

Grundy County Memorial Hospital
Grundy Center, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2015 and 2014**

Together with Independent Auditor's Report

Grundy County Memorial Hospital

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Grundy County Memorial Hospital

Officials
June 30, 2015

<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
Kim Lindaman	Member	Wellsburg, IA	July 2017
Carl Stevens	Member	Eldora, IA	July 2016
Helene Wertz	Member	Dike, IA	July 2017

<u>Hospital Officials</u>	<u>Title</u>
Jennifer Havens	Chief Executive Officer/Director of Nursing
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, 2015 and 2014, 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, 2015 and 2014, 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.

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 - 9 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The supplementary information 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 21, 2015 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 21, 2015.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

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, 2015, 2014, and 2013. Please read it in conjunction with the Hospital's financial statements, which begin on page 10.

Using This Annual Report

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

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

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

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

A Partner for Grundy County

GCMH Associates

The Hospital is a vital part of Grundy County. With a staff of 202, it is the county's largest employer. The total annual payroll and benefits for the Hospital reached \$9.8 million for the year ending June 30, 2015.

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 196 providers (7 active, 133 courtesy, 56 teleradiologists). The Medical Staff had 13 new providers apply for Medical Staff privileges during FY 2014-2015 and 13 voluntary relinquishments.

Economic Impact

According to Iowa Hospital Association statistics, Grundy County Memorial Hospital has an estimated economic impact of over \$12.3 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.

Financial Highlights

- The Hospital's cash and cash equivalents increased \$1,778,242 from 2014 to 2015 and from 2013 to 2014 there was also an increase of \$1,033,437.
- The Hospital's increase in net position was \$668,890, 5.4% from June 30, 2014 to June 30, 2015 and \$1,394,876, 12.8% from June 30, 2013 to June 30, 2014.
- Net patient and service revenue before provision for bad debt decreased \$60,078, 0.3% from 2014 to 2015 and increased \$814,744, 4.5% from 2013 to 2014.
- Operating expenses increased \$98,873, 0.5% from the year ending June 30, 2014 to June 30, 2015 and increased \$790,510, 4.3% from the year ending June 30, 2013 to June 30, 2014.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Financial Statements

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

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

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

The Statements of Cash Flows

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

Changes in the Hospital's Net Position and Operating Results

The Hospital's Net Position

The Hospital's net position are the difference between its assets and liabilities reported in the Statements of Net Position on page 10. The Hospital's net position increased \$668,890, 5.4% from June 30, 2014 to June 30, 2015 and \$1,394,876, 12.8% from June 30, 2013 to June 30, 2014. (Refer to **Table 1**).

Table 1: Assets, Liabilities, and Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets:			
Current assets	\$ 11,390,921	9,507,393	8,768,406
Capital assets, net	15,534,344	16,589,846	17,944,774
Other noncurrent assets	2,311,773	2,149,183	1,795,488
Total assets	<u>29,237,038</u>	<u>28,246,422</u>	<u>28,208,628</u>
Liabilities and deferred inflows of resources:			
Long-term debt outstanding	12,919,997	13,598,225	14,251,099
Other liabilities and deferred inflows of resources	3,317,839	2,317,885	3,022,093
Total liabilities and deferred inflows of resources	<u>16,237,836</u>	<u>15,916,110</u>	<u>17,273,192</u>
Net position:			
Invested in capital assets, net of related debt	2,614,347	2,991,621	3,693,675
Restricted for debt service	115,530	114,434	114,382
Unrestricted	10,269,325	9,224,257	7,127,379
Total net position	<u>\$ 12,999,202</u>	<u>12,330,312</u>	<u>10,935,436</u>

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Year Ending June 30, 2014 to June 30, 2015:

The Hospital's total assets increased \$990,616, 3.5%. This increase is a result of an increase in cash and cash equivalents \$1,778,242, a decrease of \$1,055,502 in capital assets, net due to disposals relating to the retirement of assets, an increase in patient and resident receivable of \$99,288, and other noncurrent assets increased as a result of an increase in assets limited as to use or restricted of \$162,590.

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.

