Greater Regional Medical Center
Creston, Iowa

FINANCIAL REPORT

June 30, 2012

C O N T E N T S

Greater Regional Medical Center
OFFICIALS
June 30, 2012

BOARD OF TRUSTEES

	Expiration of term
Officers	
Dave Driskell, Chair	December 31, 2012
Jack Davis, Vice Chair	December 31, 2012
Sherry McKie, Secretary	December 31, 2014
Tom Dunphy, Treasurer	December 31, 2016
Members	
Carolyn Dillenburg	December 31, 2014
Tom Lesan	December 31, 2016
Dennis Nelson	December 31, 2012

CHIEF EXECUTIVE OFFICER

Monte Neitzel

CHIEF FINANCIAL OFFICER

Matt McCutchan

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Greater Regional Medical Center
Creston, Iowa

We have audited the accompanying balance sheets of Greater Regional Medical Center, and its component unit, Greater Regional Healthcare Foundation, as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's and Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Regional Medical Center as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 on our consideration of Greater Regional Medical Center'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* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5-10 and schedule of funding progress for the retiree health plan on page 28 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 15, 2012

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Greater Regional Medical Center
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Greater Regional Medical Center, we offer readers of the financial statements this narrative overview and analysis of the Medical Center's financial performance during the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Medical Center's financial statements, which follow this section.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis, the independent auditor's reports, the basic financial statements of the Medical Center, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Medical Center report information of the Medical Center using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the Medical Center's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Medical Center's creditors, liabilities. It also provides the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Medical Center operations over the past year and can be used to determine whether the Medical Center has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights

- Total assets increased by $6,366,632, or 11%, to $63,882,832
- Total noncurrent assets whose use is limited decreased by $5,425,604 to $1,235,348
- Total property and equipment increased by $8,359,643 to $42,887,890
- Total fund equity increased by $3,991,965 to $39,370,052
- Total long-term debt increased by $657,455 to $18,444,902
- Net patient service revenue decreased by $1,094,836, or 3%, to $35,602,381
- Expenses increased by $956,183, or 3%, to $38,607,571

Financial Analysis of the Medical Center

The balance sheets and the statements of revenues, expenses, and changes in fund equity report the fund equity of the Medical Center and the changes in them. The Medical Center's fund equity, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, sustained increases or decreases in the Medical Center's fund equity are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

A summary of the Medical Center's balance sheets is presented in Table 1.

Table 1
Condensed Balance Sheets

	June 30		
	2012	**2011**	**2010**
Current assets	$18,344,362	$15,006,033	$13,210,745
Noncurrent assets whose use is limited	1,235,348	6,660,952	5,310,739
Property and equipment	42,887,890	34,528,247	28,521,613
Other assets	1,415,232	1,320,968	1,221,925
Total assets	$63,882,832	$57,516,200	$48,265,022
Current liabilities	$ 5,862,430	$ 3,964,710	$ 3,965,890
Long-term debt, less current maturities	17,477,450	17,024,903	9,252,790
Other noncurrent liabilities	1,172,900	1,148,500	1,113,800
Total liabilities	$24,512,780	$22,138,113	$14,332,480
Invested in capital assets, net of related debt	$22,635,686	$16,740,800	$18,603,685
Restricted	1,097,190	625,926	621,093
Unrestricted	15,637,176	18,011,361	14,707,764
Total fund equity	$39,370,052	$35,378,087	$33,932,542

As depicted in Table 1, total assets increased in fiscal year 2012 to $63,882,832. The change in total assets is primarily a result of the further issuance of debt to fund the costs of a project to renovate and upgrade portions of the Medical Center and the capitalized costs associated with repairs to building and equipment after the Medical Center was damaged by a tornado in April, 2012.

A summary of the Medical Center's historical statements of revenues, expenses, and changes in fund equity is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Fund Equity

	Year ended June 30		
	2012	**2011**	**2010**
Net patient service revenue	$35,602,381	$36,697,217	$34,384,869
Other revenue	3,462,225	1,529,553	1,430,491
Total revenue	39,064,606	38,226,770	35,815,360
Salaries	16,418,598	15,902,844	13,696,452
Supplies and expenses	19,115,556	19,055,358	17,488,513
Provision for depreciation	3,073,417	2,693,186	2,645,438
Total expenses	38,607,571	37,651,388	33,830,403
Operating income	457,035	575,382	1,984,957
County taxes	1,152,000	1,153,546	1,142,643
Investment income	117,081	169,445	171,748
Interest and amortization expense	(444,558)	(523,181)	(518,123)
Unrestricted contributions	4,892	77,685	161,054
Loss on disposal of assets	(8,137)	(7,332)	–
Total nonoperating gains	821,278	870,163	957,322
Excess of revenues over expenses before other changes in fund equity	1,278,313	1,445,545	2,942,279
Restricted contributions	19,565	–	–
Insurance proceeds in excess of casualty loss	2,694,087	–	–
Change in fund equity	3,991,965	1,445,545	2,942,279
Total fund equity, beginning	35,378,087	33,932,542	30,990,263
Total fund equity, ending	$39,370,052	$35,378,087	$33,932,542

Operating and Financial Performance

The following summarizes the Medical Center's statements of revenues, expenses and changes in fund equity between June 30, 2012 and 2011.

Net Patient Service Revenue: Net patient service revenue is a product of volume, price increases and payor mix.

Volume: Medical, surgical and obstetrical discharges for fiscal year 2012 were 663 compared to 809 in fiscal year 2011. Average length of stay decreased as medical, surgical and obstetrical patient days decreased to 1,991 from 2,489 in 2011. Swing bed discharges for fiscal year 2012 were 63 compared to 80 in fiscal year 2011. Average length of stay decreased as swing bed patient days decreased to 588 from 767 in 2011. Volume on the outpatient side increased in 2012. In 2012, gross outpatient charges increased to $49,376,111 compared to $47,765,793 in 2011.

Price Increase: As is customary annually, the Medical Center did review its charge structure and incorporated certain price increases in 2012. Overall, gross patient service revenue decreased to $56,179,104 from $56,213,432 in 2011. Central services and supply and pharmacy and intravenous therapy reflected the most significant increases in 2012, while laboratory and blood service and Creston Medical Clinic reflected the most significant decreases in 2012.

