

**Grundy County Memorial Hospital**  
Grundy Center, Iowa

**Basic Financial Statements and  
Supplementary Information  
June 30, 2013 and 2012**

**Together with Independent Auditor's Report**

# Grundy County Memorial Hospital

## Table of Contents

---

	<u>Page</u>
Officials - June 30, 2013 .....	1
Independent Auditor's Report .....	2 – 3
Management's Discussion and Analysis .....	4 – 12
Basic Financial Statements:	
Statements of Net Position June 30, 2013 and 2012 .....	13
Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2013 and 2012 .....	14
Statements of Cash Flows For the Years Ended June 30, 2013 and 2012 .....	15 – 16
Notes to Financial Statements June 30, 2013 and 2012 .....	17 – 27
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) .....	28
Other Supplementary Information:	
Exhibit 1 - Net Patient and Resident Service Revenue For the Years Ended June 30, 2013 and 2012 .....	29
Exhibit 2 - Other Operating Revenue For the Years Ended June 30, 2013 and 2012 .....	30
Exhibit 3 - Departmental Expenses For the Years Ended June 30, 2013 and 2012 .....	31
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts For the Years Ended June 30, 2013 and 2012 .....	32
Exhibit 5 - Inventories / Prepaid Expenses For the Years Ended June 30, 2013 and 2012 .....	33
Exhibit 6 - Insurance Coverage For the Years Ended June 30, 2013 .....	34
Exhibit 7 - Financial and Statistical Highlights For the Years Ended June 30, 2013 and 2012 .....	35
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 .....	36 – 37
Schedule of Findings and Responses .....	38 – 39
Audit Staff .....	40

# Grundy County Memorial Hospital

Officials  
June 30, 2013

---

<u>Board of Commissioners</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
Brenda Davis	Chair	Reinbeck, IA	July 2016
Todd Button	Vice Chair	Conrad, IA	July 2014
Barbara Smith	Secretary	Grundy Center, IA	July 2016
Mary Schmidt	Treasurer	Grundy Center, IA	July 2015
Mike Brannon	Member	Parkersburg, IA	July 2016
David Harberts	Member	Dike, IA	July 2014
T.J. Johnsrud	Member	Conrad, IA	July 2014
Joel Meyer	Member	Wellsburg, IA	July 2013
Nancy Olson	Member	Conrad, IA	July 2013
Dan Robertson	Member	Reinbeck, IA	July 2013

## Hospital Officials

	<u>Title</u>
Brian Kellar	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:

### Report on the Financial Statements

We have audited the accompanying financial statements of Grundy County Memorial Hospital (Hospital) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2013 and 2012, and the respective change 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.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 - 12 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplementary information included in Exhibits 1 – 7 is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information in Exhibits 1 – 7 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in Exhibits 1 – 7 is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2013 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting.

*SEIM JOHNSON, LLP*

Omaha, Nebraska,  
September 19, 2013.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2013 and 2012

---

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, 2013, 2012, and 2011. 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 – Statements of Net Position; Statements of Revenue, Expenses and Changes in Net Position; 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 UnityPoint Health.

#### History

Beginning in 1900, the Hospital was operated in offices and homes first under the direction of Drs. McAlvin, Thielen and McDowell and later Drs. Locke H. Carpenter and Henry L. Mol.

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

By 1967 technical facilities were fast becoming obsolete and long term care of elderly people had become a need in the community. A bond issue for \$750,000 to match identical federal funds was passed by county voters. When finished in 1971, 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.

#### Financial and Operations History

From 1983-2000, the Hospital struggled financially. In 1993, the County Board of Supervisors believed maintaining a hospital in the county was critical to the medical and economic health of the area. They provided a subsidy and approved a bond referendum to pay the Hospital's debt. The county has continued to subsidize the Hospital since that time.

A combination of factors helped heal the Hospital's finances. In 2000, Grundy County Memorial Hospital affiliated with Allen Hospital in Waterloo and reduced costs through resource sharing and joint purchasing. To this day, 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 added and enhanced services to meet the most common and critical local needs. In the fall of 2005, financial and clinical software was implemented to improve patient safety, clinical care and documentation, and support Hospital operations. The conversion also included updating and adding hardware throughout the facility.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2013 and 2012

---

### 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 was unable to allocate space to outpatient services. The GCMH Board of Commissioners prioritized the most urgent needs of the Hospital and approved a \$6 million modernization plan to address 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 in HVAC and electrical systems
- **Specialty Clinics** with six 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 areas
- **Operating Room** remodeling to decrease infection control risks
- **Radiology Department** with a CT scanner, dexascan, mammography, sonography, and sleep studies equipment
- **Hospital Entry and Parking Area**
- **Healing Garden** adjacent to Long Term Care with cement walkways, gazebo, pergola, water fountains and over 1,000 trees, shrubs and perennials

The Outpatient Therapy area was completed and occupied November 2004. The addition housing 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.

### 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 in spring of 2009 on the following areas:

- **Inpatient Area** with 18 new beds; eight medical/surgical, two hospice, one bariatric, one pediatric and six orthopedic rooms; a physical therapy rehabilitation room; and an outpatient services room
- **Emergency Department** with three private treatment bays and a large trauma room, ambulance garage, and decontamination room
- **Ambulatory Surgery Unit** with nine private patient bays

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.

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 211, it is one of the county's largest employers. The total annual payroll and benefits for the Hospital reached \$9.9 million for the year ending June 30, 2013. The growth, expansion and modernization of Grundy County Memorial Hospital have led to the creation of over 100 jobs since 2003.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2013 and 2012

---

The Administrative Team and Hospital Board of Commissioners demonstrate their commitment to Hospital Associates by providing many opportunities for the professional development of their Associates 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 164 Providers (8 active and 156 Courtesy). The Medical Staff had 18 new providers apply for Medical Staff privileges during FY 2012-2013 and 20 relinquishments.

### Economic Impact

According to Iowa Hospital Association statistics, Grundy County Memorial Hospital has an estimated economic impact of over \$10.5 million for the county each year. The medical and economic health of the community is intrinsically linked. For the attraction of industrial firms, businesses, and people, it is crucial that the area have a quality health sector.

### Community Partner

The Hospital 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 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 healthy living using a "Blue Zones" approach. Hospital leaders helped lead the application and registration process to be selected as an Iowa Blue Zone community. Although not selected in the first round, Associates continue to lead workplace initiatives and develop and implement community strategies for encouraging healthy behaviors.

