient and resident service revenue before provision for bad debt	\$ 16,478,732	13,724,416
Provision for bad debts	<u>(400,786)</u>	<u>(298,600)</u>
Net patient and resident service revenue	16,077,946	13,425,816
Other operating revenue	<u>263,297</u>	<u>157,187</u>
Total operating revenue	<u>16,341,243</u>	<u>13,583,003</u>
OPERATING EXPENSES:		
Salaries	6,879,276	6,062,639
Employee benefits	1,936,963	1,856,629
Purchased services and professional fees	1,702,681	1,568,769
Utilities	355,662	274,338
Supplies and other expenses	2,624,679	2,190,721
Depreciation and amortization	1,960,417	1,329,217
Insurance	100,880	120,298
Interest	<u>655,281</u>	<u>82,107</u>
Total operating expenses	<u>16,215,839</u>	<u>13,484,718</u>
OPERATING INCOME	<u>125,404</u>	<u>98,285</u>
NONOPERATING REVENUE (EXPENSES), NET:		
Investment income	39,330	41,372
County subsidy	163,000	150,000
Loss on disposal of capital assets	<u>(23,971)</u>	<u>(4,245)</u>
Nonoperating revenue, net	<u>178,359</u>	<u>187,127</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	303,763	285,412
CAPITAL GRANTS AND CONTRIBUTIONS	<u>2,155,024</u>	<u>170,336</u>
INCREASE IN NET ASSETS	2,458,787	455,748
NET ASSETS, Beginning of year	<u>7,269,042</u>	<u>6,813,294</u>
NET ASSETS, End of year	<u>\$ 9,727,829</u>	<u>7,269,042</u>

See notes to financial statements

Grundy County Memorial Hospital

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 16,314,035	12,665,204
Cash paid for employee salaries and benefits	(8,699,955)	(7,816,073)
Cash paid to suppliers and contractors	(4,683,324)	(4,348,556)
Other receipts and payments, net	<u>184,423</u>	<u>145,427</u>
Net cash provided by operating activities	<u>3,115,179</u>	<u>646,002</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County subsidy received	<u>163,000</u>	<u>150,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(3,733,490)	(10,348,938)
County subsidy received for capital acquisitions	100,000	100,000
Capital grants and contributions	2,055,024	70,336
Proceeds from issuance of long term debt, net of discount	--	15,928,654
Bond issuance costs	--	(134,199)
Payments on long term debt	(647,477)	(4,201,846)
Interest paid on debt	<u>(715,138)</u>	<u>(693,117)</u>
Net cash provided by (used in) capital and related financing activities	<u>(2,941,081)</u>	<u>720,890</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Deposits to) withdrawals from assets limited as to use, net	2,193,179	(1,382,110)
Investment income, net	<u>58,497</u>	<u>114,351</u>
Net cash provided by (used in) investing activities	<u>2,251,676</u>	<u>(1,267,759)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,588,774	249,133
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,969,893</u>	<u>1,720,760</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 4,558,667</u>	<u>1,969,893</u>

See notes to financial statements

Grundy County Memorial Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 125,404	98,285
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,960,417	1,329,217
Interest expense included in operating expenses	655,281	82,107
(Increase) decrease in current assets -		
Receivables -		
Patients	(707,656)	(20,463)
Other	(78,874)	(11,760)
Inventories	19,111	(31,907)
Prepaid expenses	(96,445)	5,847
Estimated third-party payor settlements - Medicare and Medicaid	375,000	(375,000)
Increase (decrease) in current liabilities -		
Accounts payable	177,912	(168,370)
Accrued salaries, wages and vacation payable	102,218	100,682
Payroll taxes	14,066	2,513
Deferred revenue	(5,441)	8,851
Estimated third-party payor settlements - Medicare and Medicaid	574,186	(374,000)
Net cash provided by operating activities	<u>\$ 3,115,179</u>	<u>646,002</u>

See notes to financial statements

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

(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.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

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/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

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.

D. *Measurement Focus and Basis of Accounting*

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

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

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

E. *Use of Estimates*

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

F. *Cash and Cash Equivalents*

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

G. *Patient and Resident Receivables*

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

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

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

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

H. County Subsidy Receivable

County subsidy receivable is recognized on the budget approval date, which is the date that the budget is certified by the County Board of Supervisors. The succeeding year county subsidy receivable represents subsidies certified by the Board of Supervisors to be granted in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year.

