

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

**Basic Financial Statements and  
Supplementary Information  
June 30, 2014 and 2013**

**Together with Independent Auditor's Report**

# Grundy County Memorial Hospital

## Table of Contents

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	<u>Page</u>
Officials - June 30, 2014 .....	1
Independent Auditor's Report .....	2 – 3
Management's Discussion and Analysis .....	4 – 13
Basic Financial Statements:	
Statements of Net Position June 30, 2014 and 2013 .....	14
Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2014 and 2013 .....	15
Statements of Cash Flows For the Years Ended June 30, 2014 and 2013 .....	16 – 17
Notes to Financial Statements June 30, 2014 and 2013 .....	18 – 29
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) .....	30
Other Supplementary Information:	
Exhibit 1 - Net Patient and Resident Service Revenue For the Years Ended June 30, 2014 and 2013 .....	31
Exhibit 2 - Other Operating Revenue For the Years Ended June 30, 2014 and 2013 .....	32
Exhibit 3 - Departmental Expenses For the Years Ended June 30, 2014 and 2013 .....	33
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts For the Years Ended June 30, 2014 and 2013 .....	34
Exhibit 5 - Inventories / Prepaid Expenses For the Years Ended June 30, 2014 and 2013 .....	35
Exhibit 6 - Insurance Coverage For the Years Ended June 30, 2014 .....	36
Exhibit 7 - Financial and Statistical Highlights For the Years Ended June 30, 2014 and 2013 .....	37
Schedule of Expenditures of Federal Awards and Notes to the Schedule for the Year Ended June 30, 2014.....	38
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 .....	39 – 40
Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by OMB Circular A-133.....	41 – 42
Schedule of Findings and Questioned Costs .....	43 – 44
Audit Staff .....	45

# Grundy County Memorial Hospital

Officials  
June 30, 2014

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<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 2017
Barbara Smith	Secretary	Grundy Center, IA	July 2016
Mary Schmidt	Treasurer	Grundy Center, IA	July 2015
Mike Brannon	Member	Parkersburg, IA	July 2016
T.J. Johnsrud	Member	Conrad, IA	July 2014
Carl Stevens	Member	Eldora, IA	July 2016
Helene Wertz	Member	Dike, IA	July 2017

<u>Hospital Officials</u>	<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, 2014 and 2013, 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, 2014 and 2013, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2014 the Hospital adopted new accounting guidance to reflect the provisions of Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **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, and in the accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are 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 and the schedule of expenditures of federal awards 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 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 22, 2014 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 22, 2014.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2014 and 2013

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Our discussion and analysis of Grundy County Memorial Hospital's (Hospital's) financial performance provides an overview of the Hospital and its financial activities for the fiscal years ended June 30, 2014, 2013, and 2012. Please read it in conjunction with the Hospital's financial statements, which begin on page 14.

### Using This Annual Report

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

Management's Discussion and Analysis introduces the Hospital and its basic financial statements while providing an analytical overview of the Hospital's financial activities.

The Hospital's financial statements consist of three statements - Balance Sheets; Statements of Revenue, Expenses, and Changes in Net Assets; and Statements of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

### General Information

#### The Hospital

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

## Grundy County Memorial Hospital

### Management's Discussion and Analysis June 30, 2014 and 2013

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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 & documentation, and support Hospital operations. The conversion also included updating and adding hardware throughout the facility.

#### Modernization Project, Phase I

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

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2014 and 2013

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### A Partner for Grundy County

#### GCMH Associates

The Hospital is a vital part of Grundy County. With a staff of 200, it is one of the county's largest employers. The total annual payroll and benefits for the Hospital reached \$9.6 million for the year ending June 30, 2014. The growth, expansion and modernization of Grundy County Memorial Hospital has led to the creation of over 100 jobs since 2003.

The Administrative Team and Hospital Board of Commissioners demonstrate their commitment to Hospital Associates by providing many opportunities for 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 195 Providers (7 active, 137 courtesy, 51 teleradiologists). The Medical Staff had 48 new providers apply for Medical Staff privileges during FY 2013-2014 and 24 relinquishments.

#### Economic Impact

According to Iowa Hospital Association statistics, Grundy County Memorial Hospital has an estimated economic impact of over \$11.7 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

GCMH continually strives to be a good community partner and to grow our role in our mission of "*improving the health of the people in the communities we serve*". This commitment sees hospital Associates actively lead wellness committees throughout a multi-county service area.

GCMH takes health education classes, health fairs and wellness opportunities to the communities throughout its service area. Numerous community outreach activities this year have aimed at raising awareness about healthy living using a "Blue Zones" approach. Associates continue to lead workplace initiatives and develop and implement community strategies for encouraging healthy behaviors. The Hospital also offers immunization clinics, occupational health services, education and drug-screenings throughout the service area, thereby touching many lives.

The Hospital is committed to addressing anticipated future workforce shortages throughout the rural healthcare industry. GCMH actively partners 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.

In addition, an active partnership with a four-school district consortium known as Cedar Valley West allows the hospital to host high school students for semester-long internships. In 2014 the hospital hosted 26 high school and college students in the spring semester and are currently scheduled for 15 new students in the fall semester. The students work in a variety of departments, including Nursing, Radiology, Lab, IT, Marketing, Dietary, Business Office, Chief Financial Officer, Pharmacy, Physical Therapy, Cardiac Rehabilitation and Surgery. The hospital also hosts students for clinical rotations from a variety of colleges and universities.

Grundy County Memorial Hospital hosted a Science, Technology, Engineering, & Mathematics (STEM) Day in spring 2014. Twenty area high school juniors and seniors spent the school day involved in hands-on activities in several hospital departments in partnership with the Cedar Valley West program and the statewide STEM initiative.

Further encouraging students in their health care careers; the GCMH Foundation makes scholarships available annually to students studying in a variety of health care fields. Eight \$1,500 scholarships and 1-\$1,000 scholarship were awarded in 2014 to students in nursing radiologic technology, and therapy fields.

## Grundy County Memorial Hospital

### Management's Discussion and Analysis June 30, 2014 and 2013

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GCMH Administration and key staff are actively involved in the community-wide health needs initiatives, 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 adopted a new Strategic Plan to continue to grow the standards of performance achieved by previous Strategic Initiatives.

The Strategic Goals for GCMH for FY 2015 – 2017 are:

- Grow our hospital and network to capture and support at least 10,000 population.
- Enhance and extend measurable quality and service excellence through our institution and our network.
- Educate ourselves and system partners on how to best leverage each other to achieve "Best Outcome Every Patient Every Time".
- We will achieve our goals at the best possible and competitive price, value, and cost.

#### Major Strategic Accomplishments for FY 2013-2014

- GCMH worked with Halsa Advisors of St. Paul MN to develop a new three year strategic plan to prepare GCMH for a post cost-based reimbursement model.
- **2013 Press Ganey Beacon of Excellence Award for Patient Satisfaction in Emergency Services**  
Presented to the three highest rated hospitals that sustain an overall rank above the 95<sup>th</sup> percentile for patient satisfaction in Emergency Department databases for three years in a row.
- **2013 Press Ganey Guardian of Excellence Award for Patient Satisfaction in Outpatient Services**  
Presented to hospitals that sustain an overall rank above the 95<sup>th</sup> percentile for patient satisfaction in Outpatient Department databases for three years in a row.
- **2013 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").
- **2013 LeadingAge Iowa Excellence in the Workplace Award**  
Recognized by LeadingAge Iowa for creating a Long Term Care C.N.A. Team Lead program for peer mentorship.
- **2013 Cedar Valley Employers of Choice Award**  
Nominated by GCMH Associates as an Employer of Choice; the hospital was chosen as a 2013 Cedar Valley Top 20 Employer of Choice from over 200 businesses nominated.