The Hospital is committed to addressing anticipated future workforce issues in healthcare. GCMH is actively partnering with area schools, Allen College, and Hawkeye Community College to organize activities for kindergarten through high school students, 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 (Cedar Valley West) to implement clinical and non-clinical internships at the hospital for the purpose of career exploration. GCMH piloted the program last school year with 48 students from Gladbrook-Reinbeck, Dike-New Hartford, Aplington-Parkersburg and Grundy Center High Schools interning in Surgery, Inpatient, Lab, Radiology, Therapy Services, Long Term Care, Maintenance, Dietary, Wellness, Marketing, Foundation, Business Office, and Long Term Care areas.

The Emergency Department Team has focused on providing continuing education for Emergency Medical Services (EMS) groups in the hospital's market area in 2013.

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**

The mission of Grundy County Memorial Hospital is "to improve the health of the people in the communities we serve through healing, caring, and teaching" and the vision is, "best outcome, every patient, every time". In 2013-14, GCMH will be adopting a new Strategic Plan to continue to grow the standards of performance achieved by previous Strategic Initiatives.

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

## Grundy County Memorial Hospital

### Management's Discussion and Analysis June 30, 2013 and 2012

---

- 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

#### Major Strategic Accomplishments for FY 2012-2013

- GCMH implemented Epic, a new electronic health record (EHR), that includes computerized physician order entry (CPOE), on December 1, 2012 to meet meaningful use requirements.
- **2012 Press Ganey Summit Award for Patient Satisfaction in Emergency Services**  
Presented to a hospital that sustains an overall rank above the 95<sup>th</sup> percentile for patient satisfaction in Emergency Department databases for three years in a row
- **2012 Top 20 Critical Access Hospital Patient Satisfaction Award**  
The National Rural Health Association (NRHA) presented the 60 highest ranked critical access hospitals (CAHs) in the country for quality, patient satisfaction and financial performance. GCMH received the patient satisfaction award. Hospital performance is based on the percentile rank on two Hospital Compare HCAHPS measures ("overall rating" and "highly recommend")
- **2012 Modern Healthcare's Top 100 Best Places to Work in Healthcare Award**  
Recognized by *Modern Healthcare* for creating and retaining an engaged healthcare workforce
- **2012 Cedar Valley Top 20 Employers of Choice Award**  
Nominated by GCMH Associates as an Employer of Choice; the hospital was chosen as a 2012 Cedar Valley Top 20 Employer of Choice from over 200 businesses nominated
- Worked with Iowa Health Physicians to recruit two family practitioners, Dr. Eric Neverman (who will join the Grundy Family Medicine Clinic in 2015) and Dr. Ryan Arnevik (joining July 2013) and a physician's assistant, Michael Knudsen (joined August 2012)
- GCMH Board of Commissioners supported a recommendation by the Long Term Care Committee and CEO to remain in the Long Term Care business and continue collaborations with other partners to address the need for continuous care services for the elderly in Grundy Center
- 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

#### Financial Highlights

- The Hospital's cash and cash equivalents decreased \$246,738 from June 30, 2012 to June 30, 2013 due to a decrease in accrued expense and increase in deferred revenue which are offset by a decrease in receivables. From June 30, 2011 to June 30, 2012 there was an increase of \$1,092,788.
- The Hospital's increase in net position was \$393,347, 3.7% from June 30, 2012 to June 30, 2013 and \$907,811, 9.3% from June 30, 2011 to June 30, 2012.
- Net patient and service revenue before provision for bad debt increased \$385,914, 2.2% from June 30, 2012 to June 30, 2013 and \$1,298,524, 7.9% from June 30, 2011 to June 30, 2012.
- Operating expenses increased \$623,031, 3.5% from the year ending June 30, 2012 to June 30, 2013 and \$1,372,145, 8.5% from the year ending June 30, 2011 to June 30, 2012.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2013 and 2012

---

### Financial Statements

#### The Statements of Net Position and Statements of Revenue, Expenses, and Changes in Net Position

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

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position - 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 position 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 Position and Operating Results

#### The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statements of Net Position on page 13. The Hospital's net position increased \$393,347, 3.7% from June 30, 2012 to June 30, 2013 and \$907,811, 9.3% from June 30, 2011 to June 30, 2012. (Refer to **Table 1**).

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Assets:</b>			
Current assets	\$ 8,468,406	8,647,518	7,519,400
Capital assets, net	17,944,774	18,510,448	19,350,160
Other noncurrent assets	1,888,999	1,703,639	1,371,253
<b>Total assets</b>	<b><u>28,302,179</u></b>	<b><u>28,861,605</u></b>	<b><u>28,240,813</u></b>
<b>Liabilities:</b>			
Long-term debt outstanding	14,251,099	14,888,628	15,505,823
Other current and noncurrent liabilities	3,022,093	3,337,337	3,007,161
<b>Total liabilities</b>	<b><u>17,273,192</u></b>	<b><u>18,225,965</u></b>	<b><u>18,512,984</u></b>
<b>Net position:</b>			
Invested in capital assets, net of related debt	3,693,675	3,621,820	3,919,379
Restricted for debt service	114,382	113,002	111,665
Unrestricted	7,220,930	6,900,818	5,696,785
<b>Total net position</b>	<b><u>\$ 11,028,987</u></b>	<b><u>10,635,640</u></b>	<b><u>9,727,829</u></b>

## Grundy County Memorial Hospital

### Management's Discussion and Analysis June 30, 2013 and 2012

---

#### Year Ending June 30, 2012 to June 30, 2013:

The Hospital's total assets decreased \$559,426. This decrease is a result of a decrease in cash and cash equivalents \$246,738, a decrease of \$565,674 in capital assets, net due to disposals relating to the retirement of assets, a decrease in patient and resident receivable of \$268,899, while other noncurrent assets increased as a result of an increase in assets limited as to use or restricted of \$185,360 and an increase in prepaid expense of \$176,357.

#### Year Ending June 30, 2011 to June 30, 2012:

The Hospital's total assets increased \$620,792. This increase is a result of an increase in cash and cash equivalents \$1,092,788, a decrease of \$839,712 in capital assets, net due to disposals relating to finishing the modernization project and retirement of assets replaced, and an increase in patient and resident receivable of \$162,335, while other noncurrent assets increased as a result of an increase in assets limited as to use or restricted of \$342,779 primarily related to funds available for the modernization project.