However, by statute, the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year county subsidy receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is granted.

I. Assets Limited as to Use or Restricted

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

Under Loan Agreement - These funds are used for the payment of principal and interest on the notes 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 debt issuance costs included in other assets on the accompanying balance sheets are being amortized over the life of the related notes using the effective interest method. Amortization expense applicable to these notes amounted to \$33,977 and \$15,042 for the years ended June 30, 2011 and 2010, respectively. These amounts are included in depreciation and amortization expense in the accompanying statements of revenue, expenses and changes in net assets.

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

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, 2011 and 2010.

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 year. 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of succeeding year County subsidy receivable and advance billings of nursing home revenue.

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

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

P. Net Patient and Resident 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. 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.

R. 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.

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

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, 2011 and 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Commissioners; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Credit Risk: The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital had no investments as defined by Government Accounting Standards Board Statement No. 3 at June 30, 2011 and 2010.

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, 2011 and 2010 is included in investment income on the statements of revenue, expenses and changes in net assets.

(3) **Net Patient and 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.

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

Revenue from the Medicare and Medicaid programs accounted for approximately 44% and 10%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2011, and 43% and 9%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2010. 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 2011 and 2010 net patient service revenue increased approximately \$102,000 and \$150,000, respectively, 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.

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Gross patient and resident service revenue:		
Hospital -		
Inpatient	\$ 2,883,012	2,095,058
Outpatient	13,686,276	11,197,725
Swingbed	2,484,207	1,587,658
Nursing Home	<u>2,745,172</u>	<u>2,486,789</u>
	21,798,667	17,367,230
Contractual adjustments:		
Medicare	(2,689,050)	(2,002,656)
Medicaid	(381,611)	(232,500)
Other	(2,169,871)	(1,331,992)
Charity care services	<u>(79,403)</u>	<u>(75,666)</u>
Total contractual adjustments	<u>(5,319,935)</u>	<u>(3,642,814)</u>
Net patient and resident service revenue before provision for bad debt	\$ <u>16,478,732</u>	<u>13,724,416</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, 2011 and 2010, are summarized as follows:

	<u>2011</u>	<u>2010</u>
Money market accounts	\$ 853,538	1,642,305
Certificates of deposit	<u>403,761</u>	<u>201,720</u>
	\$ <u>1,257,299</u>	<u>1,844,025</u>

Under Loan Agreement

In connection with the loan agreement relating to the issuance the General Obligation Urban Renewal Capital Loan Notes, Series 2009, 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.

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

Project Fund – Established for the deposit of the loan proceeds used to pay for the Facility Modernization Project.

The amounts segregated as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Sinking Fund, cash and money market accounts	\$ 111,665	109,150
Project Fund –		
Cash and money market accounts	75,042	135,235
Certificates of deposit	--	1,548,775
	<u>75,042</u>	<u>1,684,010</u>
Less amounts required for current obligations	186,707 <u>(186,707)</u>	1,793,160 <u>(758,196)</u>
	\$ <u><u> --</u></u>	<u><u>1,034,964</u></u>

(5) Composition of Patient Receivables

Patient and resident receivables as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Patient and resident accounts	\$ 3,185,618	2,057,738
Less allowance for doubtful accounts	(431,244)	(306,941)
Less estimated third-party contractual adjustments	<u>(690,901)</u>	<u>(394,980)</u>
	\$ <u><u>2,063,473</u></u>	<u><u>1,355,817</u></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>2011</u>	<u>2010</u>
Medicare	32%	37%
Medicaid	5	5
Commercial insurance	49	41
Patients and residents	<u>14</u>	<u>17</u>
	<u>100%</u>	<u>100%</u>