Payor Mix: The Medical Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts increased to $20,576,723 in 2012 from $19,516,215 in 2011. This represents 37% and 35% of gross patient charges for 2012 and 2011, respectively.

A summary of the percentages of gross charges for patient services by payor is presented in Table 3.

Table 3
Payor Mix by Percentage

	Year ended June 30		
	2012	**2011**	**2010**
Medicare	43%	44%	43%
Medicaid	11	11	9
Commercial insurance	42	41	43
Patients	4	4	5
Totals	100%	100%	100%

Other Revenue

Other revenue increased to $3,462,225 in 2012 compared to $1,529,553 in 2011 due to business interruption insurance income received in 2012.

Expenses

Approximately 43% of the Medical Center's expenses are for salaries. Total salaries increased by 3% to $16,418,598 in 2012 from $15,902,844 in 2011. The Medical Center departments experiencing the most significant increase in 2012 included emergency room, Orthopaedic clinic and business office.

Approximately 49% of the Medical Center's expenses are for supplies and expenses. Total supplies and expenses increased by .3% to $19,115,556 in 2012 from $19,055,358 in 2011. The Medical Center departments experiencing the most significant increases in 2012 included operating and recovery rooms and pharmacy while group health and life insurance experienced a significant decrease.

Approximately 8% of the Medical Center's expenses relate to provision for depreciation. The provision for depreciation increased to $3,073,417 in 2012 from $2,693,186 in 2011.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased to $821,278 in 2012 from $870,163 in 2011, primarily due to decreased investment income and contributions.

Other Changes in Fund Equity

During April, 2012, the Medical Center was damaged by a tornado. As a result, the Medical Center recorded a net gain from the insurance proceeds received in excess of the casualty loss in the amount of $2,694,087.

Property and Equipment

A summary of the Medical Center's property and equipment is presented in Table 4.

Table 4
Property and Equipment

	June 30		
	2012	2011	2010
Land	$ 167,137	$ 149,491	$ 149,491
Land improvements	3,189,497	3,170,210	3,224,132
Building and improvements	36,588,939	26,757,121	26,805,461
Fixed equipment	12,153,291	5,174,302	5,523,362
Major movable equipment	11,263,886	12,299,319	12,438,226
Crestridge Estates	3,363,382	3,340,079	3,363,382
Construction in progress	158,852	8,510,187	903,373
Subtotal	66,884,984	59,400,709	52,407,427
Less accumulated depreciation	(23,997,094)	(24,872,462)	(23,885,814)
Net property and equipment	$42,887,890	$34,528,247	$28,521,613

At the end of 2012, the Hospital had $42,887,890 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. In 2012, $11,441,197 was spent to acquire property and equipment. During 2012 the Medical Center completed an $18 million construction and renovation project involving medical and surgical, intensive care, obstetrical and surgical areas. In addition, approximately $2.5 million, net of casualty losses, was invested in building and fixed equipment as a result of repairs following the tornado. Construction in progress at year end consists of primarily of equipment installations in progress.

Debt Administration

At year end, the Medical Center had $18,444,902 in current and long-term debt related to Hospital Revenue Bonds, an increase of $736,284 from 2011. This increase is the result of advances on new debt in the amount of $6,690,000 net of the required payments made on the outstanding bonds of $848,716 and a refunding of the Series 2002 Bonds in the amount of $5,105,000. More detailed information about the Medical Center's outstanding debt is presented in the Notes to Financial Statements. Note that the Bonds represent approximately 75% of the Medical Center's total liabilities as of year end.

Performance Compared to County Hospital Budget

The Medical Center prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Medical Center budget and GAAP basis are presented in the Notes to Financial Statements. A comparison of the Medical Center's fiscal year 2012 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

Table 5
Actual vs County Hospital Budget

	Actual budget basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	$ 1,152,000	$ 1,088,957	$ 63,043
Other revenues/receipts	43,444,500	42,538,680	905,820
	44,596,500	43,627,637	968,863
Expenses/expenditures	45,806,831	48,474,593	(2,667,762)
Net	$ (1,210,331)	$ (4,846,956)	$3,636,625

Actual other revenues/receipts results were greater than County Hospital budget primarily due to insurance proceeds received. Expenses/expenditures were lower than County Hospital budget primarily due to less operating expenses.

Economic and Other Factors and Next Year's Budget

The Medical Center's board and management considered many factors when setting the fiscal year 2013 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors
- Cost of supplies
- Facility expansion and growth in demand for services
- Technology advancements

Contacting Greater Regional Medical Center's Management

This financial report is designed to provide users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about this report or need additional information, contact Greater Regional Medical Center at (641) 782-7091 or write care of: Chief Financial Officer, Greater Regional Medical Center, 1700 West Townline, Creston, Iowa 50801.

Greater Regional Medical Center
BALANCE SHEETS
June 30, 2012 and 2011

ASSETS	Greater Regional Medical Center 2012	Greater Regional Medical Center 2011	Greater Regional Healthcare Foundation 2012	Greater Regional Healthcare Foundation 2011
CURRENT ASSETS				
Cash	$ 8,889,220	$ 4,030,224	$ 139,184	$ 76,075
Certificates of deposit	3,069,416	4,547,378	–	–
Investments	–	–	263,105	249,718
Patient receivables, less allowances for contractual adjustments and bad debts	4,474,901	4,687,828	–	–
Other receivables	53,058	93,424	–	–
Contributions receivable	–	–	31,997	39,077
Estimated third party payor settlements	130,000	–	–	–
Inventories	1,076,859	949,904	–	–
Prepaid expenses	650,908	697,275	–	–
Total current assets	18,344,362	15,006,033	434,286	364,870
ASSETS WHOSE USE IS LIMITED				
Designated by board for plant replacement and expansion				
Cash	138,158	6,035,026	–	–
Restricted for payment of long-term debt and interest				
Cash, debt service reserve fund	1,097,190	625,926	–	–
Total assets whose use is limited	1,235,348	6,660,952	–	–
PROPERTY AND EQUIPMENT	66,884,984	59,400,709	–	–
Less accumulated depreciation	23,997,094	24,872,462	–	–
Total property and equipment	42,887,890	34,528,247	–	–
OTHER ASSETS				
Unamortized financing costs	325,232	230,968	–	–
Succeeding year property tax receivable	1,090,000	1,090,000	–	–
Total other assets	1,415,232	1,320,968	–	–
Totals	$63,882,832	$57,516,200	$ 434,286	$ 364,870

See Notes to Financial Statements.