#### Operating Results

In 2013, the Hospital's net position increased by \$393,347, 3.7% while in 2012 the increase was \$907,811, 9.3%. (Refer to **Table 2**). These increases include an excess of revenue over expenses before capital grants and contributions of \$21,366 for June 30, 2013, \$268,834 for June 30, 2012, and \$303,763 for June 30, 2011.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2013 and 2012

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Operating Revenue:</b>			
Net patient service revenue	\$ 18,163,170	17,777,256	16,478,732
Provision for bad debts	(698,815)	(590,012)	(400,786)
Other operating revenue	561,160	462,905	263,297
<b>Total operating revenue</b>	<b>18,025,515</b>	<b>17,650,149</b>	<b>16,341,243</b>
<b>Operating Expenses:</b>			
Salaries and benefits	9,949,038	9,603,944	8,816,239
Purchased services and other	5,295,831	5,129,406	4,783,902
Depreciation and amortization	2,309,651	2,172,594	1,960,417
Interest	656,495	682,040	655,281
<b>Total operating expenses</b>	<b>18,211,015</b>	<b>17,587,984</b>	<b>16,215,839</b>
<b>Operating income (loss)</b>	<b>(185,500)</b>	<b>62,165</b>	<b>125,404</b>
<b>Nonoperating Revenue and Expenses:</b>			
County subsidy	163,000	163,000	163,000
Investment income	43,866	43,669	39,330
Other nonoperating revenue and expenses, net	--	--	(23,971)
<b>Total nonoperating revenue (expenses), net</b>	<b>206,866</b>	<b>206,669</b>	<b>178,359</b>
<b>Excess of revenue over expenses before capital grants and contributions</b>	<b>21,366</b>	<b>268,834</b>	<b>303,763</b>
<b>Capital grants and contributions</b>	<b>371,981</b>	<b>638,977</b>	<b>2,155,024</b>
<b>Increase in net position</b>	<b>\$ 398,347</b>	<b>907,811</b>	<b>2,458,787</b>

### Operating Income

The first component of the overall change in the Hospital's net position 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, 2011, the Hospital reported operating income of \$125,404; for the year ending June 30, 2012, the Hospital reported operating income of \$62,165; and for the year ending June 30, 2013, the Hospital reported operating loss of \$185,500.

### **Year Ending June 30, 2012 to June 30, 2013:**

The primary components of the operating loss of \$185,500 are:

- Inpatient and swing bed revenue decreased \$102,778, 1.33% from June 30, 2012 to June 30, 2013 due to a decrease in patient days and change in the mix of days which was offset by a room rate increase. Acute days decreased 15.2%, Skilled days decreased 27.6%, and Hospitality days decreased 85.3% between the years. The Acute and Skilled days were positively impacted by 36 total knee surgeries and 10 total hip surgeries.
- Outpatient revenue increased \$2,432,411, 13.7% from 2012 to 2013. This increase is primarily due to:
  - Emergency Room visits increased from 3,414 visits to 3,590, an increase of 176 visits, 5.2%.

## Grundy County Memorial Hospital

### Management's Discussion and Analysis June 30, 2013 and 2012

---

- Lab visits increased 6.8% from 2012 to 2013.
- Operating room revenue increased \$506,848, 16.4% from 2012 to 2013.
- Radiology revenue increased \$473,073, 13.5% from 2012 to 2013.
- Therapy visits decreased from 7,213 visits to 6,879, a decrease of 334 visits, 4.6%.
- GCMH Clinic visits decreased from 1,196 visits to 797, a decrease of 399 visits, 33.4% and \$128,616.
- Long Term Care revenue increased \$202,702, 7.1%. This increase reflects an increase in days of 366, 2.0% and an increase in rates effective July 1, 2012.
- GCMH has experienced an increase in provision for bad debt of \$108,803, 18.4% and an increase in charity care of \$154,641, 116.3%.
- Increases in salary and benefit costs for the Hospital's Associates of \$345,094, 3.5%. FTEs increased from 143.73 for 2012 to 149.16 for 2013, an increase of 3.8%
- Decreases in purchased services and other costs of \$166,425 relates to the hiring of a CRNA and ultrasound tech vs. contracting for this coverage.
- Increases in supplies and other expenses of \$351,400, 12.7%. This increase is a result of the increase in total joint implants and an increase in outpatient volume and surgical procedures.

#### Year Ending June 30, 2011 to June 30, 2012:

The primary components of the operating income of \$62,165 are:

- Inpatient and swing bed revenue decreased \$130,211, 4.5% from June 30, 2011 to June 30, 2012 due to a decrease in patient days and change in the mix of days which was offset by a room rate increase. Acute days increased 4.2%, Skilled days decreased 21.6%, and Hospitality days increased 512.5% between the years. The Acute and Skilled days were positively impacted by 24 total knee surgeries and 9 total hip surgeries.
- Outpatient revenue increased \$4,028,414, 29.4% from 2011 to 2012. This increase is primarily due to:
  - Emergency Room visits increased from 2,755 visits to 3,414, an increase of 659 visits, 23.9%.
  - Lab procedures increased by 12,309, 15.7% from 2011 to 2012.
  - Operating room revenue increased \$639,947, 39.8% from 2011 to 2012.
  - Radiology revenue increased \$785,415, 30.0% from 2011 to 2012. This increase relates to increases in all of the modalities in Radiology (X-ray, Mammography, CT, MRI, Ultrasound, Dexa, ECG and C-Arm).
  - Therapy visits increase from 6,324 visits to 7,213, an increase of 889 visits, 14.1%.
- Long Term Care revenue increased \$93,982, 3.4%. This increase reflects an increase in days of 27, 1.5% and an increase in rates effective July 1, 2011.
- Increases in salary and benefit costs for the Hospital's Associates of \$743,200, 10.8%. FTEs increased from 138.32 for 2011 to 143.73 for 2011, an increase of 3.9%
- Purchased services and professional fees increased \$209,450, 12.3% from 2011 to 2012. This increase is a result of the use of contracted Emergency Department physicians vs. employed providers.

## Grundy County Memorial Hospital

### Management's Discussion and Analysis June 30, 2013 and 2012

---

- Increases in supplies and other expenses of \$419,495, 5.5%. This increase is a result of the increase in outpatient volume and surgical procedures.

#### Nonoperating Revenue and Expenses

Nonoperating revenue and expenses consist primarily of the county subsidy, investment income, and noncapital grants and contributions.

### Capital Asset and Debt Administration

#### Capital Assets

As of June 30, 2013, the Hospital had \$17,944,774 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. For the year ending June 30, 2013, the Hospital purchased capital assets costing \$1,761,408. Capital asset additions for the year ending June 30, 2012 were \$1,319,434 and for the year ending June 30, 2011 were \$3,425,165.

Capital asset additions for 2013 relates to the purchase of Epic and Sunquest, GCMH's new electronic health record system and equipment associated with this installation, exam tables for the specialty clinic, an air handling unit for the basement, an air handling unit for the kitchen, emergency power for the kitchen, addition of a second waterline to the hospital, wall protection for the LTC resident rooms, Surgery instruments, bus for transporting LTC residents, telehealth equipment (cart systems, laptops, etc.), and access control system.