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

(6) Capital Assets

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

	June 30, 2010	Additions	Transfers and Disposals	June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 307,587	30,919	--	338,506
Construction in progress	756,679	1,707,258	(2,429,087)	34,850
Total capital assets, not being depreciated	<u>1,064,266</u>	<u>1,738,177</u>	<u>(2,429,087)</u>	<u>373,356</u>
Capital assets, being depreciated:				
Land improvements	189,981	--	(6,002)	183,979
Buildings	16,847,801	--	2,336,939	19,184,740
Major moveable equipment, including equipment under capital lease	6,609,901	1,686,988	(342,474)	7,954,415
Vehicles	15,765	--	--	15,765
Total capital assets, being depreciated	<u>23,663,448</u>	<u>1,686,988</u>	<u>1,988,463</u>	<u>27,338,899</u>
Less accumulated depreciation:				
Land improvements	94,259	17,498	(6,002)	105,755
Buildings	4,239,275	1,109,287	(76,207)	5,272,355
Fixed equipment	2,501,039	799,655	(332,474)	2,968,220
Vehicles	15,765	--	--	15,765
Total accumulated depreciation	<u>6,850,338</u>	<u>1,926,440</u>	<u>(414,683)</u>	<u>8,362,095</u>
Total capital assets, being depreciated, net	<u>16,813,110</u>	<u>(239,452)</u>	<u>2,403,146</u>	<u>18,976,804</u>
Total capital assets, net	<u>\$ 17,877,376</u>	<u>1,498,725</u>	<u>(25,941)</u>	<u>19,350,160</u>

	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 307,587	--	--	307,587
Construction in progress	1,120,361	8,522,329	(8,886,011)	756,679
Total capital assets, not being depreciated	<u>1,427,948</u>	<u>8,522,329</u>	<u>(8,886,011)</u>	<u>1,064,266</u>
Capital assets, being depreciated:				
Land improvements	189,937	44	--	189,981
Buildings	7,965,522	--	8,882,279	16,847,801
Major moveable equipment, including equipment under capital lease	3,987,218	2,803,915	(181,232)	6,609,901
Vehicles	15,765	--	--	15,765
Total capital assets, being depreciated	<u>12,158,442</u>	<u>2,803,959</u>	<u>8,701,047</u>	<u>23,663,448</u>
Less accumulated depreciation:				
Land improvements	76,665	17,594	--	94,259
Buildings	3,519,342	721,254	(1,321)	4,239,275
Fixed equipment	2,120,873	553,996	(173,830)	2,501,039
Vehicles	13,794	1,971	--	15,765
Total accumulated depreciation	<u>5,730,674</u>	<u>1,294,815</u>	<u>(175,151)</u>	<u>6,850,338</u>
Total capital assets, being depreciated, net	<u>6,427,768</u>	<u>1,509,144</u>	<u>8,876,198</u>	<u>16,813,110</u>
Total capital assets, net	<u>\$ 7,855,716</u>	<u>10,031,473</u>	<u>(9,813)</u>	<u>17,877,376</u>

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

(7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2011 and 2010 consisted of the following:

	June 30, 2009	Borrowings	Payments / Amortization	June 30, 2010	Due Within One Year
Subordinate Hospital Revenue Note (B)	\$ 36,227	--	(36,227)	--	--
Notes Payable (C)	196,354	--	(36,250)	160,104	36,250
Urban Renewal Capital Loan Notes (D)	16,020,000	--	(575,000)	15,445,000	590,000
Discount on Urban Renewal Capital Loan Notes (D)	(118,839)	--	19,558	(99,281)	--
Net	<u>\$ 16,133,742</u>	<u>--</u>	<u>(627,919)</u>	<u>15,505,823</u>	<u>626,250</u>
	June 30, 2009	Borrowings	Payments / Amortization	June 30, 2010	Due Within One Year
Hospital Revenue Bonds (A)	\$ 4,025,000	--	(4,025,000)	--	--
Discount on Hospital Revenue Bonds (A)	(21,281)	--	21,281	--	--
Subordinate Hospital Revenue Note (B)	176,823	--	(140,596)	36,227	35,273
Notes Payable (C)	232,604	--	(36,250)	196,354	36,250
Urban Renewal Capital Loan Notes (D)	--	16,020,000	--	16,020,000	575,000
Discount on Urban Renewal Capital Loan Notes (D)	--	(127,097)	8,258	(118,839)	--
Net	<u>\$ 4,413,147</u>	<u>15,892,903</u>	<u>(4,172,307)</u>	<u>16,133,742</u>	<u>646,523</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%. The bonds were paid in full on September 1, 2009.
- (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%. The loan was paid in full on September 1, 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.
- (D) On July 28, 2009, the Hospital entered into a loan agreement with Grundy County, Iowa relating to an issuance of General Obligation Urban Renewal Capital Loan Notes, Series 2009, in the amount of \$16,020,000. The proceeds of the notes, net of discount of \$127,097, were used to refund the existing Series 2004 Hospital Revenue Bonds and 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 loan. Interest is paid semi-annually with a varying rate between 4.25% and 4.75%.