Operating Results

In 2015, the Hospital's net position increased by \$668,890, 5.4% while in 2014 the increase was \$1,394,876, 12.8%. (Refer to **Table 2**). These increases include an excess of revenue over expenses before capital grants and contributions of \$376,865 for June 30, 2015, \$634,568 for June 30, 2014, and \$31,376 for June 30, 2013.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating Revenue:			
Net patient service revenue	\$ 18,917,866	18,977,944	18,163,170
Provision for bad debt	(757,803)	(818,927)	(698,815)
Other operating revenue	1,065,351	1,261,530	561,160
Total operating revenue	<u>19,225,414</u>	<u>19,420,547</u>	<u>18,025,515</u>
Operating Expenses:			
Salaries and benefits	9,789,633	9,592,503	9,949,038
Purchased services and other	6,375,538	6,413,310	5,295,831
Depreciation and amortization	2,294,701	2,355,186	2,299,641
Total operating expenses	<u>18,459,872</u>	<u>18,360,999</u>	<u>17,544,510</u>
Operating income	<u>765,542</u>	<u>1,059,548</u>	<u>481,005</u>
Nonoperating Revenue and Expenses:			
County subsidy	163,000	163,000	163,000
Investment income	52,188	42,536	43,866
Interest expense	(603,856)	(630,516)	(656,495)
Total nonoperating revenue (expenses), net	<u>(388,677)</u>	<u>(424,980)</u>	<u>(449,629)</u>
Excess of revenue over expenses before capital grants and contributions	<u>376,865</u>	<u>634,568</u>	<u>31,376</u>
Capital grants and contributions	<u>292,025</u>	<u>760,308</u>	<u>371,981</u>
Increase in net position	<u>\$ 668,890</u>	<u>1,394,876</u>	<u>403,357</u>

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Operating Income

The first component of the overall change in the Hospital's net position is its operating income - the difference between net patient service revenue and the expenses incurred to perform those services. For the year ending June 30, 2013, the Hospital reported operating income of \$481,005; for the year ending June 30, 2014, the Hospital reported operating income of \$1,059,548; and for the year ending June 30, 2015, the Hospital reported an operating income of \$765,542.

Year Ending June 30, 2014 to June 30, 2015:

The primary components of the operating income of \$765,542 are:

- Inpatient and swing bed revenue increased \$68,875, 4.8% from June 30, 2014 to June 30, 2015 due to an increase in patient days and change in the mix of days. Acute days increased 9.3% while Skilled days increased 6.7% between the years. The Acute and Skilled days were positively impacted by 24 total knee surgeries, 12 total hip surgeries, and 2 total shoulder surgeries.
- Outpatient revenue increased \$2,311,187, 10.9% from 2014 to 2015. This increase is primarily due to:
 - Emergency Room visits increased from 3,631 visits to 4,116, an increase of 485 visits, 13.4%.
 - Operating room revenue increased 5.6% from 2014 to 2015.
 - Lab billable tests increased 5.5% from 2014 to 2015 but GCMH reviewed charges causing a decrease in revenue of 11%.
 - MRI revenue increased \$289,656, 39% from 2014 to 2015.
 - Pharmacy revenue increased \$511,738, 35.7% from 2014 to 2015.
 - Wound Clinic visits increased from 291 visits to 762, an increase of 471 visits, 161.9%.
 - Sleep Lab visits increased from 90 visits to 118, 31.1%.
- Long Term Care revenue increased \$188,975, 6.1%. This increase reflects days increasing 1.8% and an increase in rates effective July 1, 2014.
- GCMH has experienced a decrease in provision for bad debt of \$61,124, 7.5% and a decrease in charity care of \$221,241.
- Other Operating Revenue decreased \$196,179 from June 30, 2014 to June 30, 2015 due to GCMH receiving electronic health record incentive payment in 2014.
- Increases in salary and benefit costs for the Hospital's Associates of \$190,392, 2.5%. FTEs increased from 143.59 for 2014 to 144.25 for 2015, an increase of 0.5%
- Decreases in supplies and other expenses of \$151,224, 4.6%. This decrease is a result of decreased cost for total joint implants due to GCMH being able to get UnityPoint corporate pricing along with the monitoring of expenses.

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

The primary components of the operating income of \$1,059,548 are:

- Inpatient and swing bed revenue decreased \$102,704, 5.6% 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.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

- 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 increased 1.1% from 2013 to 2014.
 - 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 \$215,368, 2.7%. 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 \$60,058, .7%. This increase is a result of the start of the 340B drug pricing program offset by the monitoring of expenses.

Nonoperating Revenue and Expenses

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

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2015, the Hospital had \$15,534,344 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. For the year ending June 30, 2015, the Hospital purchased capital assets costing \$1,231,519. Capital asset additions for the year ending June 30, 2014 were \$1,024,675, and for the year ending June 30, 2013 were \$1,761,408.

Capital asset additions for 2015 relates to the purchase of CT and CT injector, x-ray room plate system, shelving systems for several departments, blade system server, server storage, beds, mattresses, chiller compressors, repair of a humidity issue, instruments for Surgery, and access control system.

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.

Grundy County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

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.

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.