Capital asset additions for 2012 relates to the purchase of an anesthesia machine, telehealth equipment (cart systems, laptops, etc.), elevator upgrades, FUJI flat panel detector, generator, access control system, steam line upgrade, steamer for Dietary, Surgery instruments, ultrasound machine, LTC dining room, resident room and solarium remodel.

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 Café, 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.

#### Debt

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. Interest is payable semi-annually through June 2029 and principal is payable annually through June 2029.

### 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

## Statements of Net Position June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,404,717	5,651,455
Assets limited as to use or restricted, current portion	114,382	113,002
Receivables -		
Patient and resident, net of allowance for doubtful accounts of \$381,516 in 2013 and \$363,315 in 2012	1,956,909	2,225,808
Succeeding year County subsidy receivable	263,000	263,000
Other receivables	226,118	62,645
Inventories	218,434	223,119
Prepaid expenses	284,846	108,489
	<u>8,468,406</u>	<u>8,647,518</u>
Assets limited as to use or restricted - less amounts required for current obligations	1,795,448	1,600,078
Capital assets, net	17,944,774	18,510,448
Other assets, net	93,551	103,561
	<u>28,302,179</u>	<u>28,861,605</u>
	\$	\$
	<u>28,302,179</u>	<u>28,861,605</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Current maturities of long-term debt	661,250	646,250
Accounts payable -		
Trade	325,532	514,901
Capital related	710,263	139,334
Accrued expenses -		
Accrued salaries, wages and vacation payable	625,844	883,830
Payroll taxes	36,881	44,529
Interest	52,728	54,888
Deferred revenue	180,361	154,544
Deferred revenue for succeeding year County subsidy receivable	263,000	263,000
Estimated third-party payor settlements	827,484	1,282,311
	<u>3,683,343</u>	<u>3,983,587</u>
Long-term debt, net of unamortized discount and current maturities	13,589,849	14,242,378
	<u>17,273,192</u>	<u>18,225,965</u>
Net position:		
Invested in capital assets, net of related debt	3,693,675	3,621,820
Restricted for debt service	114,382	113,002
Unrestricted	7,220,930	6,900,818
	<u>11,028,987</u>	<u>10,635,640</u>
Total liabilities and net position	\$ <u>28,302,179</u>	\$ <u>28,861,605</u>

See notes to the financial statements

## Grundy County Memorial Hospital

### Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE:		
Net patient and resident service revenue before provision for bad debt	\$ 18,163,170	17,777,256
Provision for bad debts	(698,815)	(590,012)
Net patient and resident service revenue	17,464,355	17,187,244
Other operating revenue	561,160	462,905
Total operating revenue	<u>18,025,515</u>	<u>17,650,149</u>
OPERATING EXPENSES:		
Salaries	7,973,441	7,622,476
Employee benefits	1,975,597	1,981,468
Purchased services and professional fees	1,737,078	1,912,131
Utilities	327,370	338,682
Supplies and other expenses	3,118,460	2,767,060
Depreciation and amortization	2,309,651	2,172,594
Insurance	112,923	111,533
Interest	656,495	682,040
Total operating expenses	<u>18,211,015</u>	<u>17,587,984</u>
OPERATING INCOME (LOSS)	<u>(185,500)</u>	<u>62,165</u>
NONOPERATING REVENUE (EXPENSES), NET:		
Investment income	43,866	43,669
County subsidy	163,000	163,000
Nonoperating revenue, net	<u>206,866</u>	<u>206,669</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	21,366	268,834
CAPITAL GRANTS AND CONTRIBUTIONS	<u>371,981</u>	<u>638,977</u>
INCREASE IN NET POSITION	393,347	907,811
NET POSITION, Beginning of year	<u>10,635,640</u>	<u>9,727,829</u>
NET POSITION, End of year	<u>\$ 11,028,987</u>	<u>10,635,640</u>

*See notes to financial statements*

# Grundy County Memorial Hospital

## Statements of Cash Flows For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 17,304,244	17,739,949
Cash paid for employee salaries and benefits	(10,214,672)	(9,753,790)
Cash paid to suppliers and contractors	(5,656,872)	(5,194,112)
Other receipts and payments, net	<u>362,923</u>	<u>511,319</u>
Net cash provided by operating activities	<u>1,795,623</u>	<u>3,303,366</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County subsidy received	<u>163,000</u>	<u>163,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(1,120,953)	(1,487,398)
Proceeds from sale of capital assets	1,400	10,000
County subsidy received for capital acquisitions	100,000	100,000
Capital grants and contributions	271,981	538,977
Payments on long term debt	(646,250)	(626,250)
Interest paid on debt	<u>(658,655)</u>	<u>(683,730)</u>
Net cash used in capital and related financing activities	<u>(2,052,477)</u>	<u>(2,148,401)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to assets limited as to use, net	(196,750)	(269,074)
Investment income, net	<u>43,866</u>	<u>43,897</u>
Net cash used in investing activities	<u>(152,884)</u>	<u>(225,177)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(246,738)	1,092,788
CASH AND CASH EQUIVALENTS - Beginning of year	<u>5,651,455</u>	<u>4,558,667</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 5,404,717</u>	<u>5,651,455</u>

*See notes to financial statements*

## Grundy County Memorial Hospital

### Statements of Cash Flows (Continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (185,500)	62,165
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,309,651	2,172,594
Gain (loss) on sale of capital assets	(34,764)	4,020
Interest expense included in operating expenses	656,495	682,040
(Increase) decrease in current assets -		
Receivables -		
Patients	268,899	(162,335)
Other	(163,473)	44,394
Inventories	4,685	2,723
Prepaid expenses	(176,357)	6,183
Increase (decrease) in current liabilities -		
Accounts payable	(189,369)	(73,612)
Accrued salaries, wages and vacation payable	(257,986)	(134,861)
Payroll taxes	(7,648)	(14,985)
Deferred revenue	25,817	6,915
Estimated third-party payor settlements - Medicare and Medicaid	(454,827)	708,125
Net cash provided by operating activities	\$ <u>1,795,623</u>	<u>3,303,366</u>

*See notes to financial statements*

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2013 and 2012

---

### (1) Organization and Summary of Significant Accounting Policies

The Hospital is a 25-bed public hospital with an attached 55-bed nursing home located in Grundy Center, Iowa, organized under Chapter 37 of the Iowa Code and governed by a 7-11 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 statements of net position display the Hospital's assets and liabilities, with the differences reported as net position. Net position is 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, 2013 and 2012

---

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

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

### *D. Measurement Focus and Basis of Accounting*

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

The accompanying 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. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

### *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, Net*

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

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

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

### *H. County Subsidy Receivable*

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

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2013 and 2012

---

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 financing 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 \$18,731 and \$19,448 for the years ended June 30, 2013 and 2012, respectively. These amounts are included in depreciation and amortization expense in the accompanying statements of revenue, expenses and changes in net position.