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	626,250	683,730	1,309,980
2013	646,250	658,655	1,304,905
2014	661,250	632,730	1,293,980
2015	686,250	606,168	1,292,418
2016	690,104	578,543	1,268,647
2017-2021	3,830,000	2,438,175	6,268,175
2022-2026	4,870,000	1,528,230	6,398,230
2027-2030	3,595,000	345,370	3,940,370
	<u>\$ 15,605,104</u>	<u>7,471,601</u>	<u>23,076,705</u>

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

(8) Pension and Retirement Benefits

The Hospital's associates are leased employees of Allen Health System. As a result, the associates participate in Allen Health System's defined contribution pension plan. Participants may make pre-tax contributions from 1% to 20% of eligible salaries. The Hospital contributes 2% of participants' eligible salaries and matches up to 50% of the first 4% of participants' contributions. Effective February 2011, the Hospital matches up to 50% on the first 6% of participants' contributions. Pension plan expense for the years ended June 30, 2011 and 2010 was \$275,819 and \$365,331, respectively.

(9) Operating Subsidy

Effective January 1, 1998, the Hospital entered into an operating agreement with Iowa Health System (Allen Health System). Under this agreement, the Board of Commissioners of Grundy County Memorial Hospital (Hospital Commission) and Allen Health System will jointly exercise certain powers of the Hospital Commission to operate the Hospital and share in the risk and benefits of operation. Included in the statements of revenue, expenses and changes in net assets as a result of this agreement are amounts due to Allen Health System as of June 30, 2011 and 2010 of \$125,401 and \$98,285, respectively.

(10) Commitments under Noncancellable Operating Leases

The Hospital leases certain office space and equipment under noncancellable operating lease agreements. Total lease expense for the years ended June 30, 2011 and 2010 for all operating leases was \$273,329 and \$131,709, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2011 that have initial or remaining lease terms in excess of one year:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	\$ 247,692
2013	235,067
2014	199,007
2015	166,385
2016	148,255
2017-2020	593,021

Grundy County Memorial Hospital

Notes to Financial Statements For the Years Ended June 30, 2011 and 2010

(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, 2011 and 2010 were \$1,104,516 and \$990,351, 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.

(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.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

(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 as of June 30, 2011 and 2010 follows:

	<u>(Unaudited)</u>	
	<u>2011</u>	<u>2010</u>
Assets	\$ <u>759,798</u>	<u>2,011,525</u>
Net assets	\$ <u>759,798</u>	<u>2,011,525</u>

The Hospital received \$1,635,285 and \$49,486 from the Foundation during the years ended June 30, 2011 and 2010, respectively, for the purchase of property and equipment related to the Hospital's Facility Modernization Project. As of June 30, 2011, the Foundation has approximately \$153,000 of pledges receivable related to the Hospital's Facility Modernization 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, 2011 and 2010

	<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	\$ 263,000	--	263,000	163,000	(100,000)
Estimated other revenues / receipts	18,411,626	200,353	18,611,979	42,050,092	(23,438,113)
	<u>18,674,626</u>	<u>200,353</u>	<u>18,874,979</u>	<u>42,213,092</u>	<u>(23,338,113)</u>
Expenses / Disbursements	<u>16,215,839</u>	<u>2,263,545</u>	<u>18,479,384</u>	<u>22,211,864</u>	<u>3,732,480</u>
Net	2,458,787	(2,063,192)	395,595	20,001,228	\$ <u>(19,605,633)</u>
Balance beginning of year	<u>7,269,042</u>	<u>(1,661,964)</u>	<u>5,607,078</u>	<u>5,607,078</u>	
Balance end of year	\$ <u><u>9,727,829</u></u>	<u><u>(3,725,156)</u></u>	<u><u>6,002,673</u></u>	<u><u>25,608,306</u></u>	

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

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, 2011, the Hospital's expenditures did not exceed the amount budgeted.