LIABILITIES AND FUND EQUITY	Greater Regional Medical Center 2012	Greater Regional Medical Center 2011	Greater Regional Healthcare Foundation 2012	Greater Regional Healthcare Foundation 2011
CURRENT LIABILITIES				
Current maturities of long-term debt	$ 967,452	$ 762,544	$ –	$ –
Accounts payable				
Trade	975,560	789,085	–	–
Construction	1,807,302	482,023	–	–
Accrued employee compensation	1,683,146	1,566,095	–	–
Payroll taxes and amounts withheld from employees	251,424	210,320	–	–
Accrued interest	110,546	154,643	–	–
Deferred incentive revenue	67,000	–	–	–
Total current liabilities	5,862,430	3,964,710		–
LONG-TERM LIABILITIES				
Long-term debt, less current maturities	17,477,450	17,024,903	–	–
Deferred revenue for succeeding year property tax receivable	1,090,000	1,090,000	–	–
Net OPEB liability	82,900	58,500	–	–
Total long-term liabilities	18,650,350	18,173,403	–	–
FUND EQUITY				
Invested in capital assets, net of related debt	22,635,686	16,740,800	–	–
Restricted	1,097,190	625,926	–	–
Unrestricted	15,637,176	18,011,361	434,286	364,870
Total fund equity	39,370,052	35,378,087	434,286	364,870
Totals	$63,882,832	$57,516,200	$ 434,286	$ 364,870

Greater Regional Medical Center
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
Year ended June 30, 2012 and 2011

	Greater Regional Medical Center		Greater Regional Healthcare Foundation	
	2012	**2011**	**2012**	**2011**
NET PATIENT SERVICE REVENUE, net of provision for bad debts 2012 $1,745,013; 2011 $1,973,267	$35,602,381	$36,697,217	$ –	$ –
OTHER REVENUE	3,462,225	1,529,553	40,985	14,676
Total revenue	39,064,606	38,226,770	40,985	14,676
EXPENSES				
Nursing service	8,733,603	8,431,466	–	–
Other professional service	14,465,908	13,701,743	–	–
General service	2,573,369	2,517,618	–	–
Fiscal and administrative service and unassigned expenses	9,761,274	10,307,375	60,089	46,919
Provision for depreciation	3,073,417	2,693,186	–	–
Total expenses	38,607,571	37,651,388	60,089	46,919
Operating income (loss)	457,035	575,382	(19,104)	(32,243)
NONOPERATING GAINS (LOSSES)				
County taxes	1,152,000	1,153,546	–	–
Investment income	117,081	169,445	195	59
Unrealized gain (loss) on investments	–	–	(9,612)	19,437
Interest and amortization expense	(444,558)	(523,181)	–	–
Unrestricted contributions	4,892	77,685	97,937	162,342
Other	(8,137)	(7,332)	–	–
Total nonoperating gains (losses)	821,278	870,163	88,520	181,838
Excess of revenues over expenses before other changes in fund equity	1,278,313	1,445,545	69,416	149,595
Restricted contributions	19,565	–	–	–
Insurance proceeds in excess of casualty loss	2,694,087	–	–	–
Change in fund equity	3,991,965	1,445,545	69,416	149,595
TOTAL FUND EQUITY				
Beginning	35,378,087	33,932,542	364,870	215,275
Ending	$39,370,052	$35,378,087	$ 434,286	$ 364,870

See Notes to Financial Statements.

Greater Regional Medical Center
STATEMENTS OF CASH FLOWS
Year ended June 30, 2012 and 2011

	Greater Regional Medical Center		Greater Regional Healthcare Foundation	
	2012	2011	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from patients and third-party payors	$35,685,308	$35,340,482	$ –	$ –
Cash paid to suppliers for goods and services	(18,903,799)	(19,717,776)	(60,089)	(46,919)
Cash paid to employees for services	(16,301,547)	(15,790,816)	–	–
Other operating revenue received	3,529,225	1,529,553	40,985	14,676
Net cash provided by (used in) operating activities	4,009,187	1,361,443	(19,104)	(32,243)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
County taxes received	1,152,000	1,153,546	–	–
Contributions received	24,457	77,685	95,690	134,493
Net cash provided by noncapital financing activities	1,176,457	1,231,231	95,690	134,493
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of property and equipment	(13,378,762)	(8,225,129)	–	–
Contributions received	–	–	9,328	54,848
Payments for financing costs	(117,532)	(100,000)	–	–
Proceeds from issuance of long-term debt	6,690,000	8,550,000	–	–
Principal payments on long-term debt	(6,032,545)	(680,481)	–	–
Interest paid on long-term debt	(465,387)	(482,238)	–	–
Insurance proceeds received	5,956,931	–	–	–
Net cash provided by (used in) capital and related financing activities	(7,347,295)	(937,848)	9,328	54,848
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	117,081	169,445	195	59
Purchase of investments	(50,809)	(2,061,706)	(25,000)	(125,000)
Proceeds from maturities of investments	1,528,771	2,824,157	2,000	–
Net cash provided by (used in) investing activities	1,595,043	931,896	(22,805)	(124,941)
NET INCREASE (DECREASE) IN CASH	(566,608)	2,586,722	63,109	32,157
CASH				
Beginning	10,691,176	8,104,454	76,075	43,918
Ending	$10,124,568	$10,691,176	$ 139,184	$ 76,075

See Notes to Financial Statements.