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,216,396	6,438,154
Assets limited as to use or restricted, current portion	115,530	114,434
Receivables -		
Patient and resident, net of allowance for doubtful accounts of \$465,950 in 2015 and \$540,712 in 2014	2,150,789	2,051,501
Succeeding year County subsidy	263,000	263,000
Other receivables	95,254	101,641
Inventories	281,091	251,749
Prepaid expenses	268,861	286,914
	<u>11,390,921</u>	<u>9,507,393</u>
Assets limited as to use or restricted - less amounts required for current obligations	2,311,773	2,149,183
Capital assets, net	<u>15,534,344</u>	<u>16,589,846</u>
Total assets	<u><u>29,237,038</u></u>	<u><u>28,246,422</u></u>
LIABILITIES		
Current liabilities:		
Current maturities of long-term debt	690,104	686,250
Accounts payable -		
Trade	688,534	791,659
Capital related	14,253	12,221
Accrued expenses -		
Accrued salaries, wages and vacation payable	783,508	715,237
Payroll taxes	40,450	38,624
Interest	48,212	50,514
Estimated third-party payor settlements	1,479,882	446,630
	<u>3,744,943</u>	<u>2,741,135</u>
Long-term debt, net of unamortized discount and current maturities	<u>12,229,893</u>	<u>12,911,975</u>
Total liabilities	<u>15,974,836</u>	<u>15,653,110</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable County subsidy revenue	<u>263,000</u>	<u>263,000</u>
NET POSITION		
Net investment in capital assets	2,614,347	2,991,621
Restricted for debt service	115,530	114,434
Unrestricted	<u>10,269,325</u>	<u>9,224,257</u>
Total net position	<u>12,999,202</u>	<u>12,330,312</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 29,237,038</u>	<u>28,246,422</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUE:		
Net patient and resident service revenue before provision for bad debt	\$ 18,917,866	18,977,944
Provision for bad debts	<u>(757,803)</u>	<u>(818,927)</u>
Net patient and resident service revenue	18,160,063	18,159,017
Other operating revenue	<u>1,065,351</u>	<u>1,261,530</u>
Total operating revenue	<u>19,225,414</u>	<u>19,420,547</u>
OPERATING EXPENSES:		
Salaries	7,948,465	7,758,073
Employee benefits	1,841,168	1,834,430
Purchased services and professional fees	2,786,031	2,682,898
Utilities	359,489	359,868
Supplies and other expenses	3,123,510	3,274,734
Depreciation and amortization	2,294,701	2,355,186
Insurance	<u>106,508</u>	<u>95,810</u>
Total operating expenses	<u>18,459,872</u>	<u>18,360,999</u>
OPERATING INCOME	<u>765,542</u>	<u>1,059,548</u>
NONOPERATING REVENUE (EXPENSES), NET:		
Investment income	52,188	42,536
Interest expense	(603,865)	(630,516)
County subsidy	<u>163,000</u>	<u>163,000</u>
Nonoperating expenses, net	<u>(388,677)</u>	<u>(424,980)</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	376,865	634,568
CAPITAL GRANTS AND CONTRIBUTIONS	<u>292,025</u>	<u>760,308</u>
INCREASE IN NET POSITION	668,890	1,394,876
NET POSITION, Beginning of year	<u>12,330,312</u>	<u>10,935,436</u>
NET POSITION, End of year	<u>\$ 12,999,202</u>	<u>12,330,312</u>

See notes to financial statements

Grundy County Memorial Hospital

Statements of Cash Flows For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 19,094,027	17,503,210
Cash paid for employee salaries and benefits	(9,719,536)	(9,501,367)
Cash paid to suppliers and contractors	(6,489,952)	(5,982,566)
Other receipts and payments, net	<u>1,072,080</u>	<u>1,416,685</u>
Net cash provided by operating activities	<u>3,956,619</u>	<u>3,435,962</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	(1,229,487)	(1,720,602)
County subsidy received for capital acquisitions	100,000	100,000
Capital grants and contributions	192,025	660,308
Payments on long term debt	(686,250)	(661,250)
Interest paid on debt	<u>(606,167)</u>	<u>(632,730)</u>
Net cash used in capital and related financing activities	<u>(2,229,879)</u>	<u>(2,254,274)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to assets limited as to use, net	(163,686)	(353,787)
Investment income, net	<u>52,188</u>	<u>42,536</u>
Net cash used in investing activities	<u>(111,498)</u>	<u>(311,251)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,778,242	1,033,437
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,438,154</u>	<u>5,404,717</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 8,216,396</u>	<u>6,438,154</u>

See notes to financial statements

Grundy County Memorial Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	\$ 765,542	1,059,548
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,294,701	2,355,186
Loss on disposal of capital assets	342	30,678
(Increase) decrease in current assets -		
Receivables -		
Patients	(99,288)	(94,592)
Other	6,387	124,477
Inventories	(29,342)	(33,315)
Prepaid expenses	18,053	(2,068)
Increase (decrease) in current liabilities -		
Accounts payable	(103,125)	466,127
Accrued salaries, wages and vacation payable	68,271	89,393
Payroll taxes	1,826	1,743
Estimated third-party payor settlements - Medicare and Medicaid	1,033,252	(380,854)
Advances from patients	--	(180,361)
Net cash provided by operating activities	<u>\$ 3,956,619</u>	<u>3,435,962</u>

See notes to financial statements

Grundy County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(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. Several provisions have been implemented while other provisions are 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 June 30, 2015 and 2014

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 June 30, 2015 and 2014

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, 2015 and 2014.