Schedules of Net Patient and Resident Service Revenue
For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Long term care	\$ 2,745,172	--	--	2,745,172	2,486,789	--	--	2,486,789
Swing bed	--	--	1,215,213	1,215,213	--	--	820,435	820,435
Adult and pediatric	569,155	--	--	569,155	454,537	--	--	454,537
Observation	--	79,726	--	79,726	--	69,254	--	69,254
Hospitality	4,232	--	--	4,232	11,156	--	--	11,156
	<u>3,318,559</u>	<u>79,726</u>	<u>1,215,213</u>	<u>4,613,498</u>	<u>2,952,482</u>	<u>69,254</u>	<u>820,435</u>	<u>3,842,171</u>
OTHER PROFESSIONAL SERVICES:								
Operating and recovery rooms	1,122,233	1,609,088	--	2,731,321	964,530	1,435,700	--	2,400,230
Radiology	66,449	2,620,294	11,171	2,697,914	42,447	2,131,621	7,270	2,181,338
Laboratory	119,438	1,926,970	142,599	2,189,007	110,115	1,812,267	52,196	1,974,578
Emergency and outpatient service	31,676	2,771,855	2,681	2,806,212	3,618	1,929,830	4,209	1,937,657
Pharmacy	228,359	1,027,219	495,471	1,751,049	197,345	926,916	294,278	1,418,539
Physical therapy	56,803	1,058,622	342,196	1,457,621	45,988	1,104,677	210,258	1,360,923
Anesthesiology	229,738	551,862	--	781,600	185,834	578,458	--	764,292
Mobile services	3,080	506,076	1,203	510,359	1,277	388,610	3,803	393,690
Occupational therapy	21,458	190,819	162,508	374,785	19,879	139,665	106,115	265,659
Cardiac rehab	547	282,234	--	282,781	--	216,778	--	216,778
Sleep lab	--	242,370	--	242,370	--	166,842	--	166,842
Electrocardiology	6,081	183,838	2,712	192,631	3,895	157,973	1,025	162,893
Respiratory therapy	75,408	6,080	80,012	161,500	50,087	4,625	64,312	119,024
GCMH clinic	346,443	443,019	235	789,697	--	--	--	--
Wound clinic	696	123,217	918	124,831	410	100,223	455	101,088
Speech therapy	1,216	36,576	22,964	60,756	624	17,634	19,775	38,033
Diabetic education	--	15,316	--	15,316	--	11,793	--	11,793
Ambulance	--	485	4,324	4,809	3,316	676	3,527	7,519
Nutrition education	--	10,117	--	10,117	--	3,404	--	3,404
Central services and supply	--	493	--	493	--	779	--	779
	<u>2,309,625</u>	<u>13,606,550</u>	<u>1,268,994</u>	<u>17,185,169</u>	<u>1,629,365</u>	<u>11,128,471</u>	<u>767,223</u>	<u>13,525,059</u>
GROSS PATIENT AND RESIDENT SERVICE REVENUE	\$ <u>5,628,184</u>	<u>13,686,276</u>	<u>2,484,207</u>	<u>21,798,667</u>	<u>4,581,847</u>	<u>11,197,725</u>	<u>1,587,658</u>	<u>17,367,230</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(5,240,532)				(3,567,148)
Provision for bad debts				(400,786)				(298,600)
Charity care services and other discounts, based on charges forgone				(79,403)				(75,666)
NET PATIENT AND RESIDENT SERVICE REVENUE				\$ <u>16,077,946</u>				\$ <u>13,425,816</u>

**Other Operating Revenue
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Grants	\$ 137,772	29,737
Cafeteria and vending	68,088	44,789
Clinic rent and other	41,990	59,602
Medical records transcriptions	1,552	1,648
Miscellaneous	<u>13,895</u>	<u>21,411</u>
	<u>\$ 263,297</u>	<u>157,187</u>

