

Clarinda Regional Health Center

Financial Report
June 30, 2012

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Clarinda Regional Health Center

**Board of Trustees
Year Ended June 30, 2012**

Name	Title
Joy Tunncliff	Chairman
Ron Richardson	Vice Chairman
Dale McAllister	Secretary/Treasurer
Stanley Johnson	Trustee
Mary Etta Hanson	Trustee
* * * * *	
Christopher Stipe	CEO
Melissa Walter	CFO



Independent Auditor's Report

Board of Trustees
 Clarinda Regional Health Center
 Clarinda, Iowa

We have audited the accompanying balance sheets of Clarinda Regional Health Center (the Organization), an enterprise fund of the City of Clarinda, Iowa as of June 30, 2012 and 2011, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these basic 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. The basic financial statements of Clarinda Medical Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Clarinda Regional Health 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 reports, dated March 4, 2013 and January 30, 2012, for the years ended June 30, 2012 and 2011, respectively, on our consideration of Clarinda Regional Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9, and required supplementary information on budget and budgetary accounting on page 34 and the other postemployment benefit plan required supplementary information on page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB) 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Organization. The accompanying supplementary information on pages 36 through 44, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying supplementary information as of and for the years ended June 30, 2012 and 2011 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying Clarinda Regional Health Center schedules of insurance and comparative statistics on pages 45 and 46, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we express no opinion on them.

McGladrey LLP

Davenport, Iowa
 March 4, 2013

Clarinda Regional Health Center

Management's Discussion and Analysis Years Ended June 30, 2012 and 2011

This section of Clarinda Regional Health Center's (the Organization) annual audited financial report represents management's discussion and analysis of the Organization's financial performance during the fiscal year ended June 30, 2012. The analysis will focus on the Organization's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2012 and 2011 financial report includes audited financial statements that include:

- Balance sheets
- Statements of revenue, expenses and changes in net assets
- Statements of cash flows
- Notes to basic financial statements

Financial Highlights

- The Organization's total assets increased by \$3,065,256 or 8.1% in 2012 and decreased by \$3,223,568 or 7.8% in 2011.
- The Organization's net assets decreased by \$1,356,341 or 11.7% in 2012 and decreased by \$480,105 or 4.0% in 2011.
- The Organization reported an operating loss of \$1,655,211 in 2012 and operating loss of \$1,107,506 in 2011.

The Balance Sheet and Statement of Revenue, Expenses and Changes in Net Assets

These financial statements report information about Clarinda Regional Health Center using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Organization's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Organization creditors (liabilities). Revenue and expenses are reflected for the current and previous year on the statements of revenue, expenses and changes in net assets. This statement shows the results of the Organization's operations. The last financial statement is the statement of cash flows. The statement of cash flows essentially reflects the movement of money in and out of the Organization that determines the Organization's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Also supporting, supplementary information to the above statements is provided in:

- Schedules of net patient service revenue
- Schedules of adjustments to patient service revenue and other revenue
- Schedule of operating expenses
- Schedules of aging analysis of accounts receivable from patients and allowance for doubtful accounts
- Schedule of inventories and prepaid expenses
- Schedule of insurance
- Comparative statistics

Clarinda Regional Health Center

**Management's Discussion and Analysis
Years Ended June 30, 2012 and 2011**

Financial Analysis of the Organization

The information from the balance sheets, statements of revenue, expenses and changes in net assets and the statements of cash flows is summarized in the following tables. Tables 1 and 2 report on the changes in the Organization's net assets. Increases or decreases in net assets are one indicator of whether or not the Organization's financial health is improving. Other non-financial factors can also have an effect on the Organization's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third-party payors, as well as changes in the economic environment of Clarinda, Iowa and the surrounding areas.

Table 1: Assets, Liabilities and Net Assets

	2012	2011	2010
Assets			
Current assets	\$ 11,710,159	\$ 12,862,133	\$ 8,935,120
Assets limited as to use, noncurrent	2,048,985	5,251,385	26,070,735
Capital assets, net	26,965,248	19,522,064	5,880,715
Other assets	370,476	394,030	366,610
Total assets	\$ 41,094,868	\$ 38,029,612	\$ 41,253,180
Liabilities			
Total current liabilities	\$ 4,316,298	\$ 4,383,778	\$ 2,134,427
Long-term debt, less current maturities	26,535,378	22,046,301	27,039,115
Total liabilities	30,851,676	26,430,079	29,173,542
Net assets			
Invested in capital assets, net of related debt	2,717,990	4,591,369	4,274,671
Restricted by bond agreement	649,210	649,145	649,000
Unrestricted	6,875,992	6,359,019	7,155,967
Total net assets	10,243,192	11,599,533	12,079,638
Total liabilities and net assets	\$ 41,094,868	\$ 38,029,612	\$ 41,253,180

Asset categories changing significantly during 2012 included an increase in capital assets due to the completion of the new hospital in January 2012. Other receivables also increased due to the hospital's efforts towards becoming a meaningful user of electronic health records. Through incentives from the federal government, the hospital will be reimbursed a portion of the software, hardware and implementation costs. The hospital has recorded a receivable of approximately \$924,000 for these incentive programs. The hospital has also recorded a receivable of approximately \$270,000 for estimated third-party payor settlements related to open cost reports. Decreases in assets include assets limited as to use as previously borrowed funds were drawn upon to fund the completion of the new hospital.

Current assets decreased by \$1,151,974 or 9.0% in 2012 and increased by \$3,927,013 or 44.0% in 2011. Decreases in cash of \$773,963 and current assets limited as to use of \$1,293,269 were offset by increases in the third party payor settlement of \$270,000 and the electronic health record incentive payment receivable of \$923,951 in 2012.

Clarinda Regional Health Center

**Management's Discussion and Analysis
Years Ended June 30, 2012 and 2011**

Liability categories changing significantly during 2012 included an increase in long-term debt due to borrowings on the Series 2010D bonds to fund the remainder of the construction of the new hospital. Also increasing was deferred revenue associated with the Medicare incentive payment program for achieving meaningful use in 2012, as the deferred revenue will be recognized over the next three years (see Note 1 for further discussion). These increases were offset by a decrease in construction related accounts payable.

The current ratio (current assets divided by current liabilities) for 2012 was 2.71 and 2011 was 2.93. It is a measure of liquidity, providing an indication of the Organization's ability to pay current liabilities; a high ratio number is preferred.

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

	2012	2011	2010
Operating revenue	\$ 21,817,044	\$ 19,288,050	\$ 18,282,391
Operating expenses	23,472,255	20,395,556	17,970,164
Operating income (loss)	(1,655,211)	(1,107,506)	312,227
Nonoperating income, net and contributions to be used for capital purchases	298,870	627,401	244,360
Change in net assets	(1,356,341)	(480,105)	556,587
Net assets:			
Beginning	11,599,533	12,079,638	11,523,051
Ending	<u>\$ 10,243,192</u>	<u>\$ 11,599,533</u>	<u>\$ 12,079,638</u>
Total revenue	<u>\$ 22,115,914</u>	<u>\$ 19,915,451</u>	<u>\$ 18,526,751</u>
Total expenses	<u>\$ 23,472,255</u>	<u>\$ 20,395,556</u>	<u>\$ 17,970,164</u>

Net patient service revenue increased \$2,117,311 or 11.1% in 2012 and increased \$891,375 or 4.9% in 2011. To arrive at net patient service revenue, contractual adjustments and provisions for bad debt have been deducted from gross patient service revenue due to agreements with third-party payors and patients.

Clarinda Regional Health Center

Management's Discussion and Analysis
Years Ended June 30, 2012 and 2011

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2012	2011	2010
Total gross patient service revenue	\$ 34,599,444	\$ 31,068,742	\$ 28,248,225
Contractual adjustments and provisions for bad debt	(13,474,173)	(12,060,782)	(10,131,640)
Net patient service revenue	\$ 21,125,271	\$ 19,007,960	\$ 18,116,585
Contractual adjustments and provisions for bad debt as a percent of total gross patient service revenue	38.94%	38.82%	35.87%

Total operating expenses increased by \$3,076,699 or 15.1% in 2012 and increased by \$2,425,392 or 13.5% in 2011. The most significant increases in operating expenses were salaries and wages and employee benefits which increased \$1,984,738 and interest expense which increased \$521,176, due to the new hospital being placed into service in January 2012 and the hospital no longer being able to capitalize interest on the project.