M. Deferred Inflows of Resources

Deferred inflows of resources in the statements of net position consist of unavailable county subsidy 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 June 30, 2015 and 2014

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. Subsequent Events

The Health Center considered events occurring through September 21, 2015 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

Grundy County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(2) Deposits and Investments

The Hospital's deposits in banks at June 30, 2015 and 2014 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, 2015 and 2014.

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, 2015 and 2014 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 June 30, 2015 and 2014

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

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

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Gross patient and resident service revenue:		
Hospital -		
Inpatient	\$ 2,420,028	2,953,178
Outpatient	23,534,700	21,223,511
Swingbed	2,125,179	1,868,623
Nursing Home	<u>3,296,208</u>	<u>3,107,233</u>
	31,376,115	29,152,545
Contractual adjustments:		
Medicare	(5,764,578)	(4,649,486)
Medicaid	(1,607,450)	(797,611)
Other	(5,011,948)	(4,504,966)
Charity care services	<u>(74,273)</u>	<u>(222,538)</u>
Total contractual adjustments	<u>(12,458,249)</u>	<u>(10,174,601)</u>
Net patient and resident service revenue before provision for bad debts	<u>\$ 18,917,866</u>	<u>18,977,944</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 39% and 15%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2015, and 41% and 10%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2014. 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 2015 net patient service revenue decreased approximately \$123,000 and the 2014 net patient service revenue increased approximately \$179,000, due to removal of allowances that are no longer necessary as a result of final settlements and years that are no longer subject or audits, reviews or investigations.

Grundy County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(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, 2015 and 2014, are summarized as follows:

	<u>2015</u>	<u>2014</u>
Money market accounts	\$ 871,052	867,575
Certificates of deposit	<u>1,440,721</u>	<u>1,281,608</u>
	<u>\$ 2,311,773</u>	<u>2,149,183</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, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Sinking Fund, cash and money market accounts	\$ 115,530	114,434
Less amounts required for current obligations	<u>(115,530)</u>	<u>(114,434)</u>
	<u>\$ --</u>	<u>--</u>

(5) Composition of Patient Receivables

Patient and resident receivables as of June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Patient and resident accounts	\$ 3,757,790	3,426,661
Less allowance for doubtful accounts	(465,950)	(540,712)
Less estimated third-party contractual adjustments	<u>(1,141,051)</u>	<u>(834,448)</u>
	<u>\$ 2,150,789</u>	<u>2,051,501</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>2015</u>	<u>2014</u>
Medicare	37%	38%
Medicaid	8	6
Commercial insurance	36	34
Patients and residents	<u>19</u>	<u>22</u>
	<u>100%</u>	<u>100%</u>

Grundy County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(6) Capital Assets

Capital assets and the related accumulated depreciation for the years ending June 30, 2015 and 2014 is summarized as follows:

	June 30, 2014	Additions	Transfers and Disposals	June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 378,351	--	--	378,351
Construction in progress	342,615	36,535	--	379,150
Total capital assets, not being depreciated	<u>720,966</u>	<u>36,535</u>	<u>--</u>	<u>757,501</u>
Capital assets, being depreciated:				
Land improvements	183,979	14,191	(12,045)	186,125
Buildings	19,921,443	206,398	(1,774)	20,126,067
Major moveable equipment, including equipment under capital lease	10,405,284	974,395	(626,044)	10,753,635
Vehicles	75,085	--	--	75,085
Total capital assets, being depreciated	<u>30,585,791</u>	<u>1,194,984</u>	<u>(639,863)</u>	<u>31,140,912</u>
Less accumulated depreciation:				
Land improvements	158,247	10,629	(12,045)	156,831
Buildings	8,816,096	1,097,723	(1,774)	9,912,045
Major moveable equipment, including equipment under capital lease	5,714,411	1,159,556	(625,702)	6,248,265
Vehicles	28,157	18,771	--	46,928
Total accumulated depreciation	<u>14,716,911</u>	<u>2,286,679</u>	<u>(639,521)</u>	<u>16,364,069</u>
Total capital assets, being depreciated, net	<u>15,868,880</u>	<u>(1,091,695)</u>	<u>(342)</u>	<u>14,776,843</u>
Total capital assets, net	<u>\$ 16,589,846</u>	<u>(1,055,160)</u>	<u>(342)</u>	<u>15,534,344</u>