#### Financial Highlights

- The Hospital's cash and cash equivalents increased \$1,033,437 from 2013 to 2014 due to an increase in other receipts and capital grants and contributions. From 2012 to 2013 there was a decrease of \$246,738.
- The Hospital's increase in net assets was \$1,394,876, 12.8% from June 30, 2013 to June 30, 2014 and \$299,796, 2.8% from June 30, 2012 to June 30, 2013.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2014 and 2013

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- Net patient and service revenue before provision for bad debt increased \$814,744, 4.5% from 2013 to 2014 and \$385,914, 2.2% from 2012 to 2013.
- Operating expenses increased \$790,510, 4.3% from the year ending June 30, 2013 to June 30, 2014 and \$623,031, 3.5% from the year ending June 30, 2012 to June 30, 2013.

### Financial Statements

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

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

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

#### The Statements of Cash Flows

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

### Changes in the Hospital's Net Assets and Operating Results

#### The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 14. The Hospital's net assets increased \$1,394,876, 12.8% from June 30, 2013 to June 30, 2014 and \$299,796, 2.8% from June 30, 2012 to June 30, 2013. (Refer to **Table 1**).

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Assets:</b>			
Current assets	\$ 9,507,393	8,468,406	8,647,518
Capital assets, net	16,589,846	17,944,774	18,510,448
Other noncurrent assets	2,149,183	1,795,488	1,703,639
<b>Total assets</b>	<b><u>28,246,422</u></b>	<b><u>28,208,628</u></b>	<b><u>28,861,605</u></b>
<b>Liabilities:</b>			
Long-term debt outstanding	13,598,225	14,251,099	14,888,628
Other current and noncurrent liabilities	2,317,885	3,022,093	3,337,337
<b>Total liabilities</b>	<b><u>15,916,110</u></b>	<b><u>17,273,192</u></b>	<b><u>18,225,965</u></b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	2,991,621	3,693,675	3,621,820
Restricted for debt service	114,434	114,382	113,002
Unrestricted	9,224,257	7,127,379	6,900,818
<b>Total net assets</b>	<b><u>\$ 12,330,312</u></b>	<b><u>10,935,436</u></b>	<b><u>10,635,640</u></b>

### **Year Ending June 30, 2013 to June 30, 2014:**

The Hospital's total assets increased \$37,794. This increase is a result of an increase in cash and cash equivalents \$1,033,437, a decrease of \$1,354,928 in capital assets, net due to disposals relating to the retirement of assets, an increase in patient and resident receivable of \$94,592, and other noncurrent assets increased as a result of an increase in assets limited as to use or restricted of \$353,735.

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

The Hospital's total assets decreased \$652,977. 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 \$195,370 and an increase in prepaid expense of \$176,357.

### **Operating Results**

In 2014, the Hospital's net assets increased by \$1,394,876, 12.8% while in 2013 the increase was \$403,357 3.8%. (Refer to **Table 2**). These increases include an excess of revenue over expenses before capital grants and contributions of \$634,536 for June 30, 2014, \$31,376 for June 30, 2013, and \$268,834 for June 30, 2012.

# Grundy County Memorial Hospital

## Management's Discussion and Analysis June 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Operating Revenue:</b>			
Net patient service revenue	\$ 18,977,944	18,163,170	17,777,256
Provision for bad debt	(818,927)	(698,815)	(590,012)
Other operating revenue	1,261,530	561,160	462,905
<b>Total operating revenue</b>	<b>19,420,547</b>	<b>18,025,515</b>	<b>17,650,149</b>
<b>Operating Expenses:</b>			
Salaries and benefits	9,592,503	9,949,038	9,603,944
Purchased services and other	6,413,310	5,295,831	5,129,406
Depreciation and amortization	2,355,186	2,299,641	2,172,594
Interest	630,516	656,495	682,040
<b>Total operating expenses</b>	<b>18,991,515</b>	<b>18,201,005</b>	<b>17,587,984</b>
<b>Operating income</b>	<b>429,032</b>	<b>(175,490)</b>	<b>62,165</b>
<b>Nonoperating Revenue and Expenses:</b>			
County subsidy	163,000	163,000	163,000
Investment income	42,536	43,866	43,669
<b>Total nonoperating revenue (expenses), net</b>	<b>205,536</b>	<b>206,866</b>	<b>206,669</b>
<b>Excess of revenue over expenses before capital grants and contributions</b>	<b>634,568</b>	<b>31,376</b>	<b>268,834</b>
<b>Capital grants and contributions</b>	<b>760,308</b>	<b>371,981</b>	<b>638,977</b>
<b>Increase in net assets</b>	<b>\$ 1,394,876</b>	<b>403,357</b>	<b>907,811</b>

### Operating Income

The first component of the overall change in the Hospital's net assets is its operating income - the difference between net patient service revenue and the expenses incurred to perform those services. For the year ending June 30, 2012, the Hospital reported operating income of \$62,165; for the year ending June 30, 2013, the Hospital reported operating loss of \$175,490; and for the year ending June 30, 2014, the Hospital reported operating income of \$429,032.

### **Year Ending June 30, 2013 to June 30, 2014:**

The primary components of the operating income of \$429,032 are:

- Inpatient and swing bed revenue increased \$99,805, 1.3% from June 30, 2013 to June 30, 2014 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 29.7% while Skilled and Hospitality days remained flat between the years. The Acute and Skilled days were positively impacted by 36 total knee surgeries and 8 total hip surgeries.
- Outpatient revenue increased \$1,076,410, 5.3% from 2013 to 2014. This increase is primarily due to:
  - Emergency Room visits increased from 3,590 visits to 3,631, an increase of 41 visits, 1.1%.
  - Operating room revenue decreased 1.0% from 2013 to 2014.

## Grundy County Memorial Hospital

### Management's Discussion and Analysis June 30, 2014 and 2013

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- Lab billable tests increased 5.9% from 2013 to 2014.
- Radiology revenue increased \$515,846, 11.5% from 2013 to 2014.
- Cardiac Rehab visits increased from 2,515 visits to 2,943, an increase of 428 visits, 17.0%.
- Long Term Care revenue increased \$65,377, 2.1%. This increase reflects days remaining flat and an increase in rates effective July 1, 2013.
- GCMH has experienced an increase in provision for bad debt of \$120,112, 17.2% and a slight decrease in charity care of \$65,047.
- Other Operating Revenue increased \$700,370 from June 30, 2013 to June 30, 2014 due to GCMH receiving electronic health record incentive payment of \$553,528 and the start of the 340B drug pricing program.
- Decreases in salary and benefit costs for the Hospital's Associates of \$356,535, 3.6%. FTEs decreased from 149.16 for 2013 to 143.59 for 2014, a decrease of 3.7%
- Increases in purchased services and other costs of \$945,820 relates to the start of the Hospitalist program and the 340B drug pricing program.
- Increases in supplies and other expenses of \$156,274, 5.0%. This increase is a result of the start of the 340B drug pricing program offset by the monitoring of expenses.