The operating margin (total operating revenue less total operating expenses divided by total operating revenue) was a negative 7.6% in 2012 which increased from a negative 5.7% in 2011. Operating loss in 2012 was \$1,655,211 compared to operating loss of \$1,107,506 in 2011.

Other operating revenue comprised 1.5% of total operating revenue in 2012 and 1.5% of total operating revenue in 2011. Table 4 shows the detail for this line item.

Table 4: Other Revenue

	2012	2011	2010
Lifeline, net	\$ 12,759	\$ 15,676	\$ 6,449
Dietary	4,601	10,431	12,510
Employee meals	90,680	73,525	72,665
Meals on wheels and congregate meals	58,518	54,157	58,111
Wellness program	32,497	26,001	13,439
Medical records transcripts	4,899	6,196	7,059
Other miscellaneous	113,581	94,104	(4,427)
Total other revenue	\$ 317,535	\$ 280,090	\$ 165,806

Clarinda Regional Health Center

Management's Discussion and Analysis Years Ended June 30, 2012 and 2011

Organization Statistical Data

Table 5: Statistical Data

	2012	2011	2010
Patient days:			
Acute	1,380	1,229	1,272
Swing bed	890	820	763
Total	2,270	2,049	2,035
Admissions:			
Acute	516	447	453
Swing bed	140	129	131
Total	656	576	584
Discharges:			
Acute	509	439	450
Swing bed	143	134	128
Total	652	573	578
Average length of stay, acute	2.7	2.7	2.8
Beds, acute and swing	25	25	25
Occupancy percentage, acute and swing, based on 25 beds	24.9%	22.5%	22.3%

The Organization's Cash Flows

The Organization experienced positive cash flows from operations of \$1,166,487 in 2012 compared to positive cash flows from operations of \$1,013,617 in 2011. Increases in patient and other accounts receivable and third-party payor settlements were largely offset by increases in deferred revenue.

Capital Assets

Capital assets increased significantly in fiscal year 2012 due to the completion of the new hospital and purchase of related equipment. The hospital also added a replacement ambulance, surgery equipment and computer software to aid in becoming a meaningful user of electronic health records. As of June 30, 2012 and 2011 the Organization had \$26,965,248 and \$19,522,064, respectively, invested in capital assets net of accumulated depreciation. In 2012 the Organization had \$9,822,170 of capital asset additions offset by depreciation of \$2,319,946 which includes approximately \$757,057 in accelerated depreciation on assets to be abandoned when the new hospital opened in January 2012.

Additional information about the Organization's capital assets can be found in Note 5 of the financial statements.

Clarinda Regional Health Center

Management's Discussion and Analysis Years Ended June 30, 2012 and 2011

Long-Term Debt

Table 6: Long-Term Debt

	2012	2011	2010
Hospital revenue bonds, Series 2010A	\$ -	\$ -	\$ 18,900,000
Hospital revenue bonds, Series 2010B	6,130,000	6,355,000	6,355,000
Hospital revenue bonds, Series 2010C	1,745,000	1,745,000	1,745,000
Hospital revenue bonds, Series 2010D	18,782,249	14,105,663	-
Less unamortized bond discount	(190,366)	(197,391)	(203,850)
Obligations under capital lease	438,978	127,667	329,131
Total long-term debt	\$ 26,905,861	\$ 22,135,939	\$ 27,125,281

Approximately \$26,657,249 of the outstanding long-term debt held by the Organization consists of the Series 2010B, Series 2010C and Series 2010D (USDA Direct Loan Bonds) Hospital Revenue Bonds. In December 2010, the Series 2010D USDA Direct Loan Bonds refunded the Series 2010A bonds. USDA holds additional funds to be distributed to the Organization as contractor's pay applications are finalized. Semi-annual principal and interest payments will be made through June 2050. The Series B bonds were due in semi-annual installments of interest only through June 2012. Semi-annual payments of principal and interest began in June 2012 and continue through June 2030. The Series C bonds are due in semi-annual installments of interest only through June 2030. Semi-annual payments of principal and interest will begin in December 2030 and continue through June 2033. The Organization also has capital lease obligations totaling approximately \$438,978 which are due in monthly installments of principal and interest and mature on various dates and are secured by equipment.

Additional information about the Organization's long-term debt can be found in Note 6 of the financial statements.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The budgetary basis is non-GAAP basis adjusted for equipment improvements and lease payments. There were no amendments to the budget in the current year.

- The Organization's total operating revenue was ahead of budget by \$696,619 or 3.3%.
- The Organization's total operating expenses were over budget by \$1,789,033 or 8.3%.

Clarinda Regional Health Center

Management's Discussion and Analysis Years Ended June 30, 2012 and 2011

Economic Factors

The economic trends in our community, as well as our population figures have stayed relatively stable over the past few years, and thus there has been little change in the economic profile of the community.

There appears to be no sign of any new industries making a move to our community nor are there any indications of any businesses closing. With that, the economic outlook for our community should remain steady.

Contacting the Organization

This financial report is designed to provide our citizens, customers and creditors with a general overview of Clarinda Regional Health Center's finances and to demonstrate the Organization's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Christopher Stipe, CEO at Clarinda Regional Health Center, 220 Essie Davison Drive, Clarinda, Iowa 51632.

Clarinda Regional Health Center

Balance Sheets
June 30, 2012 and 2011

Assets	2012	2011
Current Assets:		
Cash and cash equivalents	\$ 1,259,481	\$ 2,033,444
Certificates of deposit	4,441,373	4,715,092
Investments	97,560	101,711
Assets limited as to use, restricted by bond agreement	1,524,066	2,817,335
Receivables:		
Patient, net	2,488,552	2,383,289
Electronic health records incentive programs	923,951	-
Other	135,216	242,635
Inventories	440,486	453,473
Prepaid expenses	129,474	115,154
Estimated net settlements due from third-party payors	270,000	-
Total current assets	11,710,159	12,862,133
Assets Limited as to Use:		
Restricted by bond agreements	3,307,813	7,854,389
Board-designated for health insurance	265,238	214,331
	3,573,051	8,068,720
Less amount required to meet current liabilities	1,524,066	2,817,335
	2,048,985	5,251,385
Capital Assets:		
Nondepreciable	294,412	17,240,544
Depreciable, net	26,670,836	2,281,520
	26,965,248	19,522,064
Other Assets:		
Debt issuance costs, net of accumulated amortization	356,703	367,014
Other	13,773	27,016
	370,476	394,030
	\$ 41,094,868	\$ 38,029,612

See Notes to Basic Financial Statements.

Liabilities and Net Assets	2012	2011
Current Liabilities:		
Current maturities of long-term debt	\$ 651,483	\$ 300,638
Accounts payable:		
Trade	701,434	395,047
Construction	678,298	2,345,040
Accrued expenses:		
Salaries, wages and payroll taxes	469,524	367,443
Paid leave	628,148	556,315
Accrued interest	394,448	247,295
Health insurance claims	100,000	125,000
Electronic health records incentive programs deferred revenue	692,963	-
Estimated net settlements due to third-party payors	-	47,000
Total current liabilities	4,316,298	4,383,778
Other Postemployment Benefits	281,000	211,000
Long-Term Debt, less current maturities	26,254,378	21,835,301
Total liabilities	30,851,676	26,430,079
Commitments and Contingencies (Notes 5 and 9)		
Net Assets:		
Invested in capital assets, net of related debt	2,717,990	4,591,369
Restricted by bond agreements	649,210	649,145
Unrestricted	6,875,992	6,359,019
	10,243,192	11,599,533
	\$ 41,094,868	\$ 38,029,612

Clarinda Regional Health Center

**Statements of Revenue, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011**

	2012	2011
Operating revenue:		
Net patient service revenue	\$ 21,125,271	\$ 19,007,960
Electronic health records incentive programs	374,238	-
Other revenue	317,535	280,090
Total revenue	21,817,044	19,288,050
Expenses:		
Salaries and wages	9,865,590	8,462,816
Employee benefits	3,068,178	2,486,214
Supplies	2,171,285	2,069,726
Medical professional fees	1,163,142	1,207,155
Other costs	3,474,312	3,271,695
Utilities	258,184	165,161
Insurance	246,326	241,932
Leases and rentals	355,849	262,098
Depreciation and amortization	1,580,225	703,714
Depreciation on assets to be abandoned	757,057	1,514,114
Interest	532,107	10,931
Total expenses	23,472,255	20,395,556
Operating (loss)	(1,655,211)	(1,107,506)
Nonoperating income (expense):		
Investment income	34,683	1,105
Other	39,978	1,559
Net nonoperating income	74,661	2,664
Excess of revenue over expenses before contributions to be used for capital purchases	(1,580,550)	(1,104,842)
Contributions to be used for capital purchases	224,209	624,737
Change in net assets	(1,356,341)	(480,105)
Net assets:		
Beginning	11,599,533	12,079,638
Ending	\$ 10,243,192	\$ 11,599,533

See Notes to Basic Financial Statements.