Greater Regional Medical Center
STATEMENTS OF CASH FLOWS (continued)
Year ended June 30, 2012 and 2011

	Greater Regional Medical Center		Greater Regional Healthcare Foundation	
	2012	**2011**	**2012**	**2011**
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	$ 457,035	$ 575,382	$ (19,104)	$ (32,243)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	3,073,417	2,693,186	–	–
Changes in assets and liabilities				
Patient receivables	212,927	(1,056,735)	–	–
Other receivables	40,366	(60,119)	–	–
Inventories	(126,955)	(150,734)	–	–
Prepaid expenses	46,367	(53,642)	–	–
Accounts payable, trade	186,475	(423,195)	–	–
Accrued employee compensation	117,051	112,028	–	–
Payroll taxes and amounts withheld from employees	41,104	572	–	–
Net estimated third-party payor settlements	(130,000)	(300,000)	–	–
Deferred incentive revenue	67,000	–	–	–
Other long-term liability	24,400	24,700	–	–
Net cash provided by (used in) operating activities	$ 4,009,187	$ 1,361,443	$ (19,104)	$ (32,243)
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET				
Per balance sheet				
Current assets, cash	$ 8,889,220	$ 4,030,224	$ 139,184	$ 76,075
Assets whose use is limited				
Designated by board for plant replacement and expansion, cash	138,158	6,035,026	–	–
Restricted for payment of long-term debt and interest, cash	1,097,190	625,926	–	–
Total per statement of cash flows	$10,124,568	$10,691,176	$ 139,184	$ 76,075

See Notes to Financial Statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Medical Center is a county public Medical Center organized under Chapter 347, Code of Iowa, not subject to taxes on income or property, and receives tax support from Union County, Iowa. The Medical Center is governed by a seven member Board of Trustees elected for terms of six years.

Reporting Entity

For financial reporting purposes, Greater Regional Medical Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Medical Center 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 Medical Center are such that exclusion would cause the Medical Center'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 Medical Center 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 Medical Center. These criteria also include organizations that are fiscally dependent on the Medical Center. The Medical Center has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Greater Regional Healthcare Foundation.

The Foundation is a legally separate nonprofit corporation. The Medical Center does not appoint a voting majority of the Foundation's Board of Directors or in any way impose its will over the Foundation. The accounts and transactions of the Foundation are included by discrete presentation within these financial statements as required by accounting principles generally accepted in the United States of America.

Measurement Focus and Basis of Accounting

The Medical Center is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Medical Center is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Medical Center uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Accounting Standards

The Medical Center has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

Investments and Investment Income

The Medical Center's investments and the methods used in determining the reported amounts are as follows:

Type	Method
Interest-earning investment contracts	
Nonnegotiable certificates of deposit	Cost

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment income is reported as nonoperating gains, and includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments.

The Foundation carries investments in marketable securities with readily determinable fair values and at their fair values in the balance sheets. Realized and unrealized gains and losses are included in the change in fund equity in the accompanying statements of revenues, expenses, and changes in fund equity.

Contributions Receivable

Contributions are recorded as receivables and contribution support in the year received.

Inventories

Inventories are stated at average cost, based on the first-in, first-out method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Medical Center is four to forty years.

Unamortized Financing Costs

Unamortized financing costs are amortized over the life of the issues, using the straight-line method.

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of the year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of the bonds and notes payable that are attributable to the acquisition, construction, or improvement of those assets.

Restricted

Restricted fund equity consists of funds on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

Unrestricted

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

Revenues, Expenses and Changes in Fund Equity

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Credit Policy

The Medical Center grants credit to patients, substantially all of whom are residents of the County.

Accounting Estimates and Assumptions

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Foundation is exempt from federal income taxes under applicable provisions of the Internal Revenue Code.

Foundation management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Foundation's tax returns are subject to tax examinations by tax authorities for a period of three years from the date of the return was filed. The Foundation has not been notified of any impending examinations by tax authorities, and no examinations are in process.

NOTE 2 CASH AND INVESTMENTS

The Medical Center's deposits at June 30, 2012 were entirely covered by federal depository insurance or by 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 Medical Center 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 Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district and common stocks.

As to interest rate risk, the Medical Center's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Medical Center.

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	Year ended June 30	
	2012	2011
Medicare	$2,006,018	$2,535,890
Medicaid	573,989	610,947
Commercial insurance	2,918,750	3,807,489
Patients	2,056,144	993,502
Total patient receivables	7,554,901	7,947,828
Less allowances for contractual adjustments and bad debts	(3,080,000)	(3,260,000)
Net patient receivables	$4,474,901	$4,687,828

NOTE 4 CONTRIBUTIONS RECEIVABLE

The Foundation conducts ongoing campaigns to provide support for the operations of the Foundation. Contributions receivable represent unconditional promises to give as follows:

	June 30	
	2012	2011
Unconditional promises to give	$ 31,997	$ 39,077
Less allowance for uncollectible promises	–	–
Net contributions receivable	$ 31,997	$ 39,077

The contributions receivable are due as follows:

	2012	2011
Less than one year	$ 16,997	$ 23,518
One to five years	15,000	15,559
Total contributions receivable	$ 31,997	$ 39,077

NOTE 5 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Medical Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediary. The Medical Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2010.

Other

The Medical Center has payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

NOTE 6 PROPERTY AND EQUIPMENT

A summary of property and equipment and related accumulated depreciation follows:

	June 30, 2012		June 30, 2011	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 167,137	$ –	$ 149,491	$ –
Land improvements	3,189,497	1,661,996	3,170,210	1,496,099
Building and improvements	36,588,939	8,928,775	26,757,121	8,282,339
Fixed equipment	12,153,291	4,320,852	5,174,302	4,386,995
Major movable equipment	11,263,886	7,806,090	12,299,319	9,427,648
Crestridge Estates	3,363,382	1,279,381	3,340,079	1,279,381
Construction in progress	158,852	–	8,510,187	–
Totals	$66,884,984	$23,997,094	$59,400,709	$24,872,462

At June 30, 2012 construction in progress consists primarily of equipment installations in process.