Departmental Expenses
For the Years Ended June 30, 2011 and 2010

	2011				2010			
	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	\$ 1,269,669	27,088	65,232	1,361,989	1,155,601	61,091	52,015	1,268,707
Adult and pediatric	476,777	25,550	67,510	569,837	467,998	27,414	47,723	543,135
Swing bed	327,907	6,242	4,154	338,303	281,507	11,095	2,672	295,274
Hospitality	7,158	25	--	7,183	8,912	--	--	8,912
	<u>2,081,511</u>	<u>58,905</u>	<u>136,896</u>	<u>2,277,312</u>	<u>1,914,018</u>	<u>99,600</u>	<u>102,410</u>	<u>2,116,028</u>
OTHER PROFESSIONAL SERVICES:								
Operating and recovery room	310,089	137,327	820,847	1,268,263	315,020	150,556	715,021	1,180,597
Emergency room	1,105,359	94,603	54,954	1,254,916	733,988	328,878	40,513	1,103,379
Laboratory	211,382	102,614	185,653	499,649	194,874	107,367	204,285	506,526
Pharmacy	77,602	51,347	354,747	483,696	79,965	38,430	341,729	460,124
Physical therapy	392,109	6,241	160,745	559,095	376,465	7,219	53,905	437,589
Radiology	266,921	113,530	90,316	470,767	235,974	100,571	71,477	408,022
Anesthesiology	--	208,053	2,669	210,722	--	205,210	6,212	211,422
Medical records	64,014	23,152	18,773	105,939	59,366	19,626	16,761	95,753
Central services and supply	59,511	6,415	2,741	68,667	73,953	2,188	(7,078)	69,063
Cardiac rehab	56,163	2,740	8,867	67,770	53,165	2,950	3,803	59,918
Social services	35,898	--	442	36,340	47,888	--	984	48,872
Sleep lab	--	65,315	34	65,349	--	45,895	--	45,895
Specialty clinic	10,044	--	6,140	16,184	10,424	--	19,212	29,636
Diabetic education	14,312	--	2,380	16,692	17,337	--	3,396	20,733
Respiratory therapy	--	--	18,501	18,501	--	--	17,643	17,643
Speech therapy	--	33,983	117	34,100	5,703	10,761	215	16,679
GCMH clinic	35,174	280,960	2,155	318,289	--	--	--	--
Wound clinic	9,972	--	16,891	26,863	6,653	--	7,097	13,750
Electrocardiology	--	8,799	2,116	10,915	1,254	8,184	207	9,645
Senior Life	8,123	--	2,889	11,012	6,710	--	735	7,445
Ambulance	--	--	--	--	95	--	--	95
	<u>2,656,673</u>	<u>1,135,079</u>	<u>1,751,977</u>	<u>5,543,729</u>	<u>2,218,834</u>	<u>1,027,835</u>	<u>1,496,117</u>	<u>4,742,786</u>
GENERAL SERVICES:								
Plant operation and maintenance	220,476	71,572	427,728	719,776	201,578	69,869	365,229	636,676
Dietary	404,517	750	232,161	637,428	336,824	61	180,720	517,605
Housekeeping	171,832	13,364	37,535	222,731	149,476	13,952	34,376	197,804
Laundry and linen	35,038	105,432	5,362	145,832	31,728	93,380	13,898	139,006
	<u>831,863</u>	<u>191,118</u>	<u>702,786</u>	<u>1,725,767</u>	<u>719,606</u>	<u>177,262</u>	<u>594,223</u>	<u>1,491,091</u>
ADMINISTRATIVE SERVICES	<u>1,309,229</u>	<u>317,579</u>	<u>388,682</u>	<u>2,015,490</u>	<u>1,210,181</u>	<u>264,072</u>	<u>272,309</u>	<u>1,746,562</u>
NONDEPARTMENTAL								
Employee benefits	--	--	1,936,963	1,936,963	--	--	1,856,629	1,856,629
Depreciation and amortization	--	--	1,960,417	1,960,417	--	--	1,329,217	1,329,217
Insurance	--	--	100,880	100,880	--	--	120,298	120,298
Interest	--	--	655,281	655,281	--	--	82,107	82,107
	<u>--</u>	<u>--</u>	<u>4,653,541</u>	<u>4,653,541</u>	<u>--</u>	<u>--</u>	<u>3,388,251</u>	<u>3,388,251</u>
	<u>\$ 6,879,276</u>	<u>1,702,681</u>	<u>7,633,882</u>	<u>16,215,839</u>	<u>6,062,639</u>	<u>1,568,769</u>	<u>5,853,310</u>	<u>13,484,718</u>

**Patient and Resident Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2011 and 2010**

ANALYSIS OF AGING:

Days Since Discharge	2011		2010	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,051,061	64.37 %	1,278,131	62.11
31 - 60	525,520	16.50	254,405	12.36
61 - 90	133,480	4.19	100,219	4.87
91 - 120	105,645	3.32	67,256	3.27
120 - 180	143,881	4.52	133,945	6.51
> 180	226,031	7.10	223,782	10.88
	<u>3,185,618</u>	100.00 %	<u>2,057,738</u>	100.00
Less:				
Allowance for doubtful accounts	(431,244)		(306,941)	
Allowance for contractual adjustments	<u>(690,901)</u>		<u>(394,980)</u>	
	<u>\$ 2,063,473</u>		<u>\$ 1,355,817</u>	