Clarinda Regional Health Center

**Statements of Cash Flows
Years Ended June 30, 2012 and 2011**

	2012	2011
Cash Flows from Operating Activities:		
Cash received from patients and third parties	\$ 20,703,008	\$ 19,041,909
Cash paid to employees	(12,714,854)	(10,779,659)
Cash paid to suppliers	(7,364,044)	(7,339,938)
Other receipts and payments, net	542,377	91,305
Net cash provided by operating activities	1,166,487	1,013,617
Cash Flows from Capital and Related Financing Activities:		
Acquisition of capital assets	(10,608,472)	(12,866,556)
Proceeds from the sale of capital assets	84,867	14,250
Interest paid on long-term debt	(829,599)	(726,464)
Principal payments on long-term debt	(349,484)	(19,101,464)
Proceeds from borrowings on long term debt	4,676,586	14,105,663
Payment of debt issuance costs	-	(119,000)
Contributions received to be used for capital purchases	224,209	624,737
Net cash (used in) capital and related financing activities	(6,801,893)	(18,068,834)
Cash Flows from Investing Activities:		
Proceeds from investments and assets limited as to use, net	4,788,937	18,028,428
Investment income	19,285	57,997
Other	53,221	(19,612)
Net cash provided by investing activities	4,861,443	18,066,813
Increase (decrease) in cash and cash equivalents	(773,963)	1,011,596
Cash and cash equivalents:		
Beginning	2,033,444	1,021,848
Ending	\$ 1,259,481	\$ 2,033,444

(Continued)

Clarinda Regional Health Center

**Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011**

	2012	2011
Reconciliation of Operating (Loss) to Net Cash		
Provided by Operating Activities:		
Operating (loss)	\$ (1,655,211)	\$ (1,107,506)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Interest expense considered capital financing activity	532,107	10,931
Depreciation	2,319,946	2,201,618
Amortization	17,336	16,210
(Gain) loss on disposal of capital assets	(25,827)	7,105
(Increase) decrease in:		
Patient and other receivables, net	(921,795)	(560,941)
Inventories and prepaid expenses	(1,333)	27,554
Increase (decrease) in:		
Accounts payable and accrued expenses	455,301	(61,354)
Deferred revenue	692,963	-
Other postemployment benefits	70,000	81,000
Estimated third-party payor settlements	(317,000)	399,000
Net cash provided by operating activities	\$ 1,166,487	\$ 1,013,617
Noncash Capital and Related Financing Activities:		
Increase (decrease) in accounts payable related to construction in progress	\$ (1,666,742)	\$ 2,282,233
Capital lease obligation incurred for acquisition of capital assets	435,795	-
(Decrease) in accounts payable related to cost of issuing bonds	-	(103,000)
Capitalized interest included in capital asset additions	444,645	715,533
Noncash Investing Activities, net change in unrealized (losses)	(15,398)	(56,892)

See Notes to Basic Financial Statements.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Clarinda Regional Health Center (Health Center) is a city public hospital under Chapter 392 of the Code of Iowa, and is an enterprise fund of the City of Clarinda, Iowa. The Health Center primarily earns revenue by providing health care services to patients on an inpatient and outpatient basis. The Health Center is exempt from income taxes as a political subdivision of the State of Iowa.

Clarinda Medical Foundation (Foundation) is a not-for-profit, tax-exempt corporation formed in 1995 in accordance with the laws of the State of Iowa. The Foundation's purpose is to solicit funds to enhance health care services for residents of southwest Iowa and surrounding communities and support the charitable health care mission of Clarinda Regional Health Center. The Foundation is a 501(c)(3) not-for-profit organization. The Health Center and the Foundation are collectively referred to as the Organization.

Significant accounting policies:

Reporting entity: For financial reporting purposes, the Organization has included all funds, organizations, agencies, boards, commissions and authorities. The Organization has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Organization are such that exclusion would cause the Organization's basic 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 organization 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 organization. Based on these criteria, Clarinda Medical Foundation is included within the reporting entity. All material inter-organization transactions and balances have been eliminated. The financial activities of Clarinda Medical Foundation are blended with the Health Center in the financial statement presentation. Because the assets, liabilities, net assets, revenues and expenses are not significant to the reporting entity, they are presented on a combined basis with the Health Center. Separate financial statements of Clarinda Medical Foundation are not available.

The financial statements are those of Clarinda Regional Health Center, an enterprise fund of the City of Clarinda, Iowa. The financial statements present only Clarinda Regional Health Center and are not intended to present fairly the financial position of the City of Clarinda, Iowa, as of June 30, 2012 and 2011, and the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

Accrual basis of accounting: The accrual basis of accounting is used by the Organization. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred. Under this basis of accounting, all assets and liabilities associated with the operation of the Organization are included in the balance sheets.

Accounting standards: The Organization has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs). The Organization has elected not to apply FASB guidance subsequent to November 30, 1989.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Accounting estimates: The preparation of basic 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 basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents include temporary cash investments whose use is not limited or restricted. The temporary cash investments have original maturities of three months or less at date of issuance. Certain temporary investments internally designated as long-term investments are excluded from cash and cash equivalents.

Patient receivables: Patient receivables where a third-party payor is responsible for paying the amount are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful accounts based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, by historical experience applied to an aging of accounts, and by considering the patient's financial history, credit history and current economic conditions. The Health Center does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Receivables or payables related to estimated settlements on various risk contracts that the Health Center participates in are reported as estimated third-party payor receivables or payables.

Inventories: Inventories are valued at the lower of cost (first-in, first-out method) or market, with cost determined using the first-in, first-out method. Inventories are recorded as an expenditure at the time of consumption.

Assets limited as to use and investments: Assets limited as to use include assets set aside by the Board of Trustees for health insurance claims, over which the Board retains control and may at its discretion subsequently use for other purposes, and assets held by trustee under the bond agreements.

Investments, including assets limited as to use, are recorded at fair value in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments in equity securities with readily determinable fair values and all investments in debt securities, including those classified as assets limited as to use, are measured at fair value in the balance sheets. Securities traded on national or international exchange are valued at the last reported sales price at current exchange rates. Investment income, including realized gains and losses on investments, interest and dividends, and changes in unrealized gains and losses are included in nonoperating income.

Capital assets: Capital assets are carried at cost or, if donated, at fair value at date of donation. Depreciation is computed by the straight-line method over the assets' estimated useful lives ranging from 3 to 40 years. The amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets. Interest expense related to the construction of capital assets is capitalized. For the years ended June 30, 2012 and 2011 there was \$444,645 and \$715,533, respectively, of interest capitalized on construction.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Unamortized bond issuance costs: Costs related to the issuance of long-term debt are deferred and amortized using the effective interest method over the period during which the debt is outstanding.

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 with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue is reported net of provision for bad debts.

Contributions: From time to time the Organization receives contributions from individuals and private organizations. Revenue from contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific noncapital purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Investment earnings: Investment earnings of the unrestricted funds are reported as nonoperating income. Investment income and gains (losses) on restricted funds are added to (deducted from) their respective net asset accounts.

Operating income: The Organization distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from the primary purpose of the Organization, which is to provide medical services to the area. Other operating revenue consists of cafeteria and special meals and other miscellaneous services and revenue earned under electronic health records incentive programs. Operating expenses consist primarily of salaries and benefits, supplies, medical professional fees, utilities, insurance, depreciation and interest. All revenue and expenses not meeting these criteria are considered nonoperating.