### *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 statement of net position. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013 and 2012.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2013 and 2012

---

*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 Position*

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.

*S. Investment Income*

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

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2013 and 2012

---

### T. *Change in Accounting Principle*

During 2013, the Hospital has adopted the provisions of GASB Statement No. 63. GASB Statement No. 63 required additional changes such as now referring to "Net Assets" as "Net Position" on the statements of net position.

### U. *Subsequent Events*

The Health Center considered events occurring through September 19, 2013 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

## (2) **Deposits and Investments**

The Hospital's deposits in banks at June 30, 2013 and 2012 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, 2013 and 2012.

**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, 2013 and 2012 is included in investment income on the statements of revenue, expenses and changes in net position.

## (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

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2013 and 2012

---

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

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

Revenue from the Medicare and Medicaid programs accounted for approximately 49% and 13%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2013, and 44% and 11%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2012. 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 2013 and 2012 net patient service revenue increased approximately \$291,000 and \$17,000, 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, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Gross patient and resident service revenue:		
Hospital -		
Inpatient	\$ 2,960,322	2,752,801
Outpatient	20,147,101	17,714,690
Swingbed	1,827,051	2,134,496
Nursing Home	3,041,856	2,839,154
	<u>27,976,330</u>	<u>25,441,141</u>
Contractual adjustments:		
Medicare	(4,822,097)	(3,743,366)
Medicaid	(473,433)	(545,887)
Other	(4,230,045)	(3,241,688)
Charity care services	(287,585)	(132,944)
Total contractual adjustments	<u>(9,813,160)</u>	<u>(7,663,885)</u>
Net patient and resident service revenue before provision for bad debt	<u>\$ 18,163,170</u>	<u>17,777,256</u>

### Sequestration

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. The "American Taxpayer Relief Act of 2012" postponed sequestration for two months. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, will incur a two percent reduction in Medicare payment.

If Congress does not take action to address current budget uncertainty and the economic hardships imposed by sequestration, the Hospital estimates a reduction in Medicare revenue of approximately \$145,000 on an annual basis.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2013 and 2012

### (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, 2013 and 2012, are summarized as follows:

	<u>2013</u>	<u>2012</u>
Money market accounts	\$ 864,113	860,150
Certificates of deposit	931,335	739,928
	<u>\$ 1,795,448</u>	<u>1,600,078</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.

*Project Fund* – Established for the deposit of the loan proceeds used to pay for the Facility Modernization Project. This fund was fully utilized during the fiscal year ending June 30, 2011.

The amounts segregated as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Sinking Fund, cash and money market accounts	\$ 114,382	113,002
Less amounts required for current obligations	(114,382)	(113,002)
	<u>\$ --</u>	<u>--</u>

### (5) Composition of Patient Receivables

Patient and resident receivables as of June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Patient and resident accounts	\$ 3,111,842	3,493,201
Less allowance for doubtful accounts	(381,516)	(363,315)
Less estimated third-party contractual adjustments	(773,417)	(904,078)
	<u>\$ 1,956,909</u>	<u>2,225,808</u>

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

	<u>2013</u>	<u>2012</u>
Medicare	36%	41%
Medicaid	5	6
Commercial insurance	33	41
Patients and residents	26	12
	<u>100%</u>	<u>100%</u>

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2013 and 2012

### (6) Capital Assets

Capital assets and the related accumulated depreciation for the years ending June 30, 2013 and 2012 is summarized as follows:

	June 30, 2012	Additions	Transfers and Disposals	June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 378,351	--	--	378,351
Construction in progress	137,604	287,383	(115,000)	309,987
Total capital assets, not being depreciated	<u>515,955</u>	<u>287,383</u>	<u>(115,000)</u>	<u>688,338</u>
Capital assets, being depreciated:				
Land improvements	183,979	--	--	183,979
Buildings	19,526,711	271,462	(4,337)	19,793,836
Major moveable equipment, including equipment under capital lease	8,765,304	1,127,478	(247,164)	9,645,618
Vehicles	15,765	75,085	(15,765)	75,085
Total capital assets, being depreciated	<u>28,491,759</u>	<u>1,474,025</u>	<u>(267,266)</u>	<u>29,698,518</u>
Less accumulated depreciation:				
Land improvements	123,253	17,497	--	140,750
Buildings	6,463,700	1,190,783	(4,337)	7,650,146
Major moveable equipment, including equipment under capital lease	3,894,548	1,073,252	(326,000)	4,641,800
Vehicles	15,765	9,386	(15,765)	9,386
Total accumulated depreciation	<u>10,497,266</u>	<u>2,290,918</u>	<u>(346,102)</u>	<u>12,442,082</u>
Total capital assets, being depreciated, net	<u>17,994,493</u>	<u>(816,893)</u>	<u>78,836</u>	<u>17,256,436</u>
Total capital assets, net	<u>\$ 18,510,448</u>	<u>(529,510)</u>	<u>(36,164)</u>	<u>17,944,774</u>

	June 30, 2011	Additions	Transfers and Disposals	June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 338,506	39,845	--	378,351
Construction in progress	34,850	132,112	(29,358)	137,604
Total capital assets, not being depreciated	<u>373,356</u>	<u>171,957</u>	<u>(29,358)</u>	<u>515,955</u>
Capital assets, being depreciated:				
Land improvements	183,979	--	--	183,979
Buildings	19,184,740	335,239	6,732	19,526,711
Major moveable equipment, including equipment under capital lease	7,954,415	812,238	(1,349)	8,765,304
Vehicles	15,765	--	--	15,765
Total capital assets, being depreciated	<u>27,338,899</u>	<u>1,147,477</u>	<u>5,383</u>	<u>28,491,759</u>
Less accumulated depreciation:				
Land improvements	105,755	17,498	--	123,253
Buildings	5,272,355	1,191,345	--	6,463,700
Major moveable equipment, including equipment under capital lease	2,968,220	944,303	(17,975)	3,894,548
Vehicles	15,765	--	--	15,765
Total accumulated depreciation	<u>8,362,095</u>	<u>2,153,146</u>	<u>(17,975)</u>	<u>10,497,266</u>
Total capital assets, being depreciated, net	<u>18,976,804</u>	<u>(1,005,669)</u>	<u>23,358</u>	<u>17,994,493</u>
Total capital assets, net	<u>\$ 19,350,160</u>	<u>(833,712)</u>	<u>(6,000)</u>	<u>18,510,448</u>

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2013 and 2012

### (7) Long-Term Debt

Long-term debt activity of the Hospital as of and for the years ending June 30, 2013 and 2012 consisted of the following:

	June 30, 2012	Borrowings	Payments / Amortization	June 30, 2013	Due Within One Year
Notes Payable (A)	\$ 123,854	--	(36,250)	87,604	36,250
Urban Renewal Capital Loan Notes (B)	14,855,000	--	(610,000)	14,245,000	625,000
Discount on Urban Renewal Capital Loan Notes (B)	<u>(90,226)</u>	<u>--</u>	<u>8,721</u>	<u>(81,505)</u>	<u>--</u>
Net	<u>\$ 14,888,628</u>	<u>--</u>	<u>(637,529)</u>	<u>14,251,099</u>	<u>661,250</u>

	June 30, 2011	Borrowings	Payments / Amortization	June 30, 2012	Due Within One Year
Notes Payable (A)	160,104	--	(36,250)	123,854	36,250
Urban Renewal Capital Loan Notes (B)	15,445,000	--	(590,000)	14,855,000	610,000
Discount on Urban Renewal Capital Loan Notes (B)	<u>(99,281)</u>	<u>--</u>	<u>9,055</u>	<u>(90,226)</u>	<u>--</u>
Net	<u>\$ 15,505,823</u>	<u>--</u>	<u>(617,195)</u>	<u>14,888,628</u>	<u>646,250</u>

- (A) 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.
- (B) 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, 2013 and 2012

---

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>
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	700,000	549,855	1,249,855
2018	730,000	520,105	1,250,105
2019-2023	4,205,000	2,104,535	6,309,535
2024-2028	5,395,000	1,077,193	6,472,193
2029-2030	1,265,000	60,088	1,325,088
	<u>\$ 14,332,604</u>	<u>6,129,217</u>	<u>20,461,821</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 3% of participants' eligible salaries and matches up to 50% on the first 6% of participants' contributions. Pension plan expense for the years ended June 30, 2013 and 2012 was \$332,917 and \$294,690, respectively.

### (9) Operating Subsidy

Effective January 1, 1998, the Hospital entered into an operating agreement with UnityPoint Health (Allen Hospital). Under this agreement, the Board of Commissioners of Grundy County Memorial Hospital (Hospital Commission) and Allen Hospital 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 position as a result of this agreement are amounts due from (to) Allen Hospital as of June 30, 2013 and 2012 of \$150,735 and (\$58,145), 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, 2013 and 2012 for all operating leases was \$273,547 and \$258,679, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2013 that have initial or remaining lease terms in excess of one year:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 249,460
2015	229,111
2016	229,111
2017	192,795
2018	166,855
2019-2021	500,566

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2013 and 2012

---

### (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, 2013 and 2012 were \$1,055,806 and \$1,141,351, 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 \$2,000,000 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, 2013 and 2012 follows:

	<u>(Unaudited)</u>	
	<u>2013</u>	<u>2012</u>
Assets	\$ <u>763,129</u>	<u>771,080</u>
Net assets	\$ <u>763,129</u>	<u>771,080</u>

The Hospital received \$197,103 and \$156,760 from the Foundation during the years ended June 30, 2013 and 2012, respectively, for the purchase of property and equipment related to the Hospital's Facility Modernization Project. As of June 30, 2013, the Foundation has approximately \$27,000 of pledges receivable related to Phase II of the Hospital's Facility Modernization Project.

## Grundy County Memorial Hospital

### Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position Budget and Actual (Cash Basis) Required Supplementary Information June 30, 2013 and 2012

	<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	263,000	--
Estimated other revenues / receipts	<u>18,341,362</u>	<u>(356,948)</u>	<u>17,984,414</u>	<u>21,343,513</u>	<u>(3,359,099)</u>
	<u>18,604,362</u>	<u>(356,948)</u>	<u>18,247,414</u>	<u>21,606,513</u>	<u>(3,359,099)</u>
Expenses / Disbursements	<u>18,211,015</u>	<u>86,387</u>	<u>18,297,402</u>	<u>23,367,163</u>	<u>5,069,761</u>
Net	393,347	(443,335)	(49,988)	(1,760,650)	\$ <u><u>1,710,662</u></u>
Balance beginning of year	<u>10,635,640</u>	<u>(3,271,105)</u>	<u>7,364,535</u>	<u>7,364,535</u>	
Balance end of year	\$ <u><u>11,028,987</u></u>	<u><u>(3,714,440)</u></u>	<u><u>7,314,547</u></u>	<u><u>5,603,885</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, 2013, the Hospital's expenditures did not exceed the amount budgeted.

**Grundy County Memorial Hospital**

**Schedules of Net Patient and Resident Service Revenue  
For the Years Ended June 30, 2013 and 2012**

	2013				2012			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
<b>NURSING SERVICES:</b>								
Long term care	\$ 3,041,856	--	--	3,041,856	2,839,154	--	--	2,839,154
Swing bed	--	--	924,588	924,588	--	--	1,050,161	1,050,161
Adult and pediatric	581,621	--	--	581,621	698,643	--	--	698,643
Observation	452	323,786	--	324,238	5,718	137,142	--	142,860
Hospitality	4,710	--	--	4,710	26,141	--	--	26,141
	<u>3,628,639</u>	<u>323,786</u>	<u>924,588</u>	<u>4,877,013</u>	<u>3,569,656</u>	<u>137,142</u>	<u>1,050,161</u>	<u>4,756,959</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Operating and recovery rooms	1,161,891	2,441,329	--	3,603,220	847,337	2,249,035	--	3,096,372
Radiology	61,696	3,908,702	9,344	3,979,742	89,605	3,405,709	11,355	3,506,669
Laboratory	150,002	2,812,163	117,881	3,080,046	140,178	2,405,264	98,698	2,644,140
Emergency and outpatient service	17,391	4,803,408	15	4,820,814	39,031	4,327,614	991	4,367,636
Pharmacy	275,504	1,552,056	308,600	2,136,160	227,912	1,060,647	353,794	1,642,353
Physical therapy	65,337	1,263,727	242,161	1,571,225	56,119	1,261,130	289,696	1,606,945
Anesthesiology	218,696	982,219	--	1,200,915	212,215	707,848	--	920,063
Mobile services	1,544	571,076	--	572,620	2,555	629,616	--	632,171
Occupational therapy	37,261	169,233	131,580	338,074	34,931	143,150	184,642	362,723
Cardiac rehab	1,264	308,927	62	310,253	--	285,326	385	285,711
Sleep lab	--	289,346	--	289,346	--	289,652	--	289,652
Electrocardiology	6,048	267,332	2,016	275,396	6,240	232,290	1,530	240,060
Respiratory therapy	105,147	34,592	85,586	225,325	93,316	11,523	121,890	226,729
GCMH clinic	269,841	297,667	--	567,508	269,421	426,593	110	696,124
Wound clinic	563	66,233	265	67,061	1,420	104,908	--	106,328
Speech therapy	1,354	38,438	4,953	44,745	2,019	19,333	18,046	39,398
Diabetic education	--	7,870	--	7,870	--	10,355	--	10,355
Ambulance	--	1,329	--	1,329	--	1,412	3,198	4,610
Nutrition education	--	7,174	--	7,174	--	6,105	--	6,105
Central services and supply	--	494	--	494	--	38	--	38
	<u>2,373,539</u>	<u>19,823,315</u>	<u>902,463</u>	<u>23,099,317</u>	<u>2,022,299</u>	<u>17,577,548</u>	<u>1,084,335</u>	<u>20,684,182</u>
<b>GROSS PATIENT AND RESIDENT SERVICE REVENUE</b>	<u>\$ 6,002,178</u>	<u>20,147,101</u>	<u>1,827,051</u>	<u>27,976,330</u>	<u>5,591,955</u>	<u>17,714,690</u>	<u>2,134,496</u>	<u>25,441,141</u>
<b>LESS:</b>								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(9,525,575)				(7,530,941)
Provision for bad debts				(698,815)				(590,012)
Charity care services and other discounts, based on charges forgone				(287,585)				(132,944)
<b>NET PATIENT AND RESIDENT SERVICE REVENUE</b>				<u>\$ 17,464,355</u>				<u>\$ 17,187,244</u>