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

The primary components of the operating loss of \$180,500 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%.
  - 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%.

## Grundy County Memorial Hospital

### Management's Discussion and Analysis June 30, 2014 and 2013

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- 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.

#### Nonoperating Revenue and Expenses

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

### Capital Asset and Debt Administration

#### Capital Assets

As of June 30, 2014, the Hospital had \$16,589,846 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. For the year ending June 30, 2014, the Hospital purchased capital assets costing \$1,024,675. Capital asset additions for the year ending June 30, 2013 were \$1,761,408 and for the year ending June 30, 2012 were \$1,319,434.

Capital asset additions for 2014 relates to the purchase of central cardiac monitoring system, cardiac rehab software, exam tables for the specialty clinic, mixing valve upgrade, additional and repair to emergency exit sidewalks, retubing and valves for the boiler, second floor repairs, ultrasound machine and instruments for Surgery, telehealth equipment (cart systems, laptops, etc.), and access control system.

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.

#### 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.

## **Grundy County Memorial Hospital**

### **Management's Discussion and Analysis June 30, 2014 and 2013**

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#### **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, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,438,154	5,404,717
Assets limited as to use or restricted, current portion	114,434	114,382
Receivables -		
Patient and resident, net of allowance for doubtful accounts of \$540,712 in 2014 and \$381,516 in 2013	2,051,501	1,956,909
Succeeding year County subsidy	263,000	263,000
Other receivables	101,641	226,118
Inventories	251,749	218,434
Prepaid expenses	286,914	284,846
	<u>9,507,393</u>	<u>8,468,406</u>
Assets limited as to use or restricted - less amounts required for current obligations	2,149,183	1,795,448
Capital assets, net	<u>16,589,846</u>	<u>17,944,774</u>
Total assets	<u>28,246,422</u>	<u>28,208,628</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current maturities of long-term debt	686,250	661,250
Accounts payable -		
Trade	791,659	325,532
Capital related	12,221	710,263
Accrued expenses -		
Accrued salaries, wages and vacation payable	715,237	625,844
Payroll taxes	38,624	36,881
Interest	50,514	52,728
Estimated third-party payor settlements	446,630	827,484
	<u>2,741,135</u>	<u>3,239,982</u>
Long-term debt, net of unamortized discount and current maturities	<u>12,911,975</u>	<u>13,589,849</u>
Total liabilities	<u>15,653,110</u>	<u>16,829,831</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Advances from residents	--	180,361
Unavailable County subsidy revenue	263,000	263,000
	<u>263,000</u>	<u>443,361</u>
Total deferred inflows of resources	<u>263,000</u>	<u>443,361</u>
<b>NET POSITION</b>		
Net investment in capital assets	2,991,621	3,693,675
Restricted for debt service	114,434	114,382
Unrestricted	<u>9,224,257</u>	<u>7,127,379</u>
Total net position	<u>\$ 12,330,312</u>	<u>10,935,436</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, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
OPERATING REVENUE:		
Net patient and resident service revenue before provision for bad debt	\$ 18,977,944	18,163,170
Provision for bad debts	<u>(818,927)</u>	<u>(698,815)</u>
Net patient and resident service revenue	18,159,017	17,464,355
Other operating revenue	<u>1,261,530</u>	<u>561,160</u>
Total operating revenue	<u>19,420,547</u>	<u>18,025,515</u>
OPERATING EXPENSES:		
Salaries	7,758,073	7,973,441
Employee benefits	1,834,430	1,975,597
Purchased services and professional fees	2,682,898	1,737,078
Utilities	359,868	327,370
Supplies and other expenses	3,274,734	3,118,460
Depreciation and amortization	2,355,186	2,299,641
Insurance	95,810	112,923
Interest	<u>630,516</u>	<u>656,495</u>
Total operating expenses	<u>18,991,515</u>	<u>18,201,005</u>
OPERATING INCOME (LOSS)	<u>429,032</u>	<u>(175,490)</u>
NONOPERATING REVENUE (EXPENSES), NET:		
Investment income	42,536	43,866
County subsidy	<u>163,000</u>	<u>163,000</u>
Nonoperating revenue, net	<u>205,536</u>	<u>206,866</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	634,568	31,376
CAPITAL GRANTS AND CONTRIBUTIONS	<u>760,308</u>	<u>371,981</u>
INCREASE IN NET POSITION	<u>1,394,876</u>	<u>403,357</u>
NET POSITION, Beginning of year, as previously reported	10,935,436	10,635,640
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (Note 14)	<u>--</u>	<u>(103,561)</u>
NET POSITION, Beginning of year, as restated	<u>10,935,436</u>	<u>10,532,079</u>
NET POSITION, End of year	<u>\$ 12,330,312</u>	<u>10,935,436</u>

*See notes to financial statements*

## Grundy County Memorial Hospital

### Statements of Cash Flows For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 17,503,210	17,304,244
Cash paid for employee salaries and benefits	(9,501,367)	(10,214,672)
Cash paid to suppliers and contractors	(5,982,566)	(5,656,872)
Other receipts and payments, net	<u>1,416,685</u>	<u>362,923</u>
Net cash provided by operating activities	<u>3,435,962</u>	<u>1,795,623</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	(1,720,602)	(1,120,953)
Proceeds from sale of capital assets	--	1,400
County subsidy received for capital acquisitions	100,000	100,000
Capital grants and contributions	660,308	271,981
Payments on long term debt	(661,250)	(646,250)
Interest paid on debt	<u>(632,730)</u>	<u>(658,655)</u>
Net cash used in capital and related financing activities	<u>(2,254,274)</u>	<u>(2,052,477)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to assets limited as to use, net	(353,787)	(196,750)
Investment income, net	<u>42,536</u>	<u>43,866</u>
Net cash used in investing activities	<u>(311,251)</u>	<u>(152,884)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,033,437	(246,738)
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,404,717</u>	<u>5,651,455</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,438,154</u>	<u>5,404,717</u>

*See notes to financial statements*

## Grundy County Memorial Hospital

### Statements of Cash Flows (Continued) For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ 429,032	(175,490)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,355,186	2,299,641
Loss on disposal of capital assets	30,678	34,764
Interest expense included in operating expenses	630,516	656,495
(Increase) decrease in current assets -		
Receivables -		
Patients	(94,592)	268,899
Other	124,477	(163,473)
Inventories	(33,315)	4,685
Prepaid expenses	(2,068)	(176,357)
Increase (decrease) in current liabilities and deferred inflows of resources -		
Accounts payable	466,127	(189,369)
Accrued salaries, wages and vacation payable	89,393	(257,986)
Payroll taxes	1,743	(7,648)
Estimated third-party payor settlements - Medicare and Medicaid	(380,854)	(454,827)
Advances from patients	(180,361)	25,817
Net cash provided by operating activities	<u>\$ 3,435,962</u>	<u>1,865,151</u>

*See notes to financial statements*

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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

The Hospital is a 25-bed public hospital with an attached 55-bed nursing home located in Grundy Center, Iowa, organized under Chapter 37 of the Iowa Code and governed by a 7 to 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, liabilities, deferred inflows of resources with the differences reported as net position. Net position is reported in three categories:

Net investment in capital assets 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, 2014 and 2013

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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, 2014 and 2013

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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. 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 statements of net position. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2014 and 2013.