	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>

Grundy County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(7) Long-Term Debt

Long-term debt activity of the Hospital as of and for the years ending June 30, 2015 and 2014 consisted of the following:

	June 30, 2014	Borrowings	Payments / Amortization	June 30, 2015	Due Within One Year
Notes Payable (A)	\$ 51,354	--	(36,250)	15,104	15,104
Urban Renewal Capital Loan Notes (B)	13,620,000	--	(650,000)	12,970,000	675,000
Discount on Urban Renewal Capital Loan Notes (B)	<u>(73,129)</u>	--	<u>8,022</u>	<u>(65,107)</u>	<u>--</u>
Net	<u>\$ 13,598,225</u>	<u>--</u>	<u>(678,228)</u>	<u>12,919,997</u>	<u>690,104</u>

	June 30, 2013	Borrowings	Payments / Amortization	June 30, 2014	Due Within One Year
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>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>

- (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 June 30, 2015 and 2014

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2020	800,000	456,568	1,256,568
2021-2025	4,630,000	1,732,682	6,362,682
2026-2029	4,670,000	563,486	5,233,486
	<u>\$ 12,985,104</u>	<u>4,890,319</u>	<u>17,875,423</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, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
340B drug pricing program	\$ 703,115	446,536
Electronic health records incentive payment	154,440	553,528
Cafeteria and vending	80,836	86,730
Clinic rent and other	61,355	63,247
Grants	26,314	83,066
Medical records transcriptions	3,320	2,549
Loss on disposal of capital assets	(342)	(30,678)
Miscellaneous	36,313	503,088
	<u>\$ 362,236</u>	<u>1,261,530</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 June 30, 2015 and 2014

During 2014 the Hospital qualified for Medicare incentive payments by attesting it met specific criteria set by CMS. The Hospital elected to record \$154,440 and \$553,528 for the years ending June 30, 2015 and 2014, respectively, 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, 2015 and 2014 was \$341,892 and \$311,231, 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 to Allen Hospital as of June 30, 2015 and 2014 of \$162,018 and \$366,160, 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, 2015 and 2014 for all operating leases was \$284,688 and \$255,228, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2015 that have initial or remaining lease terms in excess of one year:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 288,770
2017	251,936
2018	225,626
2019	225,626
2020	175,862
2021	175,862

(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, 2015 and 2014 were \$889,584 and \$939,967, 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 June 30, 2015 and 2014

(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 as a component unit of the Hospital.

A summary of the Foundation's assets, liabilities and net position as of June 30, 2015 and 2014 follows:

	<u>(Unaudited)</u>	
	<u>2015</u>	<u>2014</u>
Assets	\$ <u>1,108,523</u>	<u>1,015,095</u>
Net assets	\$ <u>1,108,523</u>	<u>1,015,095</u>

The Hospital received \$172,025 and \$207,816 from the Foundation during the years ended June 30, 2015 and 2014, respectively, for the purchase of property and equipment related to the Hospital's Facility Modernization Project. As of June 30, 2015, the Foundation has approximately \$8,000 of pledges receivable related to Phase II of the Hospital's Facility Modernization Project.

Grundy County Memorial Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position Budget and Actual (Cash Basis) Required Supplementary Information June 30, 2015 and 2014

	<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	19,469,627	940,693	20,410,320	21,782,000	(1,371,680)
	<u>19,732,627</u>	<u>940,693</u>	<u>20,673,320</u>	<u>22,045,000</u>	<u>(1,371,680)</u>
Expenses / Disbursements	<u>19,063,737</u>	<u>(332,345)</u>	<u>18,731,392</u>	<u>24,654,325</u>	<u>5,922,933</u>
Net	668,890	1,273,038	1,941,928	(2,609,325)	\$ <u><u>4,551,253</u></u>
Balance beginning of year	<u>12,330,312</u>	<u>(3,628,541)</u>	<u>8,701,771</u>	<u>8,701,771</u>	
Balance end of year	\$ <u><u>12,999,202</u></u>	<u><u>(2,355,503)</u></u>	<u><u>10,643,699</u></u>	<u><u>6,092,446</u></u>	

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

The Board of Commissioners annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Commissioners certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2015, the Hospital's expenditures did not exceed the amount budgeted.