Electronic health records incentive programs: The electronic health records incentive programs, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. As a critical access hospital, Medicare payments are made in one lump-sum payment. The final Medicare amount for any payment year is determined based upon an audit by the fiscal intermediary. The hospital's inability to continue to meet future escalating criteria may impact overall reimbursement the Health Center receives. Payments under the Medicaid program are generally made for up to four years based on a statutory formula. The Medicaid programs are determined on a state by state basis, which are approved by the Centers for Medicare and Medicaid Services. Payments under both programs are contingent on the Health Center initially attesting to being a meaningful user of EHR technology and then continuing to meet escalating criteria, including other specific requirements that are applicable. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Health Center recognized revenue for both the Medicare and Medicaid programs during 2012. Under the Medicare program, the Health Center has elected to recognize revenue based on the weighted average useful life of the assets for which the reimbursement from Medicare relates. The Health Center recognized approximately \$231,000 in Medicare EHR incentive program revenue which is included in operating revenue in the accompanying statement of revenue, expenses and changes in net assets for the year ended June 30, 2012. The remaining unrecognized EHR incentive program amounts to approximately \$693,000 and is reported as electronic health record incentive program deferred revenue on the accompanying balance sheet. As of June 30, 2012, the amount expected to be received under the Medicare program of approximately \$924,000 is included as a current receivable on the accompanying balance sheet. The Health Center also received approximately \$143,000 in Medicaid incentive payments in 2012, which has been recognized as operating revenue in the accompanying statement of revenue, expenses and changes in net assets.

Net assets: Net asset classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted – This component of net assets consists of constraints placed on net assets through external constraints imposed by creditors (such as through debt agreements), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation, including amounts deposited as required by debt agreements.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt” above.

The Health Center’s board-designated assets limited as to use have been designated for employee health insurance claims.

The Health Center first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Charity care: The Health 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 Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Health Center maintains records to identify and monitor the level of charity care it provides. These records include the amounts of charges forgone for services and supplies furnished under its charity care policy and the estimated cost of those services and supplies. The amount of charges forgone, based on established rates, was approximately \$186,000 and \$102,000 for the years ended June 30, 2012 and 2011, respectively.

Although not accounted for as charity care, the Health Center considers the contractual adjustment expense related to the Medicaid services as charity care. Contractual adjustment expense related to the Medicaid services performed was approximately \$1,529,000 and \$1,055,000 for the years ended June 30, 2012 and 2011, respectively.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Gifts, grants and bequests: Gifts, grants and bequests not designated by donors for specific purposes are reported as nonoperating revenue regardless of the use for which they might be designated by the Board of Trustees.

Reclassification: Certain items on the accompanying balance sheet for the year ended June 30, 2011, have been reclassified to be consistent with classifications for the year ended June 30, 2012. The reclassifications had no impact on net assets.

Note 2. Net Patient Service Revenue

Approximately 77% and 81% of the Health Center's net patient service revenue was earned under agreements with Medicare, Medicaid and Blue Cross for the years ended June 30, 2012 and 2011, respectively. These agreements provide for reimbursement to the Health Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Health Center's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party reimbursement programs follows:

Medicare: The Health Center received Critical Access Hospital designation effective September 1, 2003. Under the Critical Access Hospital methodology, the Health Center is reimbursed for inpatient, outpatient, swing-bed and rural health clinic services based on a reasonable cost methodology at a tentative rate with final settlement determined after submission of annual cost reports and audit or review by the third-party Medicare fiscal intermediary. Home health services are reimbursed based on prospective payment rates which vary according to a patient classification system that is based on clinical, diagnostic and other factors.

The Health Center's Medicare cost reports have been finalized by the Medicare fiscal intermediary through June 30, 2010.

Medicaid: The Health Center receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payments are established for inpatient, outpatient, swing-bed, home health and rural health clinic services, with final settlements determined after submission of annual cost reports and audit or review by the third-party Medicaid fiscal intermediary.

The Health Center's Medicaid cost reports have been finalized by the Medicaid fiscal intermediary through June 30, 2010.

Other payors: The Health Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Health Center under these agreements includes prospectively determined daily rates, prospectively determined rates per discharge and discounts from established charges.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 2. Net Patient Service Revenue (Continued)

A summary of the Health Center's patient service revenue for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
Gross patient service revenue	\$ 34,599,444	\$ 31,068,742
Less:		
Provision for bad debts	1,406,040	969,488
Discounts, allowances and estimated contractual adjustments under third-party reimbursement programs	12,068,133	11,091,294
Net patient service revenue	\$ 21,125,271	\$ 19,007,960

Contractual adjustment expense for the years ended June 30, 2012 and 2011 includes the effect of a change in the estimate of the amount due to third-party payors. The effect of this change in estimate is an increase (decrease) in contractual adjustment expense of approximately \$121,000 and \$(104,000) for the years ended June 30, 2012 and 2011, respectively. The change in estimate is primarily the result of retroactive adjustments based on the final settlements of prior years' cost reports.

Note 3. Patient Receivables

Patient receivables as of June 30, 2012 and 2011 consisted of the following:

	2012	2011
Patients	\$ 4,336,096	\$ 4,287,040
Less:		
Allowance for doubtful accounts	986,469	827,838
Allowance for contractual adjustments	861,075	1,075,913
	\$ 2,488,552	\$ 2,383,289

Note 4. Cash and Investments

As of June 30, 2012 and 2011, all of the Health Center's investments were maintained in U.S. Treasury notes, while the Foundation's investments were maintained in mutual funds.

Interest rate risk: In accordance with the Foundation's investment policy, the Foundation strives to preserve principal while providing growth of the portfolio. The Foundation's policy prohibits trades on margin, purchases of futures or options and purchases of real estate solely for investment purposes.

According to the Health Center's investment policy, the safety and preservation of principal in the overall portfolio and obtaining a reasonable return are the objectives of the policy. The policy prohibits investments in reverse repurchase agreements and futures and options contracts.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 4. Cash and Investments (Continued)

Credit risk: The Iowa Code authorizes the Health Center and Foundation to invest in obligations of the U.S. government, its agencies, and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions; prime banker's acceptances that mature within 270 days and that are eligible for purchase by a federal reserve bank; commercial paper or other short-term corporate debt that matures within 270 days and that is rated within the two highest classifications, as established by at least one of the standard rating services approved by the superintendent of banking; repurchase agreements whose underlying collateral consists of obligations of the U.S. government, its agencies, and instrumentalities; an open-end management investment company registered with federal securities and exchange commission under the Federal Investment Company Act of 1940; a joint investment trust organized pursuant to Chapter 28E prior to and existing in good standing on April 28, 1992, or is rated within the two highest classifications by at least one of the standard rating services approved by the superintendent of banking; and warrants or improvement certificates of a levee or drainage district. The U.S. Treasury notes and mutual funds held by the Health Center and Foundation as of June 30, 2012 are not rated by a nationally recognized statistical rating organization.

Concentration of credit risk: The Health Center's investment policy encourages diversification of investments to avoid undue concentration of assets in a specific maturity sector and also prevents against risks of market price volatility. The Health Center has no investments and \$2,348,122 as of June 30, 2012 and 2011, respectively, which consisted entirely of U.S. Treasury notes. The Foundation places no limit on the amount the Foundation may invest in any one issuer. The Foundation has investments of \$97,560 and \$101,711 as of June 30, 2012 and 2011, respectively, which consisted entirely of mutual funds.

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. It is the Health Center and Foundation's policy to avoid default risks with financial institutions with which the chief financial officer deposits monies by determining in advance of the deposit that each depository in which monies are to be placed is an approved depository for purposes of Chapter 453 of Iowa Code. As of June 30, 2012, the Organization's deposits and investments were not exposed to custodial credit risk.