### *M. Deferred Inflows of Resources*

Deferred inflows of resources in the statements of net position consist of unavailable county subsidy revenue and advance billings of nursing home revenue that will not be recognized as revenue until the year for which it was granted or billed.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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*N. 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.

*O. 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.

*P. 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.

*Q. Grants and Contributions*

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

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

*R. Investment Income*

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

*S. Change in Accounting Principle*

During 2014, the Hospital has adopted the provisions of GASB Statement No. 65, which requires reclassification of certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources on the statements of net position. GASB 65 also requires recognition of certain items previously reported as assets and liabilities as outflows of resources or inflows of resources on the statements of revenue, expenses and changes in net position. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The cumulative effect of the accounting change in connection with the implementation of GASB 65 was a reduction of \$103,561 in net position as of the beginning of 2013 (see Note 14).

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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### T. *Subsequent Events*

The Health Center considered events occurring through September 22, 2014 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, 2014 and 2013 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, 2014 and 2013.

**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, 2014 and 2013 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

The "Budget Control Act of 2011" required, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. 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, incur a two percent reduction in Medicare payment.

## Grundy County Memorial Hospital

### Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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**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. 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.

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Gross patient and resident service revenue:		
Hospital -		
Inpatient	\$ 2,953,178	2,960,322
Outpatient	21,223,511	20,147,101
Swingbed	1,868,623	1,827,051
Nursing Home	<u>3,107,233</u>	<u>3,041,856</u>
	29,152,545	27,976,330
Contractual adjustments:		
Medicare	(4,649,486)	(4,822,097)
Medicaid	(797,611)	(473,433)
Other	(4,504,966)	(4,230,045)
Charity care services	<u>(222,538)</u>	<u>(287,585)</u>
Total contractual adjustments	<u>(10,174,601)</u>	<u>(9,813,160)</u>
Net patient and resident service revenue before provision for bad debts	<u>\$ 18,977,944</u>	<u>18,163,170</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 41% and 10%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2014, and 49% and 13%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2013. 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 2014 and 2013 net patient service revenue increased approximately \$179,000 and \$291,000, 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.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

### (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, 2014 and 2013, are summarized as follows:

	<u>2014</u>	<u>2013</u>
Money market accounts	\$ 867,575	864,113
Certificates of deposit	<u>1,281,608</u>	<u>931,335</u>
	<u>\$ 2,149,183</u>	<u>1,795,448</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.

The amounts segregated as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Sinking Fund, cash and money market accounts	\$ 114,434	114,382
Less amounts required for current obligations	<u>(114,434)</u>	<u>(114,382)</u>
	<u>\$ --</u>	<u>--</u>

### (5) Composition of Patient Receivables

Patient and resident receivables as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Patient and resident accounts	\$ 3,426,661	3,111,842
Less allowance for doubtful accounts	(540,712)	(381,516)
Less estimated third-party contractual adjustments	<u>(834,448)</u>	<u>(773,417)</u>
	<u>\$ 2,051,501</u>	<u>1,956,909</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>2014</u>	<u>2013</u>
Medicare	38%	36%
Medicaid	6	5
Commercial insurance	34	33
Patients and residents	<u>22</u>	<u>26</u>
	<u>100%</u>	<u>100%</u>

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

### (6) Capital Assets

Capital assets and the related accumulated depreciation for the years ending June 30, 2014 and 2013 is summarized as follows:

	June 30, 2013	Additions	Transfers and Disposals	June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 378,351	--	--	378,351
Construction in progress	309,987	51,512	(18,884)	342,615
Total capital assets, not being depreciated	<u>688,338</u>	<u>51,512</u>	<u>(18,884)</u>	<u>720,966</u>
Capital assets, being depreciated:				
Land improvements	183,979	--	--	183,979
Buildings	19,793,836	122,758	4,849	19,921,443
Major moveable equipment, including equipment under capital lease	9,645,618	850,405	(90,739)	10,405,284
Vehicles	75,085	--	--	75,085
Total capital assets, being depreciated	<u>29,698,518</u>	<u>973,163</u>	<u>(85,890)</u>	<u>30,585,791</u>
Less accumulated depreciation:				
Land improvements	140,750	17,497	--	158,247
Buildings	7,650,146	1,167,293	(1,343)	8,816,096
Major moveable equipment, including equipment under capital lease	4,641,800	1,143,248	(70,637)	5,714,411
Vehicles	9,386	18,771	--	28,157
Total accumulated depreciation	<u>12,442,082</u>	<u>2,346,809</u>	<u>(71,980)</u>	<u>14,716,911</u>
Total capital assets, being depreciated, net	<u>17,256,436</u>	<u>(1,373,646)</u>	<u>(13,910)</u>	<u>15,868,880</u>
Total capital assets, net	<u>\$ 17,944,774</u>	<u>(1,322,134)</u>	<u>(32,794)</u>	<u>16,589,846</u>

	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>

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

### (7) Long-Term Debt

Long-term debt activity of the Hospital as of and for the years ending June 30, 2014 and 2013 consisted of the following:

	<u>June 30, 2013</u>	<u>Borrowings</u>	<u>Payments / Amortization</u>	<u>June 30, 2014</u>	<u>Due Within One Year</u>
Notes Payable (A)	\$ 87,604	--	(36,250)	51,354	36,250
Urban Renewal Capital Loan Notes (B)	14,245,000	--	(625,000)	13,620,000	650,000
Discount on Urban Renewal Capital Loan Notes (B)	<u>(81,505)</u>	<u>--</u>	<u>8,376</u>	<u>(73,129)</u>	<u>--</u>
Net	<u>\$ 14,251,099</u>	<u>--</u>	<u>(652,874)</u>	<u>13,598,225</u>	<u>686,250</u>

	<u>June 30, 2012</u>	<u>Borrowings</u>	<u>Payments / Amortization</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
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>

- (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, 2014 and 2013

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

Year	Principal	Interest	Total
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	765,000	489,080	1,254,080
2010-2024	4,410,000	1,923,995	6,333,995
2025-2029	5,690,000	828,740	6,518,740
	<u>\$ 13,671,354</u>	<u>5,496,486</u>	<u>19,167,840</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) Other Operating Revenue

Other operating revenue for the years ended June 30, 2014 and 2013, consisted of the following:

	2014	2013
Electronic health records incentive payments	\$ 553,528	--
340B drug pricing program	446,536	--
Grants	83,066	262,410
Cafeteria and vending	86,730	93,994
Clinic rent and other	63,247	65,779
Medical records transcriptions	2,549	1,986
Operating subsidy	--	150,734
Loss on disposal of capital assets	(30,678)	(34,764)
Miscellaneous	56,552	21,021
	<u>\$ 1,261,530</u>	<u>561,160</u>

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). The final amount for any payment year under both programs is determined based upon an audit by the Medicare Administrative Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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During 2014 the Hospital qualified for Medicare incentive payments by attesting it met specific criteria set by CMS. An incentive receivable of approximately \$885,000 has been recognized in the statement of net position as of June 30, 2014. The Hospital elected to record \$553,528 of the incentive payment as other operating revenue in the period earned, and defer the remaining amount of the receivable related to future Medicare reimbursement.