**Schedules of Net Patient and Resident Service Revenue
For the Years Ended June 30, 2015 and 2014**

	2015				2014			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Long term care	\$ 3,296,208	--	--	3,296,208	3,107,233	--	--	3,107,233
Swing bed	--	--	977,136	977,136	--	--	861,747	861,747
Adult and pediatric	522,645	189,876	--	712,521	569,159	156,720	--	725,879
Observation	--	104,276	--	104,276	--	140,585	--	140,585
Hospitality	12,120	--	--	12,120	4,242	--	--	4,242
	<u>3,830,973</u>	<u>294,152</u>	<u>977,136</u>	<u>5,102,261</u>	<u>3,680,634</u>	<u>297,305</u>	<u>861,747</u>	<u>4,839,686</u>
OTHER PROFESSIONAL SERVICES:								
Emergency and outpatient service	10,970	6,187,744	--	6,198,714	13,444	5,189,946	1,030	5,204,420
Radiology	71,330	4,314,535	18,957	4,404,822	58,503	4,253,662	20,344	4,332,509
Operating and recovery rooms	664,166	2,561,535	--	3,225,701	1,119,658	2,426,575	--	3,546,233
Laboratory	103,985	2,641,116	127,057	2,872,158	116,488	2,981,056	123,634	3,221,178
Pharmacy	365,341	1,945,067	502,750	2,813,158	308,526	1,433,329	391,871	2,133,726
Physical therapy	56,565	1,371,718	247,882	1,676,165	69,220	1,256,172	219,629	1,545,021
Anesthesiology	158,506	1,068,205	--	1,226,711	188,181	1,022,313	--	1,210,494
Mobile services	6,777	1,031,618	88	1,038,483	--	741,962	--	741,962
GCMH clinic	281,746	299,503	--	581,249	324,552	273,148	--	597,700
Wound clinic	4,429	494,942	1,822	501,193	280	119,121	25	119,426
Cardiac rehab	66	407,585	66	407,717	--	425,993	--	425,993
Sleep lab	--	383,655	--	383,655	--	282,227	--	282,227
Occupational therapy	38,925	151,265	148,238	338,428	37,229	193,850	126,462	357,541
Electrocardiology	5,380	286,467	5,918	297,765	3,175	224,116	2,646	229,937
Respiratory therapy	117,077	29,362	89,089	235,528	139,401	61,482	111,736	312,619
Speech therapy	--	24,693	6,176	30,869	1,120	18,899	9,499	29,518
Diabetic education	--	25,796	--	25,796	--	15,190	--	15,190
Nuclear medicine	--	9,568	--	9,568	--	--	--	--
Nutrition education	--	6,136	--	6,136	--	7,164	--	7,164
Central services and supply	--	38	--	38	--	1	--	1
	<u>1,885,263</u>	<u>23,240,548</u>	<u>1,148,043</u>	<u>26,273,854</u>	<u>2,379,777</u>	<u>20,926,206</u>	<u>1,006,876</u>	<u>24,312,859</u>
GROSS PATIENT AND RESIDENT SERVICE REVENUE	\$ <u>5,716,236</u>	<u>23,534,700</u>	<u>2,125,179</u>	<u>31,376,115</u>	<u>6,060,411</u>	<u>21,223,511</u>	<u>1,868,623</u>	<u>29,152,545</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(12,383,976)				(9,952,063)
Provision for bad debts				(757,803)				(818,927)
Charity care services and other discounts, based on charges forgone				(74,273)				(222,538)
NET PATIENT AND RESIDENT SERVICE REVENUE				\$ <u>18,160,063</u>				\$ <u>18,159,017</u>

**Other Operating Revenue
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
340B drug pricing program	\$ 703,115	446,536
Electronic health records incentive payment	154,440	553,528
Cafeteria and vending	80,836	86,730
Clinic rent and other	61,355	63,247
Grants	26,314	83,066
Medical records transcriptions	3,320	2,549
Loss on disposal of capital assets	(342)	(30,678)
Miscellaneous	<u>36,313</u>	<u>503,088</u>
	<u>\$ 362,236</u>	<u>1,261,530</u>