The Organization's cash, investments and assets limited as to use as of June 30, 2012 and 2011 consist of the following:

	2012	2011
Cash	\$ 4,832,532	\$ 7,754,042
Certificates of deposit	4,441,373	4,715,092
Fixed income, U.S. Treasury notes	-	2,348,122
Mutual funds	97,560	101,711
	<u>\$ 9,371,465</u>	<u>\$ 14,918,967</u>

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 4. Cash and Investments (Continued)

These balances are presented in the balance sheets as summarized below:

	2012	2011
Current:		
Cash and cash equivalents	\$ 1,259,481	\$ 2,033,444
Certificates of deposit	4,441,373	4,715,092
Investments	97,560	101,711
Assets limited as to use, restricted by bond agreements:		
Project fund	1,072,746	2,592,335
Debt service reserve fund	451,320	225,000
Noncurrent:		
Restricted by bond agreements:		
Project fund	909,717	4,124,716
Sinking fund	676,140	488,193
Debt service reserve fund	197,890	424,145
Internally designated for health insurance	265,238	214,331
	<u>\$ 9,371,465</u>	<u>\$ 14,918,967</u>

Note 5. Capital Assets

Activity in capital assets and accumulated depreciation for the years ended June 30, 2012 and 2011 are as follows:

	June 30, 2011	Additions	Transfers	Disposals	June 30, 2012
Capital assets not being depreciated:					
Land	\$ 237,502	\$ -	\$ -	\$ -	\$ 237,502
Construction in progress	17,003,042	8,235,999	(25,182,131)	-	56,910
Total capital assets not being depreciated	<u>17,240,544</u>	<u>8,235,999</u>	<u>(25,182,131)</u>	<u>-</u>	<u>294,412</u>
Capital assets being depreciated:					
Land improvements	220,633	-	-	-	220,633
Building	6,488,888	-	23,035,275	(2,417)	29,521,746
Fixed equipment	799,148	-	1,306,482	(96,522)	2,009,108
Movable equipment	6,146,476	1,586,171	840,374	(426,454)	8,146,567
Total capital assets being depreciated	<u>13,655,145</u>	<u>1,586,171</u>	<u>25,182,131</u>	<u>(525,393)</u>	<u>39,898,054</u>
Less accumulated depreciation for:					
Land improvements	207,654	12,977	-	-	220,631
Building	5,281,936	1,577,584	-	(2,417)	6,857,103
Fixed equipment	770,788	161,835	-	(96,521)	836,102
Movable equipment	5,113,247	567,550	-	(367,415)	5,313,382
Total accumulated depreciation	<u>11,373,625</u>	<u>2,319,946</u>	<u>-</u>	<u>(466,353)</u>	<u>13,227,218</u>
Total capital assets being depreciated, net	<u>2,281,520</u>	<u>(733,775)</u>	<u>25,182,131</u>	<u>(59,040)</u>	<u>26,670,836</u>
Capital assets, net	<u>\$ 19,522,064</u>	<u>\$ 7,502,224</u>	<u>\$ -</u>	<u>\$ (59,040)</u>	<u>\$ 26,965,248</u>

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 5. Capital Assets (Continued)

	June 30, 2010	Additions	Transfers	Disposals	June 30, 2011
Capital assets not being depreciated:					
Land	\$ 237,502	\$ -	\$ -	\$ -	\$ 237,502
Construction in progress	1,411,397	15,646,381	(54,736)	-	17,003,042
Total capital assets not being depreciated	1,648,899	15,646,381	(54,736)	-	17,240,544
Capital assets being depreciated:					
Land improvements	220,633	-	-	-	220,633
Building	6,488,888	-	-	-	6,488,888
Fixed equipment	779,148	20,000	-	-	799,148
Movable equipment	5,922,097	197,941	54,736	(28,298)	6,146,476
Total capital assets being depreciated	13,410,766	217,941	54,736	(28,298)	13,655,145
Less accumulated depreciation for:					
Land improvements	181,475	26,179	-	-	207,654
Building	3,655,131	1,626,805	-	-	5,281,936
Fixed equipment	759,927	10,861	-	-	770,788
Movable equipment	4,582,417	537,773	-	(6,943)	5,113,247
Total accumulated depreciation	9,178,950	2,201,618	-	(6,943)	11,373,625
Total capital assets being depreciated, net	4,231,816	(1,983,677)	54,736	(21,355)	2,281,520
Capital assets, net	\$ 5,880,715	\$ 13,662,704	\$ -	\$ (21,355)	\$ 19,522,064

In January 2012, the Organization finished construction and moved into its new hospital. As of June 30, 2012, the Organization has approximately \$715,000 in estimated costs to complete the construction, which includes the demolition costs of the old hospital.

In July 2010, the Health Center began accelerating depreciation on assets that were abandoned when the new facility opened in January 2012. The Health Center accelerated approximately \$2,271,000 of depreciation expense over a period of 18 months. Accelerated depreciation recognized during the years ended June 30, 2012 and June 30, 2011 totaled approximately \$757,000 and 1,514,000, respectively, and is presented as depreciation on assets to be abandoned on the accompanying statement of revenue, expenses and changes in net assets.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 6. Long-Term Debt

Long-term debt activity as of and for the years ended June 30, 2012 and 2011 is as follows:

	June 30, 2011	Borrowings	Payments/ Deductions	June 30, 2012	Due Within One Year
Long-term debt:					
2010 Hospital Revenue Bonds, Series B (B)	\$ 6,355,000	\$ -	\$ (225,000)	\$ 6,130,000	\$ 230,000
2010 Hospital Revenue Bonds, Series C (C)	1,745,000	-	-	1,745,000	-
2010 Hospital Revenue Bonds, Series D (D)	14,105,663	4,676,586	-	18,782,249	221,320
Capital lease obligations (E)	127,667	435,795	(124,484)	438,978	200,163
	22,333,330	5,112,381	(349,484)	27,096,227	651,483
Less unamortized bond discount	197,391	-	(7,025)	190,366	-
	<u>\$ 22,135,939</u>	<u>\$ 5,112,381</u>	<u>\$ (342,459)</u>	<u>\$ 26,905,861</u>	<u>\$ 651,483</u>
	June 30, 2010	Borrowings	Payments/ Deductions	June 30, 2011	Due Within One Year
Long-term debt:					
2010 Hospital Revenue Bonds, Series A (A)	\$ 18,900,000	\$ -	\$ (18,900,000)	\$ -	\$ -
2010 Hospital Revenue Bonds, Series B (B)	6,355,000	-	-	6,355,000	225,000
2010 Hospital Revenue Bonds, Series C (C)	1,745,000	-	-	1,745,000	-
2010 Hospital Revenue Bonds, Series D (D)	-	14,105,663	-	14,105,663	-
Capital lease obligations (E)	329,131	-	(201,464)	127,667	75,638
	27,329,131	14,105,663	(19,101,464)	22,333,330	300,638
Less unamortized bond discount	203,850	-	(6,459)	197,391	-
	<u>\$ 27,125,281</u>	<u>\$ 14,105,663</u>	<u>\$ (19,095,005)</u>	<u>\$ 22,135,939</u>	<u>\$ 300,638</u>

- (A) Hospital Revenue Bonds, 2010 Series A required semi-annual payments of interest only through June 2012, at an interest rate of 2.00%. The United States Department of Agriculture – Rural Development (USDA – RD) made a conditional commitment to lend funds to the Health Center to refund the Series A notes through the purchase of revenue bonds (Building America Bonds – Direct Payment) to be issued upon completion of the project, in order to provide permanent financing. Item (D) below discusses the terms of the USDA – RD revenue bonds issued in December 2011 to refund the 2010 Series A Bonds.
- (B) Hospital Revenue Bonds, 2010 Series B require semi-annual payments of interest only through June 2012. The interest rate adjusts annually, ranging from 2.00% as of June 30, 2011 to 6.15% as of June 30, 2030. Semi-annual principal and interest payments commence July 2012 and continue through June 2030.
- (C) Hospital Revenue Bonds, 2010 Series C require semi-annual payments of interest only through June 2030. Semi-annual payments of principal and interest will commence December 2030 and continue through June 2033. The interest rate is fixed at 6.125%.
- (D) Hospital Revenue Bonds, 2010 Series D (Building America Bonds – Direct Payment) require semi-annual payments of principal and interest through December 2050. Semi-annual payments of interest will continue through December 2012. At this time, semi-annual principal and interest payments will commence and continue through December 2050. The interest rate is fixed at 3.75%. The Series D bonds are being drawn down as necessary to fund the current payments due on the construction of the new facility up to the maximum amount of \$18,900,000. The outstanding amount at June 30, 2012 is \$18,782,249.
- (E) The Health Center leases certain equipment under capital lease arrangements. Leases require monthly payments of principal and interest ranging from approximately \$2,400 to \$10,600 at rates ranging from 4.52% to 8.30%. Leases are secured by equipment.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 6. Long-Term Debt (Continued)

The bond agreements require that payments be made to a sinking fund in amounts sufficient to pay the interest on the bonds when due. Sinking funds available for payment of interest amounted to \$676,140 as of June 30, 2012. As of June 30, 2012, there was also \$1,982,463 of unspent bond proceeds in funds to be used for payment of project costs.