### (9) Pension and Retirement Benefits

The Hospital's associates are leased employees of Allen Health System. As a result, the associates participate in Allen Health System's defined contribution pension plan. Participants may make pre-tax contributions from 1% to 20% of eligible salaries. The Hospital contributes 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, 2014 and 2013 was \$311,231 and \$332,917, respectively.

### (10) 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, 2014 and 2013 of \$(366,160) and \$150,735, respectively.

### (11) 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, 2014 and 2013 for all operating leases was \$255,228 and \$273,547, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2014 that have initial or remaining lease terms in excess of one year:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 229,627
2016	229,627
2017	193,010
2018	166,855
2019	166,855
2020-2021	333,710

### (12) 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, 2014 and 2013 were \$939,967 and \$1,055,806, respectively. Stop-loss coverage is provided through a commercial insurance company.

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

# Grundy County Memorial Hospital

## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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### (13) 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.

### (14) 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, 2014 and 2013 follows:

	<u>(Unaudited)</u>	
	<u>2014</u>	<u>2013</u>
Assets	\$ 1,015,095	763,129
Net assets	\$ 1,015,095	763,129

The Hospital received \$207,816 and \$197,103 from the Foundation during the years ended June 30, 2014 and 2013, respectively, for the purchase of property and equipment related to the Hospital's Facility Modernization Project. As of June 30, 2014, the Foundation has approximately \$10,000 of pledges receivable related to Phase II of the Hospital's Facility Modernization Project.

### (15) Change in Accounting Principle

In accordance with GASB Statement No. 65, which was adopted effective July 1, 2012, the Hospital restated the ending net position at June 30, 2012 and depreciation and amortization expense for the year ended June 30, 2013, in connection with unamortized bond issuance costs. According to GASB 65, debt issuance costs are recognized as expenses in the period incurred, rather than as deferred costs and subsequently amortized.

<u>Description</u>	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>Restated Balance</u>
Deferred financing costs, net	\$ 103,561	(103,561)	--
Depreciation and amortization expense	2,309,651	(10,010)	2,299,641
Increase in net position	393,347	10,010	403,357
Net position, June 30, 2012	10,635,640	(103,561)	10,532,079

## 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, 2014 and 2013

	<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	20,123,391	(500,652)	19,622,739	29,827,261	(10,204,522)
	<u>20,386,391</u>	<u>(500,652)</u>	<u>19,885,739</u>	<u>30,090,261</u>	<u>(10,204,522)</u>
Expenses / Disbursements	<u>18,991,515</u>	<u>(493,000)</u>	<u>18,498,515</u>	<u>31,185,482</u>	<u>12,686,967</u>
Net	1,394,876	(7,652)	1,387,224	(1,095,221)	\$ <u>2,482,445</u>
Balance beginning of year	<u>10,935,436</u>	<u>(3,620,889)</u>	<u>7,314,547</u>	<u>7,314,547</u>	
Balance end of year	\$ <u>12,330,312</u>	<u>(3,628,541)</u>	<u>8,701,771</u>	<u>6,219,326</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, 2014, the Hospital's expenditures did not exceed the amount budgeted.

**Schedules of Net Patient and Resident Service Revenue  
For the Years Ended June 30, 2014 and 2013**

	2014				2013			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
<b>NURSING SERVICES:</b>								
Long term care	\$ 3,107,233	--	--	3,107,233	3,041,856	--	--	3,041,856
Swing bed	--	--	861,747	861,747	--	--	924,588	924,588
Adult and pediatric	569,159	156,720	--	725,879	581,621	--	--	581,621
Observation	--	140,585	--	140,585	452	323,786	--	324,238
Hospitality	4,242	--	--	4,242	4,710	--	--	4,710
	<u>3,680,634</u>	<u>297,305</u>	<u>861,747</u>	<u>4,839,686</u>	<u>3,628,639</u>	<u>323,786</u>	<u>924,588</u>	<u>4,877,013</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Emergency and outpatient service	13,444	5,189,946	1,030	5,204,420	17,391	4,803,408	15	4,820,814
Radiology	58,503	4,253,662	20,344	4,332,509	61,696	3,908,702	9,344	3,979,742
Operating and recovery rooms	1,119,658	2,426,575	--	3,546,233	1,161,891	2,441,329	--	3,603,220
Laboratory	116,488	2,981,056	123,634	3,221,178	150,002	2,812,163	117,881	3,080,046
Pharmacy	308,526	1,433,329	391,871	2,133,726	275,504	1,552,056	308,600	2,136,160
Physical therapy	69,220	1,256,172	219,629	1,545,021	65,337	1,263,727	242,161	1,571,225
Anesthesiology	188,181	1,022,313	--	1,210,494	218,696	982,219	--	1,200,915
Mobile services	--	741,962	--	741,962	1,544	571,076	--	572,620
GCMH clinic	324,552	273,148	--	597,700	269,841	297,667	--	567,508
Cardiac rehab	--	425,993	--	425,993	1,264	308,927	62	310,253
Occupational therapy	37,229	193,850	126,462	357,541	37,261	169,233	131,580	338,074
Respiratory therapy	139,401	61,482	111,736	312,619	105,147	34,592	85,586	225,325
Sleep lab	--	282,227	--	282,227	--	289,346	--	289,346
Electrocardiology	3,175	224,116	2,646	229,937	6,048	267,332	2,016	275,396
Wound clinic	280	119,121	25	119,426	563	66,233	265	67,061
Speech therapy	1,120	18,899	9,499	29,518	1,354	38,438	4,953	44,745
Diabetic education	--	15,190	--	15,190	--	7,870	--	7,870
Nutrition education	--	7,164	--	7,164	--	7,174	--	7,174
Central services and supply	--	1	--	1	--	494	--	494
Ambulance	--	--	--	--	--	1,329	--	1,329
	<u>2,379,777</u>	<u>20,926,206</u>	<u>1,006,876</u>	<u>24,312,859</u>	<u>2,373,539</u>	<u>19,823,315</u>	<u>902,463</u>	<u>23,099,317</u>
<b>GROSS PATIENT AND RESIDENT SERVICE REVENUE</b>	<b>\$ <u>6,060,411</u></b>	<b><u>21,223,511</u></b>	<b><u>1,868,623</u></b>	<b><u>29,152,545</u></b>	<b><u>6,002,178</u></b>	<b><u>20,147,101</u></b>	<b><u>1,827,051</u></b>	<b><u>27,976,330</u></b>
<b>LESS:</b>								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(9,952,063)				(9,525,575)
Provision for bad debts				(818,927)				(698,815)
Charity care services and other discounts, based on charges forgone				(222,538)				(287,585)
<b>NET PATIENT AND RESIDENT SERVICE REVENUE</b>				<b>\$ <u>18,159,017</u></b>				<b>\$ <u>17,464,355</u></b>

**Other Operating Revenue  
For the Years Ended June 30, 2014 and 2013**

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	<u>2014</u>	<u>2013</u>
Electronic health records incentive payment	\$ 553,528	--
340B drug pricing program	446,536	--
Grants	83,066	262,410
Cafeteria and vending	86,730	93,994
Clinic rent and other	63,247	65,779
Medical records transcriptions	2,549	1,986
Operating subsidy	--	150,734
Loss on disposal of capital assets	(30,678)	(34,764)
Miscellaneous	<u>56,552</u>	<u>21,021</u>
	<u>\$ 1,261,530</u>	<u>561,160</u>