**Departmental Expenses
For the Years Ended June 30, 2015 and 2014**

	2015				2014			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Long term care	\$ 1,415,506	52,129	109,566	1,577,201	1,408,433	11,403	80,776	1,500,612
Adult and pediatric	737,101	245,083	59,486	1,041,670	738,661	192,835	46,899	978,395
Swing bed	--	--	4,052	4,052	--	--	3,695	3,695
	<u>2,152,607</u>	<u>297,212</u>	<u>173,104</u>	<u>2,622,923</u>	<u>2,147,094</u>	<u>204,238</u>	<u>131,370</u>	<u>2,482,702</u>
OTHER PROFESSIONAL SERVICES:								
Emergency room	953,432	511,880	55,583	1,520,895	931,146	515,017	61,660	1,507,823
Pharmacy	157,517	451,874	767,954	1,377,345	88,306	386,193	515,879	990,378
Operating and recovery room	339,507	165,233	521,706	1,026,446	350,974	125,079	853,212	1,329,265
Physical therapy	525,563	520	190,419	716,502	491,621	910	190,520	683,051
Radiology	319,147	195,330	127,851	642,328	308,691	146,131	161,373	616,195
Laboratory	279,351	116,139	216,920	612,410	267,270	98,568	234,583	600,421
Anesthesiology	196,388	10,909	9,979	217,276	171,539	13,302	8,879	193,720
GCMH clinic	23,559	169,613	332	193,504	35,090	175,547	529	211,166
Cardiac rehab	108,085	8,486	6,117	122,688	93,482	8,172	4,375	106,029
Medical records	44,012	24,360	15,912	84,284	47,456	21,007	15,498	83,961
Wound clinic	63,153	--	19,242	82,395	14,892	--	5,401	20,293
Central services and supply	67,332	7,577	473	75,382	62,982	6,980	12,846	82,808
Sleep lab	18,942	20,980	4,981	44,903	10,308	32,582	6,946	49,836
Specialty clinic	31,411	--	4,424	35,835	40,755	--	1,049	41,804
Social services	31,627	--	101	31,728	38,758	--	340	39,098
Senior Life	17,260	--	8,980	26,240	13,841	--	10,082	23,923
Respiratory therapy	--	--	22,540	22,540	--	--	22,640	22,640
Speech therapy	--	21,281	--	21,281	--	17,459	--	17,459
Electrocardiology	--	14,676	3,000	17,676	--	12,408	1,763	14,171
Diabetic education	6,660	--	1,373	8,033	3,792	--	1,053	4,845
Nuclear medicine	--	1,148	--	1,148	--	--	--	--
	<u>3,182,946</u>	<u>1,720,006</u>	<u>1,977,887</u>	<u>6,880,839</u>	<u>2,970,903</u>	<u>1,559,355</u>	<u>2,108,628</u>	<u>6,638,886</u>
GENERAL SERVICES:								
Plant operation and maintenance	239,941	109,725	440,421	790,087	245,331	103,917	459,744	808,992
Dietary	459,369	--	255,609	714,978	470,221	--	251,333	721,554
Housekeeping	202,721	12,946	38,836	254,503	196,423	12,803	35,989	245,215
Laundry and linen	39,833	119,725	5,552	165,110	39,101	118,981	19,408	177,490
	<u>941,864</u>	<u>242,396</u>	<u>740,418</u>	<u>1,924,678</u>	<u>951,076</u>	<u>235,701</u>	<u>766,474</u>	<u>1,953,251</u>
ADMINISTRATIVE SERVICES	<u>1,671,048</u>	<u>526,417</u>	<u>591,590</u>	<u>2,789,055</u>	<u>1,689,000</u>	<u>683,604</u>	<u>628,130</u>	<u>3,000,734</u>
NONDEPARTMENTAL								
Employee benefits	--	--	1,841,168	1,841,168	--	--	1,834,430	1,834,430
Depreciation and amortization	--	--	2,294,701	2,294,701	--	--	2,355,186	2,355,186
Insurance	--	--	106,508	106,508	--	--	95,810	95,810
	<u>--</u>	<u>--</u>	<u>4,242,377</u>	<u>4,242,377</u>	<u>--</u>	<u>--</u>	<u>4,285,426</u>	<u>4,285,426</u>
\$	<u><u>7,948,465</u></u>	<u><u>2,786,031</u></u>	<u><u>7,725,376</u></u>	<u><u>18,459,872</u></u>	<u><u>7,758,073</u></u>	<u><u>2,682,898</u></u>	<u><u>7,920,028</u></u>	<u><u>18,360,999</u></u>

**Patient and Resident Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2015 and 2014**

ANALYSIS OF AGING:

Days Since Discharge	2015		2014	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,535,953	67.49 %	2,098,758	61.25 %
31 - 60	423,347	11.27	460,828	13.45
61 - 90	200,716	5.34	258,370	7.54
91 - 120	127,147	3.38	101,823	2.97
120 - 180	169,181	4.50	183,597	5.36
> 180	301,446	8.02	323,285	9.43
	<u>3,757,790</u>	100.00 %	<u>3,426,661</u>	100.00 %
Less:				
Allowance for doubtful accounts	(465,950)		(540,712)	
Allowance for contractual adjustments	<u>(1,141,051)</u>		<u>(834,448)</u>	
	<u>\$ 2,150,789</u>		<u>\$ 2,051,501</u>	

	2014	2013
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	36.57 days	41.23 days