A summary of changes in property and equipment for the year ended June 30, 2012 follows:

	Beginning balance	Additions	Deletions	Transfers	Ending balance
Land	$ 149,491	$ 17,646	$ –	$ –	$ 167,137
Land improvements	3,170,210	–	31,305	50,592	3,189,497
Building and improvements	26,757,121	2,477,214	881,821	8,236,425	36,588,939
Fixed equipment	5,174,302	367,186	496,093	7,107,896	12,153,291
Major movable equipment	12,299,319	600,147	2,547,703	912,123	11,263,886
Crestridge Estates	3,340,079	23,303	–	–	3,363,382
Construction in progress	8,510,187	7,955,701	–	(16,307,036)	158,852
Totals	59,400,709	11,441,197	3,956,922	–	66,884,984
Less accumulated depreciation	(24,872,462)	(3,073,417)	3,948,785	–	(23,997,094)
Net property and equipment	$34,528,247	$ 8,367,780	$ 8,137	$ –	$42,887,890

A summary of changes in property and equipment for the year ended June 30, 2011 follows:

	Beginning balance	Additions	Deletions	Transfers	Ending balance
Land	$ 149,491	$ –	$ –	$ –	$ 149,491
Land improvements	3,224,132	15,849	69,771	–	3,170,210
Building and improvements	26,805,461	34,706	83,046	–	26,757,121
Fixed equipment	5,523,362	–	349,060	–	5,174,302
Major movable equipment	12,438,226	915,773	1,188,690	134,010	12,299,319
Crestridge Estates	3,363,382	–	23,303	–	3,340,079
Construction in progress	903,373	7,740,824	–	(134,010)	8,510,187
Totals	52,407,427	8,707,152	1,713,870	–	59,400,709
Less accumulated depreciation	(23,885,814)	(2,693,186)	(1,706,538)	–	(24,872,462)
Net property and equipment	$28,521,613	$6,013,966	$ 7,332	$ –	$34,528,247

NOTE 7 LONG-TERM DEBT

Long-term debt is summarized as follows:

	Year ended June 30	
	2012	2011
Hospital Revenue Refunding Bonds, Series 2011	$ 4,710,000	$ –
Hospital Revenue Bond, Series 2010	9,838,801	8,550,000
Hospital Revenue Bond, Series 2008	3,896,101	4,053,618
Hospital Revenue Bonds, Series 2002	–	5,105,000
Note payable, equipment	–	78,829
Total	18,444,902	17,787,447
Less current maturities	967,452	762,544
Long-term debt, net of current maturities	$17,477,450	$17,024,903

Hospital Revenue Refunding Bonds, Series 2011

The Medical Center issued Hospital Revenue Refunding Bonds, Series 2011 in the original amount of $5,240,000. The Bonds are payable solely from future revenues of the Medical Center and are due each June 1 through 2021. Interest is payable semiannually at remaining interest rates of 1.5% to 4.25%. At June 30, 2012, the remaining balance on these Bonds is $4,710,000. The Bonds contain a number of covenants regarding the operation of the Medical Center, and the Medical Center is in substantial compliance with those covenants.

Hospital Revenue Bond, Series 2010

The Medical Center issued Hospital Revenue Bond, Series 2010 in the original amount of $10,000,000. The Bond is payable solely from future revenues of the Medical Center and is due each June 30th and December 31st through 2031. Interest is payable at 4.22% through December 31, 2021, after which time it will be adjusted to a fixed rate equal to 375 basis points above the five-year Federal Home Loan Bank Fixed Advance Rate. At June 30, 2012 the remaining balance on this bond is $9,838,801. The Bond contains a number of covenants regarding the operation of the Medical Center, and the Medical Center is in substantial compliance with those covenants.

Hospital Revenue Bond, Series 2008

The Medical Center issued Hospital Revenue Bond, Series 2008 in the original amount of $4,500,000. The Bond is payable solely from future revenues of the Medical Center and is due each January 1 and July 1 through 2028. Interest is payable at 4.9% until 2013 when it will be adjusted to 50 basis points above the annualized interest rate on five year United States Treasury Bonds. The rate will further be adjusted in 2018 and 2023 in a similar manner. At June 30, 2012, the remaining balance on this Bond is $3,896,101. The Bond contains a number of covenants regarding the operation of the Medical Center, and the Medical Center is in substantial compliance with those covenants.

NOTE 7 LONG-TERM DEBT (continued)

As to the above Hospital Revenue Bonds, Series 2011, Series 2010 and Series 2008, the Medical Center has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Bonds were issued to finance capital improvements of the Medical Center. The net revenues are pledged through December 31, 2031. As of June 30, 2012 the remaining principal and interest on the Series 2011, Series 2010 and Series 2008 bonds was $25,860,162. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Series 2011, 2010, 2008 and 2002 Bonds for the years ended June 30, 2012 and 2011:

	Year ended June 30	
	2012	2011
Change in fund equity	$3,991,965	$1,445,545
Provision for depreciation	3,073,417	2,693,186
Interest expense on the Bonds	452,848	504,000
Pledged net revenues	$7,518,230	$4,642,731
Principal and interest requirements on the Bonds	$1,557,043	$ 974,062

Maturities required on long-term debt are as follows:

Year ending June 30	Revenue Refunding Bonds Series 2011	Revenue Bond Series 2010	Revenue Bond Series 2008	Total principal	Interest	Total
2013	$ 470,000	$ 332,659	$ 164,793	$ 967,452	$ 752,278	$ 1,719,730
2014	480,000	343,678	173,503	997,181	725,499	1,722,680
2015	485,000	360,815	182,109	1,027,924	690,155	1,718,079
2016	495,000	375,408	191,142	1,061,550	655,376	1,716,926
2017	510,000	392,696	200,184	1,102,880	615,433	1,718,313
2018 to 2022	2,270,000	2,232,502	1,162,166	5,664,668	2,358,216	8,022,884
2023 to 2027	–	2,759,021	1,480,572	4,239,593	1,276,858	5,516,451
2028 to 2032	–	3,042,022	341,632	3,383,654	341,445	3,725,099
Totals	4,710,000	9,838,801	3,896,101	18,444,902	7,415,260	25,860,162
Less current maturities	470,000	332,659	164,793	967,452	752,278	1,719,730
Total long-term debt	$4,240,000	$9,506,142	$3,731,308	$17,477,450	$6,662,982	$24,140,432

A summary of changes in long-term debt for the year ended June 30, 2012 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
Hospital Revenue Refunding Bonds, Series 2011	$ –	$5,240,000	$ 530,000	$ 4,710,000	$ 470,000
Hospital Revenue Bond, Series 2010	8,550,000	1,450,000	161,199	9,838,801	332,659
Hospital Revenue Bond, Series 2008	4,053,618	–	157,517	3,896,101	164,793
Hospital Revenue Bonds, Series 2002	5,105,000	–	5,105,000	–	–
Notes payable, equipment	78,829	–	78,829	–	–
Totals	$17,787,447	$6,690,000	$6,032,545	$18,444,902	$ 967,452