The 2010 Series B and C Revenue Bond agreement requires the Health Center to maintain an amount not less than \$649,000 in restricted funds at all times. In connection with the Hospital Revenue Bonds, 2010 Series B and C, the Health Center is required to comply with specific covenants as outlined within the bond agreement, the most restrictive is the debt service coverage ratio of 1.25.

Clarinda Regional Health Center has pledged future revenues, net of operating expenses, (net revenues) to repay \$6,355,000, \$1,745,000 and \$18,782,249 for the 2010 Hospital Revenue Bonds, Series B, C and D, respectively. Proceeds from the bonds were used for the construction of the new Health Center. The bonds are payable solely from the Health Center's net revenues and are payable through June 2030, and June 2033 and December 2050, respectively. The total principal and interest remaining to be paid on all bonds is \$49,885,055. There were payments of principal and interest on the 2010 Series Hospital Revenue Bonds of \$1,041,912 during the year ended June 30, 2012 and total net revenues, as defined above, were \$1,046,280 for the year ended June 30, 2012.

Aggregate future payments of principal and interest on the long-term debt obligations, which are outstanding as of June 30, 2012, are approximately as follows:

	Hospital Revenue Bonds		Capital Lease Obligations		Total
	Principal	Interest	Principal	Interest	
Year ending June 30:					
2013	\$ 451,320	\$ 1,133,130	\$ 200,163	\$ 16,546	\$ 1,801,159
2014	464,620	1,118,851	163,585	7,079	1,754,135
2015	483,230	1,102,955	75,230	1,052	1,662,467
2016	497,164	1,085,201	-	-	1,582,365
2017	516,433	1,065,933	-	-	1,582,366
2018 to 2022	2,938,824	4,987,605	-	-	7,926,429
2023 to 2027	3,663,599	4,253,485	-	-	7,917,084
2028 to 2032	4,666,939	3,252,561	-	-	7,919,500
2033 to 2037	3,105,677	2,196,650	-	-	5,302,327
2038 to 2042	2,994,042	1,656,308	-	-	4,650,350
2043 to 2047	3,599,138	1,051,212	-	-	4,650,350
2048 to 2052	3,276,263	323,915	-	-	3,600,178
	<u>\$ 26,657,249</u>	<u>\$ 23,227,806</u>	<u>\$ 438,978</u>	<u>\$ 24,677</u>	<u>\$ 50,348,710</u>

The following is the leased equipment as of June 30, 2012 and 2011:

	2012	2011
Moveable equipment	\$ 914,054	\$ 488,649
Less accumulated depreciation	451,763	363,874
	<u>\$ 462,291</u>	<u>\$ 124,775</u>

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 7. Retirement System

The Organization 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 and protected plan members are required to contribute 5.38% and 6.65%, respectively, of their annual salary, and the Organization is required to contribute 8.07% and 9.97%, respectively, of annual covered payroll. Contribution requirements are established by State statute. The Organization's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were approximately \$795,000, \$596,000 and \$541,000, respectively, equal to the required contributions for each year.

Note 8. Related Organization

Effective September 1, 2002 the Health Center entered into a contractual arrangement with Mercy Medical Center - Des Moines, under which Mercy Medical Center - Des Moines provides management consultation and other services to Clarinda Regional Health Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of Clarinda Regional Health Center. Expenses for the services received amounted to approximately \$326,000 and \$331,000 for the years ended June 30, 2012 and 2011, respectively.

Note 9. Self Insurance, Commitments and Contingent Liabilities

Professional liability insurance:

The Health Center maintains professional liability and excess liability insurance on a claims-made basis, with a loss limit of \$1,000,000 per claim and an aggregate total limit of \$3,000,000.

The Health Center is involved in litigation arising in the normal course of business. It is the opinion of management, however, that the Health Center's malpractice insurance coverage is adequate to provide for potential losses resulting from pending or threatened litigation. Additional claims may be asserted against the Health Center arising from services provided to patients through June 30, 2012. The ultimate costs of the resolution of such potential claims is not considered to be material, and accordingly, no accrual has been made for these costs.

The Health Center's medical malpractice insurance expense totaled approximately \$147,000 and \$145,000 for the years ended June 30, 2012 and 2011, respectively. Settled claims have not exceeded available coverage in any of the past three years.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 9. Self Insurance, Commitments and Contingent Liabilities (Continued)

Health plan self-insurance:

The Organization is self-insured for its employee health and dental insurance plans. The self-insured claims are processed through a plan administrator. The Organization has stop-loss coverage for claims in excess of \$40,000 per individual per plan year with a \$3,000,000 lifetime maximum per individual.

Liabilities are reported when it is probable that a loss will occur, and the amount of the loss can be reasonably estimated. Claims liabilities are calculated considering recent claims, settlement trends, including frequency and amount of payouts, and other economic and social factors. The following is a summary of estimated claims liability for the years ended June 30, 2012 and 2011. The Organization has recorded a current liability for open claims and claims incurred but not reported.

	2012	2011
Balance, beginning	\$ 125,000	\$ 100,000
Claims expense	1,283,690	984,288
Claims payment	(1,308,690)	(959,288)
Balance, ending	<u>\$ 100,000</u>	<u>\$ 125,000</u>

Laws and regulations:

The health care industry is subject to numerous laws and regulations of federal, state and local governments. 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. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Health Center is subject to similar regulatory reviews, management believes the outcome of any such regulatory review will not have a material adverse effect on the Health Center's financial position.

CMS RAC Program:

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. The RAC's identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. The Health Center has been subject to such an audit and may continue to be subject to additional audits in the future.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 9. Self Insurance, Commitments and Contingent Liabilities (Continued)

Health care reform:

In March 2010 the Patient Protection and Affordable Care Act (PPACA) was signed into law. PPACA will result in sweeping changes across the health care industry, including how care is provided and paid for. A primary goal of this comprehensive reform legislation is to extend health coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Given that final regulations and interpretive guidelines have yet to be published, the Health Center is unable to fully predict the impact of PPACA on its operations and financial results. If the law is implemented as adopted, the Health Center's management expects that in the coming years, patients who were previously uninsured and unable to pay for care will have basic insurance coverage, and amounts for reimbursement for services from both public and private payers will be reduced and made conditional on various quality measures. Management of the Health Center is studying and evaluating the anticipated effects and developing strategies needed to prepare for implementation, and is preparing to work cooperatively with other constituents to optimize available reimbursement.

Current economic conditions:

The current economic environment presents organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Health Center.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Health Center's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Health Center's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts and contributions receivable that could negatively impact the Health Center's ability to meet debt covenants or maintain sufficient liquidity.

Note 10. Other Postemployment Benefits (OPEB)

Plan description and funding policy:

The Health Center sponsors a post-retirement medical plan that provides post-termination medical insurance coverage for the participant and the participant's family through age 65. The employees eligible under this policy are all employees who terminate employment at or after age 55 with at least 3 years of service. Prior to the participants' age 65, the coverage shall be insured coverage providing a level of benefits reasonably comparable to the standard medical coverage the Health Center provides to all full-time employees. The plan coverage terminates upon the participant reaching Medicare eligibility (age 65).

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 10. Other Postemployment Benefits (OPEB) (Continued)

The Health Center pays for all or a portion of active employees' coverage. The amount depends on whether single for family coverage is elected. Upon retirement, the retired participant continuing their coverage pays the premium including any increase in single premium after retirement. The required contribution is based on projected pay-as-you-go financing requirements. The Health Center contributed approximately \$55,000 and \$41,000 to the plan during the years ended June 30, 2012 and 2011, respectively.