	2011	2010
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	46.84 days	36.86 days

ALLOWANCE FOR DOUBTFUL ACCOUNTS:	2011	2010
Balance, beginning of year	\$ 306,941	241,084
Provision of uncollectible accounts	400,786	298,600
Recoveries of accounts previously written off	65,554	53,719
Accounts written off	<u>(342,037)</u>	<u>(286,462)</u>
Balance, end of year	<u>\$ 431,244</u>	<u>306,941</u>

**Inventories / Prepaid Expenses
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
INVENTORY:		
Pharmacy	\$ 128,956	107,207
Central supply	40,401	99,075
Laboratory	36,171	25,925
Dietary	16,647	8,758
Radiology	<u>3,667</u>	<u>3,988</u>
	<u>\$ 225,842</u>	<u>244,953</u>
PREPAID EXPENSES:		
Maintenance contracts	\$ 89,967	1,490
Insurance	<u>24,705</u>	<u>16,737</u>
	<u>\$ 114,672</u>	<u>18,227</u>

**Insurance Coverage
For the Years Ended June 30, 2011 and 2010**

<u>Company</u>	<u>Property Covered</u>	<u>Limits</u>	<u>Policy Term</u>
MMIC Policy #IHP000105	General Liability (occurrence policy) Each Occurrence Personal & Advertising Injury Employee Benefits Liability General Aggregate Damage to Premises Rented to You Fire Dmage Products / Completed Operations Aggregate Medical Expense	\$1,000,000 \$1,000,000 \$1,000,000 \$3,000,000 \$1,000,000 \$1,000,000 \$1,000,000 \$10,000	12/15/2010 - 11
MMIC Policy #IHP000105	Hospital Professional Liability (claims made) Per Professional Health Care Incident Aggregate Retroactive Date: 01/01/2000	\$1,000,000 \$3,000,000	12/15/2010 - 11
	Medicare / Medicaid Billing E&O & Confidentiality Each Professional Health Care Incident Annual Aggregate	\$25,000 \$25,000	
MMIC Policy #IHP000105	Certificate Holder Professional Liability (Claims Made) <u>Physician Schedule / Retroactive Date:</u> Eric F. Opheim, DO - 08/06/2004 Frank Lamp, MD - 12/15/2007 Hagedorn - 07/09/2010 SLOT - 12/15/2009**		12/15/2010 - 11
	Per Professional Health Care Incident Aggregate Retroactive Date: 01/01/2000	\$1,000,000 \$3,000,000	
	Medicare / Medicaid Billing E&O & Confidentiality Each Professional Health Care Incident Annual Aggregate Retroactive Date: 10/24/2003	\$25,000 \$25,000	
MMIC Policy #IHP000105	Commercial Umbrella (occurrence policy) General Aggregate (other than Prod/Compl Ops) Products / Completed Operations Aggregate Each Occurrence Retained Limit - Only if no underlying coverage	\$1,000,000 \$1,000,000 \$1,000,000 \$10,000	12/15/2010 - 11
MMIC	<u>Underlying Schedule</u> General Liability Automobile Liability	\$1,000,000	12/15/2010 - 11
MMIC Policy #IHP000105	Medical Professional Excess (Claims Made) Each Professional Health Care Incident Annual Aggregate Retroactive Date 01/01/2000	\$1,000,000 \$1,000,000	12/15/2010 - 11
	<u>Underlying Schedule</u> Hospital Professional Liability Certificate Holder Professional Liability Policy Employee Benefits Liability General Liability		

** SLOT - Emergency Medicine - No Major Surgery

\$1,000,000

**Financial Statistical Highlights
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Patient and Resident Days:		
Hospital -		
Adult and pediatric -		
Medicare	273	270
All other	276	193
Swing bed - skilled	1,843	1,361
Hospitality	<u>16</u>	<u>48</u>
	<u>2,408</u>	<u>1,872</u>
Nursing Home	<u>18,540</u>	<u>17,788</u>
Discharges:		
Hospital adult and pediatric -		
Medicare	94	96
All other	<u>91</u>	<u>71</u>
	<u>185</u>	<u>167</u>
Average length of stay:		
Hospital adult and pediatric -		
Medicare	2.90 days	2.81 days
All other	3.03 days	2.72 days
Observation equivalent days	84	76
Surgical procedures	551	567
Emergency Room visits	2,755	2,403
Full-time equivalents personnel	138.32	128.27