NOTE 7 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2011 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
Hospital Revenue Bond, Series 2010	$ –	$8,550,000	$ –	$ 8,550,000	$ 161,198
Hospital Revenue Bond, Series 2008	4,203,691	–	150,073	4,053,618	157,517
Hospital Revenue Bonds, Series 2002	5,455,000	–	350,000	5,105,000	365,000
Notes payable, equipment	259,237	–	180,408	78,829	78,829
Totals	$9,917,928	$8,550,000	$ 680,481	$17,787,447	$ 762,544

NOTE 8 DEFINED BENEFIT PENSION PLAN

The Medical Center contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

For the year ended June 30, 2012 regular plan members were required to contribute 5.38% of their annual salary and the Medical Center is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were $1,271,465, $1,065,523 and $895,801, respectively, equal to the required contributions for each year.

NOTE 9 CHARITY CARE

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2012 and 2011.

	2012	2011
Charges foregone, based on established rates	$ 595,097	$ 409,009
Equivalent percentage of charity care patients to all patients served	1.0%	.7%

NOTE 10 MALPRACTICE CLAIMS

The Medical Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are $1,000,000 per claim and $3,000,000 in the aggregate.

The Medical Center is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Medical Center.

NOTE 10 MALPRACTICE CLAIMS (continued)

Incidents occurring through June 30, 2012 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget for all funds following required public notice and hearings. The annual County Hospital budget may be amended during the year utilizing similar statutorily prescribed procedures. The Medical Center prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between County Hospital budget and GAAP bases are that depreciation is not recorded as an expenditure on the County Hospital budget basis and capital expenditures and debt service proceeds and payments are recorded on the County Hospital budget basis.

The following is a comparison of reported amounts to the Hospital budget:

	GAAP basis	Budget basis adjustments	Budget basis	County Hospital Budget
Amount to be raised by taxation	$ 1,152,000	$ –	$ 1,152,000	$ 1,088,957
Other revenues/receipts	41,447,536	1,996,964	43,444,500	42,538,680
	42,599,536	1,996,964	44,596,500	43,627,637
Expenses/expenditures	38,607,571	7,199,260	45,806,831	48,474,593
Net	3,991,965	(5,202,296)	(1,210,331)	(4,846,956)
Balance, beginning	35,378,087	(19,483,024)	15,895,063	14,271,202
Balance, ending	$39,370,052	$(24,685,320)	$14,684,732	$ 9,424,246

NOTE 12 MEDICAL BENEFIT PLAN

The Medical Center has entered into a self-insured medical benefit plan for virtually all employees. The plan is funded by both Medical Center and employee contributions. Claims for health care services for employees and their families are accrued when reported by the claims administrator. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to $75,000 per person, with an aggregate stop-loss provision for the plan as a whole of approximately $3,700,000. Total expenses, which include claims, administration and stop-loss insurance premiums, under this plan for the years ended June 30, 2012 and 2011 were $2,679,728 and $4,079,100, respectively, included in fiscal and administrative and unassigned expenses.

NOTE 13 OTHER POST EMPLOYMENT BENEFITS

The Medical Center operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses and dependents. At the most recent actuarial valuation date there were 305 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug and dental benefit plans are self-insured and are administered by a third party. Retirees under age 65 pay 102% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, OPEB, liability. The contribution requirements of plan members are established and may be amended by the Medical Center. The Medical Center currently finances the retiree benefit plan on a pay-as-you-go basis.

The Medical Center's annual OPEB cost is calculated based on the annual required contribution, ARC, of the Medical Center, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Medical Center's annual OPEB cost, the amount actually contributed to the plan and changes in the Medical Center's net OPEB obligation:

	Year ended June 30	
	2012	2011
Annual required contribution, ARC	$ 39,200	$ 39,200
Interest on net OPEB obligation	2,300	1,400
Adjustment to annual required contribution	(3,200)	(2,000)
Annual OPEB cost	38,300	38,600
Contributions made	13,900	13,900
Increase in net OPEB obligation	24,400	24,700
Net OPEB obligation, beginning of year	58,500	33,800
Net OPEB obligation, end of year	$ 82,900	$ 58,500

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2012, the Medical Center contributed $13,900 to the plan. The Medical Center's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2012 and 2011 are summarized as follows:

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
June 30, 2012	$ 38,300	36%	$ 82,900
June 30, 2011	$ 38,600	36%	$ 58,500

As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was $307,500 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, UAAL, of $307,500. The covered payroll (annual payroll of active employees covered by the plan) was approximately $10,284,000, and the ratio of the UAAL to the covered payroll was 2.2%. As of June 30, 2012, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

NOTE 13 OTHER POST EMPLOYMENT BENEFITS (continued)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2010 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the Medical Center's funding policy. The projected annual medical trend rate is 8%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the Actuary's Pension Handbook.

Projected claim costs of the medical plan are approximately $1,200 per month for retirees. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

NOTE 14 RISK MANAGEMENT

The Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Medical Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

In April, 2012 the Medical Center was hit by a tornado causing significant damage to the roof structure and contents from the wind and rain. The Medical Center was closed for a short time and patients were diverted to other area hospitals. The cost to repair the damage to the building, fixtures and equipment was approximately $8 million, including debris removal and cleanup. Repairs were substantially completed by June 30, 2012. Included in the statements of revenues, expenses and changes in fund equity is business interruption insurance income in the amount of $1,641,231, included in other revenue, and insurance proceeds in excess of casualty loss in the amount of $2,694,087, included as an other change in fund equity.