**Departmental Expenses  
For the Years Ended June 30, 2014 and 2013**

	2014				2013			
	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	\$ 1,408,433	11,403	80,776	1,500,612	1,365,520	48,562	75,384	1,489,466
Adult and pediatric	738,661	192,835	46,899	978,395	830,392	17,231	46,251	893,874
Swing bed	--	--	3,695	3,695	--	--	1,120	1,120
	<u>2,147,094</u>	<u>204,238</u>	<u>131,370</u>	<u>2,482,702</u>	<u>2,195,912</u>	<u>65,793</u>	<u>122,755</u>	<u>2,384,460</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Emergency room	931,146	515,017	61,660	1,507,823	1,039,633	342,716	70,123	1,452,472
Operating and recovery room	350,974	125,079	853,212	1,329,265	409,966	151,269	870,479	1,431,714
Pharmacy	88,306	386,193	515,879	990,378	92,681	125,099	393,347	611,127
Physical therapy	491,621	910	190,520	683,051	489,175	700	178,151	668,026
Radiology	308,691	146,131	161,373	616,195	319,927	106,844	151,759	578,530
Laboratory	267,270	98,568	234,583	600,421	270,419	108,918	238,296	617,633
GCMH clinic	35,090	175,547	529	211,166	45,065	179,137	398	224,600
Anesthesiology	171,539	13,302	8,879	193,720	159,444	7,776	7,736	174,956
Cardiac rehab	93,482	8,172	4,375	106,029	75,904	7,543	7,732	91,179
Medical records	47,456	21,007	15,498	83,961	76,671	17,248	15,979	109,898
Central services and supply	62,982	6,980	12,846	82,808	68,056	5,708	(1,941)	71,823
Sleep lab	10,308	32,582	6,946	49,836	--	71,535	1	71,536
Specialty clinic	40,755	--	1,049	41,804	49,692	--	3,683	53,375
Social services	38,758	--	340	39,098	36,952	--	981	37,933
Senior Life	13,841	--	10,082	23,923	18,333	--	9,538	27,871
Respiratory therapy	--	--	22,640	22,640	--	--	20,905	20,905
Wound clinic	14,892	--	5,401	20,293	8,742	--	5,212	13,954
Speech therapy	--	17,459	--	17,459	--	24,412	--	24,412
Electrocardiology	--	12,408	1,763	14,171	--	12,657	2,026	14,683
Diabetic education	3,792	--	1,053	4,845	5,442	--	550	5,992
	<u>2,970,903</u>	<u>1,559,355</u>	<u>2,108,628</u>	<u>6,638,886</u>	<u>3,166,102</u>	<u>1,161,562</u>	<u>1,974,955</u>	<u>6,302,619</u>
<b>GENERAL SERVICES:</b>								
Plant operation and maintenance	245,331	103,917	459,744	808,992	261,880	96,319	419,081	777,280
Dietary	470,221	--	251,333	721,554	491,728	--	254,016	745,744
Housekeeping	196,423	12,803	35,989	245,215	196,265	12,174	39,273	247,712
Laundry and linen	39,101	118,981	19,408	177,490	37,331	105,751	19,075	162,157
	<u>951,076</u>	<u>235,701</u>	<u>766,474</u>	<u>1,953,251</u>	<u>987,204</u>	<u>214,244</u>	<u>731,445</u>	<u>1,932,893</u>
<b>ADMINISTRATIVE SERVICES</b>	<u>1,689,000</u>	<u>683,604</u>	<u>628,130</u>	<u>3,000,734</u>	<u>1,624,223</u>	<u>295,479</u>	<u>616,675</u>	<u>2,536,377</u>
<b>NONDEPARTMENTAL</b>								
Employee benefits	--	--	1,834,430	1,834,430	--	--	1,975,597	1,975,597
Depreciation and amortization	--	--	2,355,186	2,355,186	--	--	2,299,641	2,299,641
Insurance	--	--	95,810	95,810	--	--	112,923	112,923
Interest	--	--	630,516	630,516	--	--	656,495	656,495
	<u>--</u>	<u>--</u>	<u>4,915,942</u>	<u>4,915,942</u>	<u>--</u>	<u>--</u>	<u>5,044,656</u>	<u>5,044,656</u>
	<u>\$ 7,758,073</u>	<u>2,682,898</u>	<u>8,550,544</u>	<u>18,991,515</u>	<u>7,973,441</u>	<u>1,737,078</u>	<u>8,490,486</u>	<u>18,201,005</u>

**Patient and Resident Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2014 and 2013**

ANALYSIS OF AGING:

Days Since Discharge	2014		2013	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,098,758	61.25 %	1,667,818	53.60 %
31 - 60	460,828	13.45	523,361	16.81
61 - 90	258,370	7.54	269,169	8.65
91 - 120	101,823	2.97	138,305	4.44
120 - 180	183,597	5.36	270,587	8.70
> 180	323,285	9.43	242,602	7.80
	<u>3,426,661</u>	100.00 %	<u>3,111,842</u>	100.00 %
Less:				
Allowance for doubtful accounts	(540,712)		(381,516)	
Allowance for contractual adjustments	<u>(834,448)</u>		<u>(773,417)</u>	
	<u>\$ 2,051,501</u>		<u>\$ 1,956,909</u>	

	2014	2013
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	41.23 days	40.90 days

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 381,516	363,315
Provision of uncollectible accounts	818,927	698,815
Recoveries of accounts previously written off	115,369	102,500
Accounts written off	<u>(775,100)</u>	<u>(783,114)</u>
Balance, end of year	<u>\$ 540,712</u>	<u>381,516</u>

**Inventories / Prepaid Expenses  
For the Years Ended June 30, 2014 and 2013**

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	<u>2014</u>	<u>2013</u>
INVENTORY:		
Pharmacy	\$ 145,936	133,966
Laboratory	37,839	30,277
Central supply	37,164	37,863
Operating room	19,870	--
Dietary	9,307	14,666
Radiology	1,633	1,662
	<u>\$ 251,749</u>	<u>218,434</u>
PREPAID EXPENSES:		
Maintenance contracts	\$ 262,606	242,791
Insurance	24,308	42,055
	<u>\$ 286,914</u>	<u>284,846</u>

**Insurance Coverage  
For the Years Ended June 30, 2014 and 2013**

<u>Company</u>	<u>Property Covered</u>	<u>Limits</u>	<u>Policy Term</u>
<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	12/15/13 - 14
<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	12/15/13 - 14
<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	12/15/13 - 14
<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	12/15/13 - 14
<b>MMIC</b> Policy #IHP000105	<b><u>Underlying Schedule</u></b> General Liability, including Professional Automobile Liability	\$1,000,000	12/15/13 - 14
<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	12/15/13 - 14

\*\* SLOT - Emergency Medicine - No Major Surgery \$1,000,000

**Financial Statistical Highlights  
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Patient and Resident Days:		
Hospital -		
Adult and pediatric -		
Medicare	233	295
All other	108	190
Swing bed - skilled	1,131	1,132
Hospitality	14	14
	<u>1,486</u>	<u>1,631</u>
Nursing Home	<u>19,094</u>	<u>18,933</u>
Discharges:		
Hospital adult and pediatric -		
Medicare	91	106
All other	30	68
	<u>121</u>	<u>174</u>
Average length of stay:		
Hospital adult and pediatric -		
Medicare	2.56 days	2.78 days
All other	3.60 days	2.79 days
Observation equivalent days	129	185
Surgical procedures	723	771
Emergency Room visits	3,631	3,590
Full-time equivalents personnel	143.59	149.16