Annual OPEB cost and net OPEB obligation:

The Health Center's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the 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 Health Center's annual OPEB cost for the year, the amount actuarially contributed to the plan, and changes in the Health Center's annual OPEB obligation:

	2012	2011
Annual required contribution	\$ 116,000	\$ 116,000
Interest on net OPEB obligation	9,495	6,000
Annual OPEB cost (expense)	125,495	122,000
Contributions made	55,495	41,000
Increase in net OPEB obligation	70,000	81,000
Net OPEB obligation, beginning of year	211,000	130,000
Net OPEB obligation, end of year	<u>\$ 281,000</u>	<u>\$ 211,000</u>

The Health Center's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligations for fiscal years 2009 through 2012 are as follows:

	Annual OPEB Cost	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
Fiscal year ended June 30:			
2012	\$ 125,495	44.2%	\$ 281,000
2011	122,000	33.6%	211,000
2010	100,925	35.6	130,000
2009	98,000	38.7	65,000

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 10. Other Postemployment Benefits (OPEB) (Continued)

Funded status and funding progress:

OPEB obligations under GASB Statement No. 45 as of July 1, 2010 the most recent actuarial valuation date:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>
July 1, 2010	\$ -	\$ 808,000	\$ 808,000	-
July 1, 2008	-	615,000	615,000	-

The covered payroll (annual payroll of active employees covered by the plan) was \$10,214,001 and the ratio of UAAL to covered payroll was 7.91%.

Actuarial methods and assumptions:

The actuarial calculations are performed in accordance with the Projected Unit Credit Method as allowed under GASB Statement No. 45. The excess of the AAL over the actuarial value of plan assets is the Unfunded Actuarial Accrued Liability. The Unfunded Actuarial Accrued Liability is amortized over a maximum of 30 years in level dollar amounts on a closed and level percent of payroll basis. The sum of the normal cost and the amortization of the unfunded actuarial accrued liability is the annual required contribution, which with interest at the valuation date, determines the annual OPEB cost.

Economic cost assumptions:

The rate at which projected cash flows are to be discounted is 4.5% based on estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits.

Actuarial calculations reflect a long-term perspective that involves estimates of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 11. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements

The Organization implemented GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, and GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53), during the year ended June 30, 2012. The adoption of these Statements had no effect on the financial statements.

As of June 30, 2012, the GASB had issued the following Statements not yet implemented by the Organization. The Statements which might impact the Organization are as follows:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the Organization beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement and disclosure requirements SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued November 2010, will be effective for the Organization beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the Organization beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 11. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements (Continued)

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the Health Center beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued April 2012, will be effective for the Organization beginning with its year ending June 30, 2014. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON 4. Based on those definitions, this Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

GASB Statement No. 66, *Technical Corrections - 2012*, issued April 2012, will be effective for the Organization beginning with its year ending June 30, 2014. This Statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state or local government's risk financing activities to the general fund and the internal service fund types. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement also amends GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for: (a) operating lease payments that vary from a straight-line basis; (b) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans; and (c) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 11. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements (Continued)

GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued June 2012, will be effective for the Organization beginning with its year ending June 30, 2014. This Statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. This Statement enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. This Statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the Organization beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

The Organization's management has not yet determined the effect these Statements will have on the Organization's financial statements.

Clarinda Regional Health Center

**Required Supplementary Information, Budget and Budgetary Accounting
Year Ended June 30, 2012**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The budgetary basis is non-GAAP basis adjusted for equipment improvements and lease payments. There were no amendments to the budget in the current year.

The following is a comparison of actual expenses to budget for the year ended June 30, 2012:

<u>GAAP Expenses</u>	<u>Adjustments to Budgetary Basis</u>	<u>Budgetary Basis</u>	<u>Adopted Budget, Budgetary Basis</u>
\$ 23,472,255	\$ -	\$ 23,472,255	\$ 21,683,222

Clarinda Regional Health Center

**Required Supplementary Information, Other Postemployment Benefit Plan
Year Ended June 30, 2012**

Schedule of Funding Progress

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over-funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2012	07/01/2010	\$ -	\$ 808,000	\$ 808,000	0.00%	\$ 10,214,001	7.91%
2011	07/01/2010	-	808,000	808,000	0.00%	8,098,845	9.98%
2010	07/01/2008	-	615,000	615,000	0.00%	7,608,036	8.08%
2009	07/01/2008	-	615,000	615,000	0.00%	7,136,867	8.62%

NOTE: Fiscal year 2009 was the transition year for GASB Statement No. 45

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2010. Additional information follows:

1. The cost method used to determine the ARC is the Projected Unit Credit method.
2. There are no plan assets.
3. Economic assumptions are as follows: health care cost trend rates of 5.0-10.0%; discount rate of 4.5%.
4. The amortization method is closed period, level percent of payroll basis.

Clarinda Regional Health Center

**Net Patient Service Revenue
Years Ended June 30, 2012 and 2011**

	Total	
	2012	2011
Routine services, medical and surgical	\$ 2,037,789	\$ 1,556,721
Other nursing services:		
Operating room	2,605,956	2,624,379
Recovery room	223,888	194,322
Emergency room	2,573,830	1,864,956
Home health agency	31,131	31,843
	<u>5,434,805</u>	<u>4,715,500</u>
Other professional services:		
Ambulance	938,550	912,425
Anesthesiology	642,761	681,517
Blood service	38,803	58,710
Cardiac rehabilitation	526,389	466,299
Clinic	738,344	656,943
CT scan	3,394,840	3,115,836
Diabetes management	11,918	13,750
Dietary consulting	8,876	5,754
Education	-	75
Electrocardiology	230,264	160,718
Hypnotherapy	1,930	5,860
Inhalation therapy	1,218,576	972,024
Intravenous therapy	713,903	571,151
Laboratory	5,056,863	4,705,309
Nuclear medicine	367,185	337,035
Occupational therapy	368,830	294,285
Pharmacy	4,164,107	3,865,173
Physical therapy	1,283,490	1,078,880
Radiology	3,016,646	2,681,321
Speech therapy	131,923	102,081
Ultrasound	353,215	380,732
Villisca Rural Health Clinic	174,077	169,102
Wound care	69,433	75,579
Clarinda Medical Associates	3,861,815	3,587,707
	<u>27,312,738</u>	<u>24,898,266</u>
	34,785,332	31,170,487
Less charity care	185,888	101,745
	<u>34,599,444</u>	<u>31,068,742</u>
Less contractual adjustments and bad debts	13,474,173	12,060,782
Net patient service revenue	<u>\$ 21,125,271</u>	<u>\$ 19,007,960</u>

Inpatient		Outpatient	
2012	2011	2012	2011
\$ 1,710,078	\$ 1,320,409	\$ 327,711	\$ 236,312
506,579	375,447	2,099,377	2,248,932
16,758	15,155	207,130	179,167
60,227	29,417	2,513,603	1,835,539
-	-	31,131	31,843
583,564	420,019	4,851,241	4,295,481
-	-	938,550	912,425
66,531	68,695	576,230	612,822
17,496	29,284	21,307	29,426
86,010	67,031	440,379	399,268
2,997	2,322	735,347	654,621
365,480	376,726	3,029,360	2,739,110
-	-	11,918	13,750
-	-	8,876	5,754
-	-	-	75
26,720	18,062	203,544	142,656
-	-	1,930	5,860
717,624	652,924	500,952	319,100
125,987	103,650	587,916	467,501
570,420	500,420	4,486,443	4,204,889
29,609	10,802	337,576	326,233
102,750	68,546	266,080	225,739
1,074,594	1,042,331	3,089,513	2,822,842
111,489	85,271	1,172,001	993,609
240,911	163,625	2,775,735	2,517,696
9,525	5,294	122,398	96,787
34,460	31,250	318,755	349,482
-	-	174,077	169,102
10,019	12,213	59,414	63,366
-	-	3,861,815	3,587,707
3,592,622	3,238,446	23,720,116	21,659,820
\$ 5,886,264	\$ 4,978,874	\$ 28,899,068	\$ 26,191,613

Clarinda Regional Health Center

**Adjustments to Patient Service Revenue and Other Revenue
Years Ended June 30, 2012 and 2011**

	2012	2011
Adjustments to patient service revenue:		
Contractual adjustments:		
Medicare	\$ 5,628,529	\$ 5,869,467
Medicaid	1,528,888	1,055,207
Other	4,910,716	4,166,620
Provision for bad debts	1,406,040	969,488
Total contractual adjustments and bad debts	\$ 13,474,173	\$ 12,060,782
Other revenue:		
Lifeline, net	\$ 12,759	\$ 15,676
Dietary	4,601	10,431
Employee meals	90,680	73,525
Meals on wheels and congregate meals	58,518	54,157
Wellness program	32,497	26,001
Medical records transcripts	4,899	6,196
Other miscellaneous	113,581	94,104
Total other revenue	\$ 317,535	\$ 280,090