Greater Regional Medical Center
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

Required Supplementary Information

Year ended June 30	Actuarial valuation date	Actuarial valuation of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
2010	July 1, 2008	$ –	$251,000	$251,000	0%	$10,155,000	2.5%
2011	July 1, 2010	–	307,500	307,500	0%	10,284,000	3.0%
2012	July 1, 2010	–	307,500	307,500	0%	10,592,000	2.9%

See the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Greater Regional Medical Center
Creston, Iowa

We have audited the financial statements of Greater Regional Medical Center and its component unit, Greater Regional Healthcare Foundation, as of and for the periods ended June 30, 2012 and 2011, and our report thereon dated October 15, 2012, which expressed an unqualified opinion on those financial statements, appears on page 4. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 15, 2012

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Greater Regional Medical Center
ANALYSIS OF PATIENT RECEIVABLES

Age of accounts (by date of discharge)	Amounts June 30 2012	Amounts June 30 2011	Percent to total June 30 2012	Percent to total June 30 2011
0 – 30 days (includes patients in Medical Center at end of year)	$4,039,238	$4,412,908	53.47%	55.52%
31 – 60 days	1,356,398	1,230,043	17.95	15.48
61 – 90 days	467,341	544,168	6.19	6.85
91 – 120 days	439,097	369,491	5.81	4.65
Over 120 days	1,252,827	1,391,218	16.58	17.50
Totals	7,554,901	7,947,828	100.00%	100.00%
Allowances				
Contractual				
Medicare	700,000	900,000		
Medicaid	175,000	250,000		
Other	880,000	680,000		
Bad debts	1,325,000	1,430,000		
Total allowances	3,080,000	3,260,000		
Totals	$4,474,901	$4,687,828		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	$ 97,274	$ 100,540		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	46	47		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	Amounts Year ended June 30 2012	Amounts Year ended June 30 2011	Percent of net patient service revenue Year ended June 30 2012	Percent of net patient service revenue Year ended June 30 2011
BALANCE, beginning	$1,430,000	$1,220,000		
ADD				
Provision for bad debts	1,745,013	1,973,267	4.90%	5.38%
Recoveries of accounts previously written off	695,917	575,940	1.95	1.57
	3,870,930	3,769,207		
DEDUCT				
Accounts written off	2,545,930	2,339,207	7.15	6.37
BALANCE, ending	$1,325,000	$1,430,000		

Greater Regional Medical Center
PATIENT SERVICE REVENUE
Year ended June 30, 2012, with comparative totals for 2011

	2012			2011
	Inpatient	Outpatient	Total	Total
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	$1,978,648	$ –	$ 1,978,648	$ 2,170,326
Special care	44,369	–	44,369	127,422
Swing bed	339,720	–	339,720	397,297
Nursery	292,493	–	292,493	259,934
	2,655,230	–	2,655,230	2,954,979
OTHER NURSING SERVICES				
Operating room	1,351,574	5,676,110	7,027,684	7,085,774
Recovery room	375,474	1,247,967	1,623,441	1,852,747
Delivery and labor rooms	284,231	–	284,231	349,212
Central services and supply	122,890	1,050,498	1,173,388	494,654
Emergency room	24,969	3,985,726	4,010,695	4,135,758
Ambulance	–	1,068,969	1,068,969	946,843
Home health services	–	373,437	373,437	558,366
Outreach services	–	227,766	227,766	206,061
Hospice	–	1,339,966	1,339,966	1,236,709
	2,159,138	14,970,439	17,129,577	16,866,124
OTHER PROFESSIONAL SERVICES				
Laboratory and blood service	555,461	4,990,699	5,546,160	6,225,471
Electroencephalography	–	–	–	818
Electrocardiology	16,668	71,325	87,993	87,351
Cardiology and vascular testing	60,132	636,105	696,237	839,259
Radiology and ultrasound	116,202	3,295,591	3,411,793	3,240,886
Radiation therapy	8,628	4,113,493	4,122,121	4,456,944
Nuclear medicine	15,209	319,100	334,309	388,179
CT scans	171,846	3,887,289	4,059,135	3,763,332
Magnetic resonance imaging	32,059	2,081,440	2,113,499	1,767,429
Pharmacy and intravenous therapy	901,247	5,547,707	6,448,954	5,405,079
Anesthesiology	246,345	677,345	923,690	934,753
Respiratory therapy	269,507	434,450	703,957	833,155
Rehabilitation therapy	158,860	877,219	1,036,079	1,038,420
Cardiac rehabilitation	31,558	192,078	223,636	214,639
Outpatient clinics and chemotherapy	–	917,776	917,776	873,038
Lenox clinic	–	472,297	472,297	605,786
Morning Star clinic	–	1,073,894	1,073,894	1,069,237
Creston Medical Clinic	–	4,579,097	4,579,097	5,057,562
Orthopaedic clinic	–	238,767	238,767	–
	2,583,722	34,405,672	36,989,394	36,801,338
Totals	$7,398,090	$49,376,111	56,774,201	56,622,441
Charity care charges foregone, based on established rates			(595,097)	(409,009)
Total gross patient service revenue			56,179,104	56,213,432
Provisions for contractual adjustments and bad debts			(20,576,723)	(19,516,215)
Total net patient service revenue			$35,602,381	$36,697,217

Greater Regional Medical Center
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	Year ended June 30	
	2012	2011
Contractual adjustments		
Medicare	$ 8,935,824	$ 9,217,336
Medicaid	2,074,623	2,094,722
Other adjustments	7,821,263	6,230,890
Provision for bad debts	1,745,013	1,973,267
Totals	$20,576,723	$19,516,215

OTHER REVENUE

	Year ended June 30	
	2012	2011
Business interruption insurance income	$1,641,231	$ –
Rental income		
Medical Arts Plaza	281,521	311,825
Crestridge Estates	583,389	558,562
Electronic medical records incentive revenue	363,295	–
Pharmacy revenue, employees	239,521	307,630
Cafeteria sales	198,575	190,193
Meals on wheels	–	4,105
Sale of supplies and miscellaneous services to employees and others	50,784	51,549
Wellness	38,778	49,669
Lifeline	3,000	12,000
Miscellaneous	62,131	44,020
Totals	$3,462,225	$1,529,553

Greater Regional Medical Center
EXPENSES
Year ended June 30, 2012, with comparative totals for 2011