# Grundy County Memorial Hospital

## Schedule of Expenditures of Federal Awards For the Years Ended June 30, 2014 and 2013

<u>Federal Grantor/Pass Through Agency/Program Title</u>	<u>CFDA Number</u>	<u>Passthrough Identifying Number</u>	<u>Federal Expenditures</u>
<b>US Department of Health and Human Services</b>			
Passed through Iowa Department of Public Health Small Rural Hospital Improvement Grant Program	93.301	5881SH28	\$ 17,607
National Bioterrorism Hospital Preparedness Program	93.889	5881BHO07	<u>7,416</u>
Total US Department of Health and Human Services			<u>25,023</u>
<b>US Department of Commerce</b>			
Passed through Central Iowa Hospital Corporation Broadband Technologies Opportunities Program (BTOP) - Recovery Act	11.557	19-43-B10575	<u>483,245</u>
Total Federal Awards Expended			\$ <u><u>508,268</u></u>

*The accompanying notes are an integral part of this schedule*

### Notes to the Schedule

#### *Note 1: Basis of Presentation*

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Hospital under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Hospital.

#### *Note 2: Summary of Significant Accounting Policies*

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, where in certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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

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

We have audited, 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, 2014 and 2013 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 22, 2014.

**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 IV of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2014 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 22, 2014.

**Independent Auditor's Report on Compliance for Each Major Program  
and Report on Internal Control Over Compliance  
Required by OMB Circular A-133**

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

**Report on Compliance for Each Major Federal Program**

We have audited Grundy County Memorial Hospital's (the Hospital) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended June 30, 2014. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Report on Internal Control Over Compliance**

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*SEIM JOHNSON, LLP*

Omaha, Nebraska,  
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# Grundy County Memorial Hospital

## Schedule of Findings and Questioned Costs June 30, 2014

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### I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

#### *Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u>          </u> Yes	<u>  x  </u> No
Significant deficiency(ies) identified?	<u>          </u> Yes	<u>  x  </u> None reported

Noncompliance material to financial statements noted?	<u>          </u> Yes	<u>  x  </u> No
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#### *Federal Awards*

Internal control over major programs:

Material weakness(es) identified?	<u>          </u> Yes	<u>  x  </u> No
Significant deficiency(ies) identified?	<u>          </u> Yes	<u>  x  </u> None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u>          </u> Yes	<u>  x  </u> No
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Identification of major program:

<u>CFDA Number(s)</u>	<u>Names of Federal Program or Cluster</u>
11.557	Broadband Technologies Opportunities Program (BTOP) – Recovery Act

Dollar threshold used to distinguish between type A and type B programs	<u>          \$ 300,000          </u>
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Auditee qualified as low-risk auditee?	<u>  x  </u> Yes	<u>          </u> No
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### II. FINANCIAL STATEMENT FINDINGS

There were no financial statement findings reported.

### III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No findings or questioned costs for federal awards were noted.

# Grundy County Memorial Hospital

## Schedule of Findings and Questioned Costs June 30, 2014

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### Part IV: Other Findings Related to Required Statutory Reporting

- III-A-14 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, 2014.
- III-B-14 Certified Budget: Hospital disbursements during the year ended June 30, 2014 did not exceed budgeted amounts.
- III-C-14 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-14 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-14 Business Transactions: Business transactions between the Hospital officials and/or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Board Member – President/CEO, Nucara Home Medical Nucara Pharmacy Nudak Ventures, LLC.	Medical supplies, equipment rental, and contracted pharmacy services.	45,586

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

- III-F-14 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-14 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-14 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, 2014**

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**This audit was performed by:**

Brian D. Green, FHFMA, CPA, Partner

Darren R. Osten, FHFMA, CPA, Partner

Eric J. Vrba, CPA, Staff Auditor

September 22, 2014

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

In planning and performing our audit of the financial statements of Grundy County Memorial Hospital (Hospital), as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as discussed below, we identified a certain deficiency in internal control that we did not consider to be a material weakness.

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

The following are descriptions of identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

#### **Segregation of Duties over Financial Reporting**

One important aspect of internal control over financial reporting is segregation of duties among employees to prevent an individual employee the ability to circumvent the system of internal control. In reviewing the financial reporting preparation process and controls, due to a limited number of administrative personnel, a lack of segregation of duties exists. Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Hospital continue to monitor and improve its segregation of duties.

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

#### **Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimations that affect the reported amounts of assets and liabilities as of the date of the financial statements. As part of the audit, we reviewed the following significant estimates made by management:

- Allowance for third-party payor adjustments
- Estimated third-party payor settlements
- Allowance for doubtful accounts

Management performed an analysis of the estimated collectability of accounts receivable based upon historical collection rates as well as an analysis of the estimated third-party settlements based upon reimbursement and settlements received from third-party payors during the year. As part of our audit procedures, additional tests of the allowance for doubtful accounts and estimated third-party settlements were performed which resulted in audit adjustments. We recommend management continue to monitor and improve its current estimation process to compute an appropriate estimate for an allowance for doubtful accounts and third-party settlements.

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The following are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving The Hospital's policies and procedures:

### **Accounting for Leases**

The International Accounting Standards Board (IASB), the body responsible for setting International Financial Reporting Standards (IFRS), and the Financial Accounting Standards Board (FASB), the body responsible for setting accounting principles generally accepted in the United States of America, issued a Proposed Accounting Standards Update on May 16, 2013 to Topic 842, Leases in response to concerns raised by users of financial statements regarding the treatment of leases. Existing lease accounting treatment has been criticized for its complexity on the basis that it has proved difficult to define the dividing line between capital and operating leases, as the current standards require the application of subjective judgments.

Under the proposal, most leases of assets other than property, which include equipment, cars, trucks, etc., would be classified as Type A leases and the entity would:

- Recognize a right-of-use asset and a lease liability, measured at the present value of lease payments.
- Recognize the unwinding of the discount on the lease liability as interest separately from the amortization of the right-of-use asset, which would typically be amortized on the straight-line basis over the shorter of the estimated useful life of the asset or the lease term.

Leases of property such as land or buildings would be classified as Type B leases and would:

- Recognize a right-of-use asset and a lease liability, measured at the present value of lease payments.
- Recognize a single lease cost, combining the unwinding of the discount on the lease liability with the amortization of the right-of-use asset. The amortization of the right-of-use asset would be determined as the difference between the periodic lease cost determined on a straight line basis, and the unwinding of the discount of the lease liability.

Variable leases would be mostly excluded from the measurement of assets and liabilities, and payments in optional periods would be excluded unless the lessee had a significant economic incentive to exercise the option to extend the lease term. Leases with maximum possible terms (including options to extend) of 12 months or less could be accounted for with simplified requirements that are similar to existing accounting for operating leases.