Grundy County Memorial Hospital

Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2011

Federal Grantor/Pass Through Agency/Program Title	CFDA Number	Passthrough Identifying Number	Federal Expenditures
US Department of Health and Human Services			
Passed through Iowa Department of Public Health			
Small Rural Hospital Improvement Grant Program	93.301	5881SH28	\$ 7,405
National Bioterrorism Hospital Preparedness Program	93.889	5881BHO07	<u>14,870</u>
Total US Department of Health and Human Services			<u>22,275</u>
US Department of Commerce			
Passed through Cnetral Iowa Hospital Corporation			
Broadband Technologies Opportunities Program (BTOP) - Recovery Act	11.557	19-43-B10575	<u>485,519</u>
Total Federal Awards Expended			<u>\$ 507,794</u>

The accompanying notes are an integral part of this schedule

Notes to the Schedule

Note 1: Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Hospital under programs of the federal government for the year ended June 30, 2011. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Hospital.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, where in certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**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 financial statements of Grundy County Memorial Hospital (Hospital) as of June 30, 2011, and have issued our report thereon dated September 26, 2011. 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.

Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Item II-A-11, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011 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-10, 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, LLP

Omaha, Nebraska,
September 26, 2011.

**Independent Auditor's Report on Compliance with Requirements
That Could Have A Direct and Material Effect on Each Major Program and
Internal Control Over Compliance in Accordance with OMB Circular A-133**

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

Compliance

We have audited the compliance of Grundy County Memorial Hospital (Hospital) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011. The Hospital's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SEIM JOHNSON, LLP

Omaha, Nebraska,
September 26, 2011.

Grundy County Memorial Hospital

Schedule of Findings and Questioned Costs June 30, 2011

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- | | | |
|---|-------------|------------|
| • Material weakness(es) identified? | _____ Yes | _____ x No |
| • Significant deficiency(ies) identified? | _____ x Yes | _____ No |
| • Noncompliance material to financial statements noted? | _____ Yes | _____ x No |

Federal Awards

Internal control over major programs:

- | | | |
|---|-----------|------------|
| • Material weakness(es) identified? | _____ Yes | _____ x No |
| • Significant deficiency(ies) identified? | _____ Yes | _____ x No |

Type of auditor's report issued on compliance for major programs: Unqualified

- | | | |
|--|-----------|------------|
| • Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | _____ Yes | _____ x No |
|--|-----------|------------|

Identification of major program:

CFDA Number(s)

11.557

Names of Federal Program or Cluster

Broadband Technology Opportunities Program (BTOP)

Dollar threshold used to distinguish between type A and type B programs

_____ \$ 300,000

Auditee qualified as low-risk auditee?

_____ Yes _____ x No

Part II: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

- II-A-11 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 over financial reporting.

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 over financial reporting 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.

Grundy County Memorial Hospital

Schedule of Findings and Questioned Costs June 30, 2011

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Part IV: Other Findings Related to Required Statutory Reporting

- III-A-11 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, 2011.
- III-B-11 Certified Budget: Hospital disbursements during the year ended June 30, 2011 did not exceed budgeted amounts.
- III-C-11 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-11 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-11 Business Transactions: Business transactions between the Hospital officials and/or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Board Members	Reimbursement of travel expense for attending Iowa Hospital Association and other meetings.	\$ 752
Board Member	Reimbursement for breakfast for Compensation Committee Meeting.	44
Board Member	Reimbursement for board gift to employees.	311
Board Member – Owner, Rouse Motors	Various supplies and minor repairs and maintenance to Hospital vehicles.	1,338
Board Member – President/CEO, Nucara Home Medical	Miscellaneous medical supplies.	1,294

This does not appear to be a voidable conflict of interest pursuant to Chapter 347.9A(2)(a) of the Code of Iowa.

- III-F-11 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-11 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.

Grundy County Memorial Hospital

Schedule of Findings and Questioned Costs June 30, 2011

- III-H-11 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, 2011

Finding	Status	Corrective Action Plan or Other Explanation
II-A-10	Segregation of duties over internal control over financial reporting.	Unresolved, similar finding reported at II-A-11.

Grundy County Memorial Hospital

**Audit Staff
For the Year Ended June 30, 2011**

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Darren R. Osten, CPA, Manager

Marc D. Behrens, Staff Auditor