Clarinda Regional Health Center

Operating Expenses

Years Ended June 30, 2012 and 2011

	Total	
	2012	2011
Nursing services:		
Nursing administration	\$ 148,253	\$ 147,423
Routine care	1,230,124	1,153,262
Operating room	1,280,431	1,142,709
Emergency room	945,234	817,150
Home health agency	55,189	55,031
	3,659,231	3,315,575
Other professional services:		
Ambulance	294,467	250,765
Anesthesiology	279,607	26,719
Cardiac rehabilitation	133,907	93,338
Central service and supply	79,326	73,019
Clinic	302,803	276,881
CT scan	137,408	114,264
Electrocardiology	7,880	6,310
Hypnotherapy	3,186	3,101
Inhalation therapy	306,296	238,907
Laboratory	799,955	751,710
Nuclear medicine	152,916	152,569
Occupational therapy	2,968	4,201
Performance management	39,646	68,860
Pharmacy	1,334,852	1,348,864
Physical therapy	103,465	82,518
Radiology	739,592	709,200
Speech therapy	96,059	92,743
Ultrasound	77,595	68,062
Clarinda Medical Associates	2,183,199	1,874,436
Villisca Rural Health Clinic	118,973	113,870
Wellness	81,626	84,284
Wound care	60,849	58,169
	\$ 7,336,575	\$ 6,492,790

Salaries		Other	
2012	2011	2012	2011
\$ 144,140	\$ 142,426	\$ 4,113	\$ 4,997
1,000,556	941,758	229,568	211,504
783,862	671,297	496,569	471,412
845,220	756,607	100,014	60,543
49,801	50,449	5,388	4,582
2,823,579	2,562,537	835,652	753,038
165,448	150,938	129,019	99,827
239,762	-	39,845	26,719
60,204	51,848	73,703	41,490
79,326	73,019	-	-
263,022	241,753	39,781	35,128
-	-	137,408	114,264
3,820	3,397	4,060	2,913
1,480	2,416	1,706	685
168,959	149,692	137,337	89,215
384,512	294,132	415,443	457,578
-	-	152,916	152,569
-	-	2,968	4,201
37,871	65,500	1,775	3,360
179,542	149,665	1,155,310	1,199,199
74,682	70,564	28,783	11,954
451,136	388,479	288,456	320,721
85,932	83,578	10,127	9,165
56,797	54,887	20,798	13,175
2,183,199	1,874,436	-	-
91,158	94,711	27,815	19,159
60,899	52,274	20,727	32,010
59,690	56,451	1,159	1,718
\$ 4,647,439	\$ 3,857,740	\$ 2,689,136	\$ 2,635,050

(Continued)

Clarinda Regional Health Center

**Operating Expenses (Continued)
Years Ended June 30, 2012 and 2011**

	Total	
	2012	2011
General services:		
Diabetes management	\$ 33,880	\$ 24,072
Dietary	705,443	588,613
Operation of plant	535,765	409,349
Clarinda Medical Foundation	111,014	93,478
Housekeeping	387,100	310,659
	1,773,202	1,426,171
Administrative services:		
Medical records	429,766	410,808
Social services	54,542	54,862
Administration	2,076,163	1,922,182
Community relations	46,317	54,973
Quality improvement	73,831	81,690
Infection control	68,687	57,637
Clarinda Medical Association	160,005	165,430
Data processing	693,227	491,310
	3,602,538	3,238,892
Employee benefits	3,068,178	2,486,214
Medical professional fees	1,163,142	1,207,155
Depreciation and amortization	2,337,282	2,217,828
Interest	532,107	10,931
	\$ 23,472,255	\$ 20,395,556

Salaries		Other	
2012	2011	2012	2011
\$ 32,223	\$ 22,555	\$ 1,657	\$ 1,517
406,742	350,944	298,701	237,669
194,426	170,587	341,339	238,762
80,233	77,430	30,781	16,048
231,700	177,445	155,400	133,214
945,324	798,961	827,878	627,210
268,152	231,863	161,614	178,945
53,543	53,544	999	1,318
815,192	686,002	1,260,971	1,236,180
37,242	37,506	9,075	17,467
71,396	79,739	2,435	1,951
54,946	49,282	13,741	8,355
-	-	160,005	165,430
148,777	105,642	544,450	385,668
1,449,248	1,243,578	2,153,290	1,995,314
-	-	3,068,178	2,486,214
-	-	1,163,142	1,207,155
-	-	2,337,282	2,217,828
-	-	532,107	10,931
\$ 9,865,590	\$ 8,462,816	\$ 13,606,665	\$ 11,932,740

Clarinda Regional Health Center

**Aging Analysis of Accounts Receivable from Patients and Allowance for Doubtful Accounts
Years Ended June 30, 2012 and 2011**

Aging Analysis of Accounts Receivable (by Date of Discharge)	2012		2011	
	Amount	Percent	Amount	Percent
1-30 days, includes patients in Hospital				
June 30	\$ 2,185,878	50%	\$ 2,293,110	54%
30-60 days	585,134	14	552,474	13
61-90 days	267,044	6	327,964	8
91-120 days	314,172	7	320,743	7
121 days and over	978,758	23	790,014	18
	<u>4,330,986</u>	<u>100%</u>	<u>4,284,305</u>	<u>100%</u>
Home health and other	<u>5,110</u>		<u>2,735</u>	
Total accounts receivable	4,336,096		4,287,040	
Less allowance for contractual adjustments	<u>861,075</u>		<u>1,075,913</u>	
Less allowance for doubtful accounts	<u>986,469</u>		<u>827,838</u>	
	<u>\$ 2,488,552</u>		<u>\$ 2,383,289</u>	
Net patient service revenue per calendar day	<u>\$ 57,877</u>		<u>\$ 52,077</u>	
Days of net patient service revenue in accounts receivable at year-end	<u>43</u>		<u>46</u>	
	<u>2012</u>		<u>2011</u>	
		Percent of Net Patient Service Revenue		Percent of Net Patient Service Revenue
Allowance for Doubtful Accounts	Amount		Amount	
Beginning balance	\$ 827,838		\$ 741,940	
Add:				
Provision for bad debts	1,609,037	7.62%	1,175,749	6.19%
Recoveries previously written off	<u>(202,997)</u>	<u>(0.96)</u>	<u>(206,261)</u>	<u>(1.09)</u>
	<u>2,233,878</u>		<u>1,711,428</u>	
Deduct accounts written off	<u>1,247,409</u>	<u>(5.90)</u>	<u>883,590</u>	<u>(4.65)</u>
Balance ending	<u>\$ 986,469</u>		<u>\$ 827,838</u>	

Clarinda Regional Health Center

**Inventories and Prepaid Expenses
June 30, 2012 and 2011**

	2012	2011
Inventories:		
General	\$ 191,116	\$ 193,952
Pharmacy	228,217	239,577
Dietary	14,987	11,762
Office supplies	6,166	8,182
	<u>\$ 440,486</u>	<u>\$ 453,473</u>
Prepaid expenses:		
Insurance	\$ 50,342	\$ 55,361
Maintenance and other	79,132	59,793
	<u>\$ 129,474</u>	<u>\$ 115,154</u>

Clarinda Regional Health Center

**Schedule of Insurance
Year Ended June 30, 2012
(Unaudited)**

Coverage Type	Coverage Period	Coverage Amount
Property, including rental dwellings	6/1/12 thru 5/31/13	\$ 26,840,000
General liability	6/1/12 thru 5/31/13	1,000,000/3,000,000
Professional	6/1/12 thru 5/31/13	1,000,000/3,000,000
Automobile	6/1/12 thru 5/31/13	1,000,000
Directors and officers liability	7/1/12 thru 7/1/13	1,000,000/3,000,000
Umbrella, excess liability	6/1/12 thru 5/31/13	3,000,000
Workers' compensation	4/1/12 thru 3/31/13	500,000/500,000
Crime	6/1/12 thru 5/31/13	75,000

Clarinda Regional Health Center

**Comparative Statistics
Years Ended June 30, 2012 and 2011
(Unaudited)**

	2012	2011
Acute:		
Admissions	516	447
Discharges	509	439
Patient days	1,380	1,229
Average length of stay	2.7	2.7
Swing bed:		
Admissions	140	129
Discharges	143	134
Patient days	890	820