The standards would be applied with either a modified or full retrospective approach for the earliest period presented in the financial statements. There currently is no indication of a proposed effective date. However, it would be prudent for businesses to plan ahead on the basis that the current accounting rules are expected to change, especially when they are negotiating long-term leases or loan facilities with financial covenants that could be impacted by these changes.

### **340B Drug Discount Program**

The 340B program is a Federal drug discount program that was established in 1992 and was eligible to certain qualifying providers. The *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act of 2010* updated the qualifying criteria resulting in automatic eligibility of all critical access hospitals. The program allows the Hospital to buy outpatient drugs at reduced prices and benefit from the cost savings. The program allows outpatient drugs to be sold by the Hospital and allows the Hospital to contract with local pharmacies to act as its agent. Under the second arrangement, the Hospital is required to purchase the pharmaceuticals and the vendor provides all pharmacy services.

Under the program, the Hospital is required to:

- Maintain separate records for inpatient and outpatient drugs
- Sell covered outpatient drugs to qualifying patients only
- Ensure covered outpatient drug costs are not subsequently reimbursed by Medicare and Medicaid

We recommend that management continue to monitor the effectiveness of the controls related to requirements of the 340B program.

### **Health Information Technology Incentives**

The American Recovery and Reinvestment Act of 2009 provides for incentive payments beginning in federal fiscal year 2011 for eligible hospitals that are meaningful electronic health record (EHR) users. In July of 2010, the Office of the National Coordinator for Health Information Technology and the Centers for Medicare and Medicaid Services (CMS) issued final rules that define “meaningful use” of electronic medical records and set standards for implementation and certification of EHR technology. The primary impact of the final rules on hospitals is as follows:

- Incentive payments for EHR to be claimed on the Medicare cost report in the year the hospital meets “meaningful use” requirements
- Hospitals with 9-30-2011 fiscal year-ends were the first eligible
- Reductions in incentive factors for DRG payments if a hospital has not demonstrated meaningful use by fiscal year 2015
- Established 14 core requirements and 10 menu requirements to achieve meaningful use
- Made hospitals eligible for Medicaid incentives

Additional resources can be found at <http://www.cms.gov/EHRIncentivePrograms/> on the CMS website. CMS recently updated a FAQ page via their website concerning Critical Access Hospitals (CAHs) and EHR technology regarding capital lease agreements. Expenses related to a capital lease that meet one of four conditions established by the Federal Accounting Standards Board (FASB) can be claimed as part of the HIT incentive payment. We recommend that management develop a strategy and timeframe to achieve meaningful use.

As part of the audit, we reviewed transactions related to the recognition of the HIT incentive payment. An audit adjusting entry was proposed to accurately present the portion of the incentive to be recognized in the current year. We provided management with a template to accurately recognize the portion of the incentive payment attributed to future years.

### **Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities***

GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in the financial statements (i.e., assets, deferred outflows of resources, liabilities, deferred inflows of resources, etc.). Concepts Statement No. 4 also indicated that recognition of deferred outflows of resources and deferred inflows of resources should be limited to those instances specifically identified in subsequent authoritative pronouncements.

GASB Statement 65 amends the recognition of certain items currently reported as assets and liabilities as inflows and outflows of resources. This impacted the presentation of the deferred financing costs on the Statements of Net Position. All future debt issuance costs will be expensed as incurred instead of amortized over the life of any new debt.

The requirements of this Statement were implemented for financial statements for the year ending June 30, 2014.

### **Revenue Recognition**

In May 2014, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)* in an effort to converge standards between U.S. generally accepted accounting principles and the International Financial Reporting System. The guidance supersedes revenue recognition requirements in general and in most industry guidance.

Healthcare-specific standards are being largely superseded by this standard and are replaced with a principle-based approach. Impacts on healthcare revenue recognition will include the recognition and measurement of revenue from self-pay patients. Collection of payment must be considered probable in order to account for a contract. If it is determined that payment is probable, revenue will be recognized by estimating the variable consideration if the customer is offered a price concession. The provision for uncollectible accounts will no longer show as a deduction to net patient service revenue on the face of the financial statements as the standards will require that an estimate of collectability be incorporated at the time revenue is recorded. This, in theory, will reduce the overall amount of the provision.

The AICPA has created task forces for many different industries, including healthcare, which will issue guidance related to specific implementation issues. We will monitor their issuances and will continue to give you more detailed guidance in upcoming discussions with management and during future audits. The standard is applicable to public entities, including not-for-profits that have issued, or are conduit bond obligors for, securities that are publicly traded, listed, or quoted, for annual periods beginning after December 15, 2016. For all other entities, it will be effective for annual periods beginning after December 15, 2017. Effectively, this will be applicable for the Hospital for fiscal years ending on or after June, 2019.

### **Uniform Grant Guidance - OMB Circular A-133 Audit Requirement Changes**

Due to the extent of federal grants received, the Hospital has been subject to single audits conducted in accordance with OMB Circular A-133 in recent years. This audit involves testing compliance with requirements that are direct and material effect on its major federal programs as well as on internal control over compliance with those requirements.

In December 2013, the US Office of Management and Budget (OMB) made significant changes to guidance and information relating to federal grant awards and single audit provisions. The changes were published and are available in the Code of Federal Regulations, Title 2, Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The changes are the result of a process undertaken by the OMB with the goal of streamlining guidance for Federal awards, while easing administrative burden and strengthen oversight over the more than \$500 billion expected annually in federal funds to reduce risks of waste, fraud and abuse. This final guidance supersedes and streamlines requirements from eight existing OMB Circulars, including the audit requirements of OMB Circular A-133.

The following describes a few of the key areas impacting single audits in accordance with OMB Circular A-133 and the various cost principles that are covered in the revised guidance:

- **Single Audit Threshold for A-133 Audit Increased.** Entities that expend less than \$750,000 in federal awards are not required to undergo a single audit. This would represent an increase from the previous threshold for single audits of \$500,000, which was established in 2003.
- **Changes to the Major Program Determination Process.** Previously, the minimum threshold for type A/B programs in an audit in accordance with OMB Circular A-133 was \$300,000. Changes in the revised guidance raise the minimum threshold to \$750,000. This revision will have an impact on which federal programs are audited as major on an annual basis.
- **Streamlining of Related Circulars and Guidance.** Prior to the adoption of these changes, the Hospital, as a not-for-profit entity, is subject to the provisions of OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. The uniform guidance streamlines eight existing OMB Circulars, inclusive of Circular A-122, into the final document *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- **Effective date of changes.** Changes in the guidance related to single audits are effective for fiscal years beginning on or after December 26, 2014. Effectively, fiscal years ending on or after December 31, 2015 will be subject to single audits including the revised requirements.

There are also various other changes contained in the guidance issued by the OMB relating to changes in the risk determination process, and other areas of single audit compliance.

These revisions may impact the extent of the audit requirements for the Hospital in future years. We recommend management review these revisions and become familiar with how they will affect the single audit process and compliance with Federal awards.

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This communication is intended solely for the information and use of management and the Board of Commissioners and is not intended to be and should not be used by anyone other than these specified parties. We would be pleased to answer any questions you may have regarding the comments and suggestions contained in the preceding paragraphs.

We would like to thank you and your staff for all the cooperation extended to us during the audit.

Sincerely,

SEIM JOHNSON, LLP

A handwritten signature in black ink, appearing to read "Brian D. Green", is placed on a light gray rectangular background.

Brian D. Green