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 540,712	381,516
Provision of uncollectible accounts	757,803	818,927
Recoveries of accounts previously written off	176,422	115,369
Accounts written off	<u>(1,008,987)</u>	<u>(775,100)</u>
Balance, end of year	<u>\$ 465,950</u>	<u>540,712</u>

**Inventories / Prepaid Expenses
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
INVENTORY:		
Pharmacy	\$ 160,956	145,936
Laboratory	50,670	37,839
Central supply	37,936	37,164
Operating room	19,934	19,870
Dietary	10,047	9,307
Radiology	<u>1,548</u>	<u>1,633</u>
	<u>\$ 281,091</u>	<u>251,749</u>
PREPAID EXPENSES:		
Maintenance contracts	\$ 242,510	262,606
Insurance	<u>26,351</u>	<u>24,308</u>
	<u>\$ 268,861</u>	<u>286,914</u>

**Insurance Coverage
For the Years Ended June 30, 2015 and 2014**

Company	Property Covered	Limits	Policy Term
MMIC Policy #IHP000105	General Liability (occurrence policy) 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	12/15/14 - 15
MMIC Policy #IHP000105	Hospital Professional Liability (claims made) Per Professional Health Care Incident Aggregate Retroactive Date: 01/01/2000	\$1,000,000 \$3,000,000	12/15/14 - 15
MMIC Policy #IHP000105	Certificate Holder Professional Liability (Claims Made) <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	\$1,000,000 \$3,000,000	12/15/14 - 15
	Administrative Proceedings Defense Each Claim Annual Aggregate Retroactive Date: 10/24/2003	\$25,000 \$100,000	
MMIC Policy #IHP000105	Commercial Umbrella (occurrence policy) General Aggregate (other than Prod/Compl Ops) Products / Completed Operations Aggregate Each Occurrence Retained Limit - Only if no underlying coverage	\$4,000,000 \$4,000,000 \$4,000,000 \$10,000	12/15/14 - 15
MMIC Policy #IHP000105	Underlying Schedule General Liability, including Professional Automobile Liability	\$1,000,000	12/15/14 - 15
MMIC Policy #IHP000105	Medical Professional Excess (Claims Made) Each Professional Health Care Incident Annual Aggregate Retroactive Date 01/01/2000	\$4,000,000 \$4,000,000	12/15/14 - 15
Independent Insurance Services (Cyber Security) Policy #479881	Cyber Insurance Policy per claim Multimedia Liability Security & Privacy Liability Privacy Reg. Defence & Penalties Network Asset Protection Cyber Extortion Cyber Terrorism Crisis Mgmt. Exp & Breach Resp. Customer Notification Expenses & Customer Support	\$3,000,000 \$3,000,000 \$1,000,000 \$1,000,000 \$3,000,000 \$3,000,000 \$250,000 \$250,000	7/9/15- 16
	Maximum Policy Aggregate Limit of Liability	\$3,000,000	
	<u>Underlying Schedule</u> Hospital Professional Liability Certificate Holder Professional Liability Policy Employee Benefits Liability General Liability		
** SLOT - Emergency Medicine - No Major Surgery		\$1,000,000	

**Financial Statistical Highlights
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Patient and Resident Days:		
Hospital -		
Adult and pediatric -		
Medicare	192	233
All other	90	108
Swing bed - skilled	1,207	1,131
Hospitality	<u>40</u>	<u>14</u>
	<u>1,529</u>	<u>1,486</u>
 Nursing Home	 <u>19,443</u>	 <u>19,094</u>
 Discharges:		
Hospital adult and pediatric -		
Medicare	81	91
All other	<u>33</u>	<u>30</u>
	<u>114</u>	<u>121</u>
 Average length of stay:		
Hospital adult and pediatric -		
Medicare	2.37 days	2.56 days
All other	2.72 days	3.60 days
 Observation equivalent days	 88	 129
 Surgical procedures	 748	 723
 Emergency Room visits	 4,116	 3,631
 Full-time equivalents personnel	 144.25	 143.59

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, 2015 and 2014 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 21, 2015.

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, 2015 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 21, 2015.

Grundy County Memorial Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2015

Part I. Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

- III-A-15 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, 2015.
- III-B-15 Certified Budget: Hospital disbursements during the year ended June 30, 2015 did not exceed budgeted amounts.
- III-C-15 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-15 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-15 Business Transactions: There were no business transactions between the Hospital officials and/or employees appear to be a voidable conflict of interest pursuant to Chapter 347.9A(2)(a) of the Code of Iowa.:
- III-F-15 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-H-15 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, 2015**

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Darren R. Osten, FHFMA, CPA, Partner

Greg W. Fonda, CPA, Staff Auditor

Jordan C. Jewell, Staff Auditor