**Other Operating Revenue  
For the Years Ended June 30, 2013 and 2012**

---

	<u>2013</u>	<u>2012</u>
Grants	\$ 262,410	263,691
Operating subsidy	150,735	--
Cafeteria and vending	93,993	107,237
Clinic rent and other	65,778	55,892
Medical records transcriptions	1,986	1,342
Gain (loss) on disposal of capital assets	(34,764)	4,020
Miscellaneous	<u>21,022</u>	<u>30,723</u>
	<u>\$ 561,160</u>	<u>462,905</u>

**Departmental Expenses  
For the Years Ended June 30, 2013 and 2012**

	2013				2012			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
<b>NURSING SERVICES:</b>								
Long term care	\$ 1,365,520	48,562	75,384	1,489,466	1,265,752	62,315	70,996	1,399,063
Adult and pediatric	830,392	17,231	46,251	893,874	839,876	24,519	62,985	927,380
Swing bed	--	--	1,120	1,120	--	604	3,348	3,952
Hospitality	--	--	--	--	--	19	--	19
	<u>2,195,912</u>	<u>65,793</u>	<u>122,755</u>	<u>2,384,460</u>	<u>2,105,628</u>	<u>87,457</u>	<u>137,329</u>	<u>2,330,414</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Emergency room	1,039,633	342,716	70,123	1,452,472	1,060,318	296,341	61,540	1,418,199
Operating and recovery room	409,966	151,269	870,479	1,431,714	346,730	142,292	688,725	1,177,747
Physical therapy	489,175	700	178,151	668,026	434,282	1,807	166,293	602,382
Laboratory	270,419	108,918	238,296	617,633	235,669	98,378	237,675	571,722
Radiology	319,927	106,844	151,759	578,530	307,226	115,929	143,938	567,093
Pharmacy	92,681	125,099	393,347	611,127	86,889	53,378	356,121	496,388
GCMH clinic	45,065	179,137	398	224,600	57,100	238,126	1,663	296,889
Anesthesiology	159,444	7,776	7,736	174,956	1,388	219,915	5,965	227,268
Medical records	76,671	17,248	15,979	109,898	69,191	25,547	19,274	114,012
Cardiac rehab	75,904	7,543	7,732	91,179	67,609	2,740	4,217	74,566
Sleep lab	--	71,535	1	71,536	--	72,930	--	72,930
Central services and supply	68,056	5,708	(1,941)	71,823	62,334	5,772	(3,878)	64,228
Specialty clinic	49,692	--	3,683	53,375	39,239	--	2,450	41,689
Social services	36,952	--	981	37,933	36,078	--	736	36,814
Senior Life	18,333	--	9,538	27,871	21,460	--	8,297	29,757
Wound clinic	8,742	--	5,212	13,954	10,984	--	11,795	22,779
Speech therapy	--	24,412	--	24,412	--	22,277	--	22,277
Respiratory therapy	--	--	20,905	20,905	--	--	21,519	21,519
Diabetic education	5,442	--	550	5,992	11,874	--	1,688	13,562
Electrocardiology	--	12,657	2,026	14,683	--	10,695	2,349	13,044
	<u>3,166,102</u>	<u>1,161,562</u>	<u>1,974,955</u>	<u>6,302,619</u>	<u>2,848,371</u>	<u>1,306,127</u>	<u>1,730,367</u>	<u>5,884,865</u>
<b>GENERAL SERVICES:</b>								
Plant operation and maintenance	261,880	96,319	419,081	777,280	253,187	85,217	437,399	775,803
Dietary	491,728	--	254,016	745,744	483,379	--	268,161	751,540
Housekeeping	196,265	12,174	39,273	247,712	179,433	11,360	34,725	225,518
Laundry and linen	37,331	105,751	19,075	162,157	35,782	114,598	18,080	168,460
	<u>987,204</u>	<u>214,244</u>	<u>731,445</u>	<u>1,932,893</u>	<u>951,781</u>	<u>211,175</u>	<u>758,365</u>	<u>1,921,321</u>
<b>ADMINISTRATIVE SERVICES</b>	<u>1,624,223</u>	<u>295,479</u>	<u>616,675</u>	<u>2,536,377</u>	<u>1,716,696</u>	<u>307,372</u>	<u>479,681</u>	<u>2,503,749</u>
<b>NONDEPARTMENTAL</b>								
Employee benefits	--	--	1,975,597	1,975,597	--	--	1,981,468	1,981,468
Depreciation and amortization	--	--	2,309,651	2,309,651	--	--	2,172,594	2,172,594
Insurance	--	--	112,923	112,923	--	--	111,533	111,533
Interest	--	--	656,495	656,495	--	--	682,040	682,040
	<u>--</u>	<u>--</u>	<u>5,054,666</u>	<u>5,054,666</u>	<u>--</u>	<u>--</u>	<u>4,947,635</u>	<u>4,947,635</u>
	<u>\$ 7,973,441</u>	<u>1,737,078</u>	<u>8,500,496</u>	<u>18,211,015</u>	<u>7,622,476</u>	<u>1,912,131</u>	<u>8,053,377</u>	<u>17,587,984</u>

**Patient and Resident Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2013 and 2012**

ANALYSIS OF AGING:

Days Since Discharge	<u>2013</u>		<u>2012</u>	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,667,818	53.60 %	2,152,139	61.61 %
31 - 60	523,361	16.81	699,563	20.03
61 - 90	269,169	8.65	206,207	5.90
91 - 120	138,305	4.44	121,537	3.48
120 - 180	270,587	8.70	133,927	3.83
> 180	242,602	7.80	179,828	5.15
	<u>3,111,842</u>	100.00 %	<u>3,493,201</u>	100.00 %
Less:				
Allowance for doubtful accounts	(381,516)		(363,315)	
Allowance for contractual adjustments	<u>(773,417)</u>		<u>(904,078)</u>	
	<u>\$ 1,956,909</u>		<u>\$ 2,225,808</u>	

	<u>2013</u>	<u>2012</u>
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	42.70 days	47.40 days

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 363,315	431,244
Provision of uncollectible accounts	698,815	590,012
Recoveries of accounts previously written off	102,500	92,175
Accounts written off	<u>(783,114)</u>	<u>(750,116)</u>
Balance, end of year	<u>\$ 381,516</u>	<u>363,315</u>

**Inventories / Prepaid Expenses  
For the Years Ended June 30, 2013 and 2012**

---

	<u>2013</u>	<u>2012</u>
INVENTORY:		
Pharmacy	\$ 133,965	122,855
Central supply	37,863	40,705
Laboratory	30,277	36,702
Dietary	14,666	19,337
Radiology	<u>1,663</u>	<u>3,520</u>
	<u>\$ 218,434</u>	<u>223,119</u>
PREPAID EXPENSES:		
Maintenance contracts	\$ 242,796	84,513
Insurance	<u>42,050</u>	<u>23,976</u>
	<u>\$ 284,846</u>	<u>108,489</u>

**Insurance Coverage  
For the Years Ended June 30, 2013 and 2012**

<b>Company</b>	<b>Property Covered</b>	<b>Limits</b>	<b>Policy Term</b>
<b>MMIC</b> Policy #IHP000105	<b>General Liability (occurrence policy)</b> Each Occurrence Personal & Advertising Injury Employee Benefits Liability General Aggregate Damage to Premises Rented to You Fire Damage Products / Completed Operations Aggregate Medical Expense per Occurrence Medical Expense Policy Limit	\$1,000,000 \$1,000,000 \$1,000,000 \$3,000,000 \$1,000,000 \$1,000,000 \$3,000,000 \$5,000 \$10,000	<b>12/15/12 - 13</b>
<b>MMIC</b> Policy #IHP000105	<b>Hospital Professional Liability (claims made)</b> Per Professional Health Care Incident Aggregate Retroactive Date: 01/01/2000	\$1,000,000 \$3,000,000	<b>12/15/12 - 13</b>
<b>MMIC</b> Policy #IHP000105	<b>Certificate Holder Professional Liability (Claims Made)</b> <u>Physician Schedule / Retroactive Date:</u>  Hagedorn - 07/09/2010 SLOT - 12/15/2009** (Two slot positions)  Per Professional Health Care Incident Aggregate Retroactive Date: 01/01/2000  <b>Administrative Proceedings Defense</b> Each Claim Annual Aggregate Retroactive Date: 10/24/2003  <b>Cyber Liability (Multimedia/Security/Privacy)</b> Each Claim Aggregate Limit Deductible	\$1,000,000 \$3,000,000        \$25,000 \$100,000   \$100,000 \$100,000 \$2,500	<b>12/15/12 - 13</b>
<b>MMIC</b> Policy #IHP000105	<b>Commercial Umbrella (occurrence policy)</b> General Aggregate (other than Prod/Compl Ops) Products / Completed Operations Aggregate Each Occurrence Retained Limit - Only if no underlying coverage	\$2,000,000 \$2,000,000 \$2,000,000 \$10,000	<b>12/15/12 - 13</b>
<b>MMIC</b>	<b><u>Underlying Schedule</u></b> General Liability, including Professional Automobile Liability	\$1,000,000	<b>12/15/12 - 13</b>
<b>MMIC</b> Policy #IHP000105	<b>Medical Professional Excess (Claims Made)</b> Each Professional Health Care Incident Annual Aggregate Retroactive Date 01/01/2000  <b><u>Underlying Schedule</u></b> Hospital Professional Liability Certificate Holder Professional Liability Policy Employee Benefits Liability General Liability	\$2,000,000 \$2,000,000	<b>12/15/12 - 13</b>

\*\* SLOT - Emergency Medicine - No Major Surgery

\$1,000,000

**Financial Statistical Highlights  
For the Years Ended June 30, 2013 and 2012**

---

	<u>2013</u>	<u>2012</u>
Patient and Resident Days:		
Hospital -		
Adult and pediatric -		
Medicare	295	334
All other	190	238
Swing bed - skilled	1,132	1,444
Hospitality	<u>14</u>	<u>95</u>
	<u>1,631</u>	<u>2,111</u>
Nursing Home	<u>18,933</u>	<u>18,567</u>
Discharges:		
Hospital adult and pediatric -		
Medicare	106	121
All other	<u>68</u>	<u>88</u>
	<u>174</u>	<u>209</u>
Average length of stay:		
Hospital adult and pediatric -		
Medicare	2.78 days	2.76 days
All other	2.79 days	2.70 days
Observation equivalent days	185	132
Surgical procedures	771	717
Emergency Room visits	3,590	3,414
Full-time equivalents personnel	149.16	143.73

**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**

**Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Grundy County Memorial Hospital (Hospital) as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Hospital's basic financials statements, and have issued our report thereon dated September 19, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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 responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2013 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.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

SEIM JOHNSON, LLP

Omaha, Nebraska,  
September 19, 2013.

# Grundy County Memorial Hospital

## Schedule of Findings and Responses June 30, 2013

---

### Part I: Summary of the Independent Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes x No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes x None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes x No

### Part II: Findings Related to the Financial Statements

#### *INTERNAL CONTROL DEFICIENCIES:*

No matters were reported.

#### *INSTANCES OF NON-COMPLIANCE:*

No matters were reported.

### Part III: 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, 2013.
- III-B-11 Certified Budget: Hospital disbursements during the year ended June 30, 2013 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.	\$ 220
Board Member – President/CEO, Nucara Home Medical Nucara Pharmacy Nudak Ventures, LLC.	Medical supplies, equipment rental, and contracted pharmacy services.	64,798

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

# Grundy County Memorial Hospital

## Schedule of Findings and Responses June 30, 2013

---

- 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.
- 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 UnityPoint Health (Allen Hospital), who jointly exercises certain powers of the Hospital commission to operate the Hospital. Therefore, the salaries of UnityPoint Health employees were not published.

# **Grundy County Memorial Hospital**

**Audit Staff  
For the Year Ended June 30, 2013**

---

**This audit was performed by:**

Brian D. Green, FHFMA, CPA, Partner

Darren R. Osten, FHFMA, CPA, Partner

Marc D. Behrens, CPA, Staff Auditor