	2012			2011
	Salaries	Other	Total	Total
NURSING SERVICE				
Nursing administration	$ 141,969	$ 4,518	$ 146,487	$ 133,481
Medical and surgical	1,523,571	218,418	1,741,989	1,896,295
Special care	53,601	3,897	57,498	92,489
Obstetric nursing, delivery and labor rooms	420,423	48,346	468,769	462,912
Operating and recovery rooms	1,111,761	855,321	1,967,082	1,552,346
Central services and supply	–	178,585	178,585	265,800
Emergency room	1,009,086	1,320,020	2,329,106	1,957,531
Ambulance	70,840	56,413	127,253	122,505
Home health services	309,473	81,519	390,992	546,934
Outreach services	145,635	51,524	197,159	195,166
Hospice	793,066	335,617	1,128,683	1,206,007
Total nursing service	5,579,425	3,154,178	8,733,603	8,431,466
OTHER PROFESSIONAL SERVICE				
Laboratory	497,194	684,326	1,181,520	1,139,466
Pathology	–	81,260	81,260	92,210
Blood service	–	118,065	118,065	149,215
Electroencephalography	–	–	–	84
Cardiology and vascular testing	–	14,284	14,284	19,583
Radiology and ultrasound	574,865	544,096	1,118,961	1,172,294
Radiation therapy	222,685	1,112,443	1,335,128	1,217,821
Nuclear medicine	–	66,281	66,281	70,595
CT scans	–	304,661	304,661	152,163
Magnetic resonance imaging	56,274	565,462	621,736	577,742
Pharmacy	458,346	2,081,076	2,539,422	2,285,513
Intravenous therapy	–	10,764	10,764	6,787
Anesthesiology	–	28,405	28,405	52,926
Respiratory therapy	186,138	96,780	282,918	286,657
Rehabilitation therapy	513,104	124,528	637,632	652,076
Cardiac rehabilitation	59,588	16,727	76,315	75,438
Outpatient clinics and chemotherapy	197,279	46,803	244,082	264,536
Bunn clinic	3,921	485	4,406	902
Lenox clinic	189,919	101,510	291,429	308,510
Morning Star clinic	628,181	136,731	764,912	780,267
Medical Arts Plaza	–	45,894	45,894	119,551
Crestridge Estates	79,738	287,698	367,436	344,677
Creston Medical Clinic	2,490,557	546,659	3,037,216	3,091,874
Orthopaedic clinic	466,380	31,462	497,842	–
Social services	3,127	–	3,127	44,831
Health information services	557,004	76,105	633,109	657,998
Quality assurance	129,085	30,018	159,103	138,027
Total other professional service	7,313,385	7,152,523	14,465,908	13,701,743

Greater Regional Medical Center
EXPENSES (continued)
Year ended June 30, 2012, with comparative totals for 2011

	2012			2011
	Salaries	Other	Total	Total
GENERAL SERVICE				
Dietary	$ 629,116	$ 241,143	$ 870,259	$ 914,958
Plant operation	279,937	915,655	1,195,592	1,107,110
Housekeeping	326,870	106,387	433,257	448,226
Laundry	27,874	31,694	59,568	41,870
Linen	–	14,693	14,693	5,454
Total general service	1,263,797	1,309,572	2,573,369	2,517,618
FISCAL AND ADMINISTRATIVE SERVICE				
Administrative	387,638	190,907	578,545	580,575
Accounting	272,738	29,949	302,687	189,103
Human resources	175,705	98,634	274,339	286,645
Business office	851,106	103,208	954,314	787,718
Purchasing	188,934	48,844	237,778	196,938
Computer support	273,362	376,031	649,393	516,904
Public relations	–	124,515	124,515	135,832
Telephone	–	47,251	47,251	62,946
Professional fees	–	175,876	175,876	121,737
Collection fees	–	151,487	151,487	119,386
Receivables management fee	–	154,238	154,238	195,642
Dues and subscriptions	–	37,219	37,219	34,664
Travel and mileage	–	2,000	2,000	1,686
Publication fees	–	7,643	7,643	3,262
Physician recruitment	–	1,642	1,642	50,663
UNASSIGNED EXPENSES				
Wellness	96,317	28,457	124,774	130,424
Volunteer services	16,191	10,383	26,574	20,597
FICA	–	1,113,074	1,113,074	1,087,692
IPERS	–	1,271,465	1,271,465	1,065,523
Group health and life insurance	–	3,144,617	3,144,617	4,362,483
Workers' compensation insurance	–	218,641	218,641	189,382
Insurance	–	163,202	163,202	167,573
Total fiscal and administrative service and unassigned expenses	2,261,991	7,499,283	9,761,274	10,307,375
PROVISION FOR DEPRECIATION	–	3,073,417	3,073,417	2,693,186
Total expenses	$16,418,598	$22,188,973	$38,607,571	$37,651,388

Greater Regional Medical Center
COMPARATIVE STATISTICS

	Year ended June 30	
	2012	2011
PATIENT DAYS		
Medical, surgical and obstetrical	1,991	2,489
Swing bed	588	767
Nursery	352	363
Totals	2,931	3,619
DISCHARGES		
Medical, surgical and obstetrical	663	809
Swing bed	63	80
Nursery	170	184
Totals	896	1,073
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	3.00	3.08
Swing bed	9.33	9.59
Nursery	2.07	1.97

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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*

Board of Trustees
Greater Regional Medical Center
Creston, Iowa

We have audited the financial statements of Greater Regional Medical Center and its component unit, Greater Regional Healthcare Foundation, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organizations' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organizations' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control over financial reporting.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center'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*.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. 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. Those comments are presented in Part II of the accompanying Schedule of Findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of Union County and other parties to whom the Medical Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 15, 2012

Greater Regional Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2012

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance relative to the financial statements were reported.

Greater Regional Medical Center
SCHEDULE OF FINDINGS
Year ended June 30, 2012

Part II—Findings Related to Required Statutory Reporting

12-II-A CERTIFIED COUNTY HOSPITAL BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its County Hospital budget for the year ended June 30, 2012.

12-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Medical Center funds were noted.

12-II-C TRAVEL EXPENSES

No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

12-II-D BUSINESS TRANSACTIONS

No business transactions were found between the Medical Center and Medical Center officials and/or employees.

12-II-E BOARD MINUTES

No transactions were found that we believe should have been approved in the Board minutes but were not.

12-II-F DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Medical Center's investment policy.