

Clarinda Regional Health Center
A Component Unit of the City of Clarinda, Iowa

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

Together with Independent Auditor's Report

Clarinda Regional Health Center

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Clarinda Regional Health Center

Officials
June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Joy Tunncliff	Chairman	2015
Ron Richardson	Vice Chairman	2015
Dale McAllister	Secretary/Treasurer	2013
Stanley Johnson	Trustee	2013
Mary Etta Hanson	Trustee	2013
Christopher Stipe	Chief Executive Officer	Indefinite
Melissa Walter	Chief Financial Officer	Indefinite

Independent Auditor's Report

To the Board of Trustees
Clarinda Regional Health Center
Clarinda, Iowa:

Report on the Financial Statements

We have audited the accompanying basic financial statements of Clarinda Regional Health Center (Health Center), a component unit of the City of Clarinda, Iowa as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Center as of June 30, 2013, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Health Center, as of and for the year ended June 30, 2012, were audited by other auditors whose report dated March 4, 2013 expressed an unmodified opinion on those statements.

As explained in Note 1, the accompanying financial statements present only the Hospital Fund of the city of Clarinda, Iowa, and are not intended to present fairly the financial position of the City of Clarinda, Iowa, and changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the schedule of funding progress on page 28, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Health Center's basic financial statements. The supplementary information in Exhibits 1 – 6 are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information in Exhibits 1 – 6 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in Exhibits 1 – 6 are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013 on our consideration of the Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control over financial reporting.

SEIM JOHNSON, LLP

Omaha, Nebraska,
December 5, 2013.

Clarinda Regional Health Center

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

This section of Clarinda Regional Health Center's (the Health Center) annual audited financial report represents management's discussion and analysis of the Health Center's financial performance during the fiscal year ended June 30, 2013. The analysis will focus on the Health Center's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2013 and 2012 financial report includes audited financial statements that include:

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

Financial Highlights

- The Health Center's net total assets decreased by \$1,036,425 or 2.5% in 2013 and increased by \$3,065,256 or 8.1% in 2012.
- The Health Center's net position decreased by \$178,353 or 1.7% in 2013 and decreased by \$1,356,341 or 11.7% in 2012.
- The Health Center reported an operating loss of \$1,014,625 in 2013 and operating loss of \$1,629,384 in 2012.

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

These financial statements report information about Clarinda Regional Health Center using Governmental Accounting Standards Board (GASB) accounting principles. The statement of net position is a statement of financial position. It includes all of the Health Center'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 position. This statement shows the results of the Health Center'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 Health Center that determines the Health Center'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 June 30, 2013 and 2012

Financial Analysis of the Health Center

The information from the statements of net position, statements of revenue, expenses and changes in net position and the statements of cash flows is summarized in the following tables. Tables 1 and 2 report on the changes in the Health Center's net position. Increases or decreases in net position are one indicator of whether or not the Health Center's financial health is improving. Other non-financial factors can also have an effect on the Health Center'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 Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Cash and cash equivalents	\$ 2,511,729	1,259,481	2,033,444
Short-term investments	5,296,773	4,538,933	4,816,803
Assets limited as to use or restricted	1,122,905	1,524,066	2,817,335
Patient accounts receivable, net	2,814,614	2,488,552	2,383,289
Other current assets	1,278,292	1,912,900	838,278
Capital assets, net	25,247,330	26,965,248	19,522,064
Other non current assets	1,786,800	2,405,688	5,618,399
Total assets	<u>\$ 40,058,443</u>	<u>41,094,868</u>	<u>38,029,612</u>
Liabilities:			
Long-term debt	\$ 25,632,822	26,254,378	21,835,301
Other current and non-current liabilities	<u>4,360,782</u>	<u>4,597,298</u>	<u>4,594,778</u>
Total liabilities	<u>\$ 29,993,604</u>	<u>30,851,676</u>	<u>26,430,079</u>
Net Position:			
Net position	<u>10,064,839</u>	<u>10,243,192</u>	<u>11,599,533</u>
Total liabilities and net position	<u>\$ 40,058,443</u>	<u>41,094,868</u>	<u>38,029,612</u>

Asset categories changing significantly during 2013 included an increase in cash and cash equivalents due to an incentive payment received from the federal government for meeting the Stage 1 meaningful use requirements of electronic health records. In 2012 a receivable of approximately \$924,000 was recorded in anticipation of this payment. The hospital has also recorded a receivable of approximately \$448,000 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 increased by \$1,300,381 or 11.1% in 2013 and decreased by \$1,165,217 or 9.0% in 2012.

Clarinda Regional Health Center

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

Liability categories changing significantly during 2013 included a decrease in capital accounts payable due to the completion and final payments to vendors regarding the new facility. Deferred revenue associated with the Medicare incentive payment program for achieving meaningful use also decreased in 2013, as the deferred revenue was partially recognized.

The current ratio (current assets divided by current liabilities) for 2013 was 3.27 and 2012 was 2.72. It is a measure of liquidity, providing an indication of the Health Center's ability to pay current liabilities; a high ratio number is preferred.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenue:			
Net patient service revenue	\$ 24,678,249	22,531,311	19,977,448
Provision for bad debt	(1,488,463)	(1,406,040)	(969,488)
Other operating revenue	<u>756,340</u>	<u>717,600</u>	<u>273,142</u>
Total operating revenue	<u>23,946,126</u>	<u>21,842,871</u>	<u>19,281,102</u>
Operating expenses:			
Salaries and employee benefits	12,678,277	12,933,768	10,949,030
Professional fees and purchased services	1,244,527	1,163,142	1,207,155
Supplies and other	6,974,597	6,001,446	5,603,361
Other operating expenses	541,661	504,510	407,093
Depreciation and amortization	2,506,895	2,337,282	2,217,986
Interest expense	<u>1,014,794</u>	<u>532,107</u>	<u>10,931</u>
Total operating expenses	<u>24,960,751</u>	<u>23,472,255</u>	<u>20,395,556</u>
Operating loss	<u>(1,014,625)</u>	<u>(1,629,384)</u>	<u>(1,114,454)</u>
Non-operating revenue (expenses):			
Investment income	44,965	34,683	1,105
Other non-operating revenue (expenses)	<u>(1,524)</u>	<u>14,151</u>	<u>8,507</u>
Total non-operating revenue	<u>43,441</u>	<u>48,834</u>	<u>9,612</u>
Excess expenses over revenues before capital grants and contributions	(971,184)	(1,580,550)	(1,104,842)
Capital grants and contributions	<u>792,831</u>	<u>224,209</u>	<u>624,737</u>
Decrease in net position	(178,353)	(1,356,341)	(480,105)
Net position, beginning of year	<u>10,243,192</u>	<u>11,599,533</u>	<u>12,079,638</u>
Net position, end of year	<u>\$ 10,064,839</u>	<u>10,243,192</u>	<u>11,599,533</u>

Net patient service revenue increased \$2,064,515 or 9.8% in 2013 and increased \$2,117,311 or 11.1% in 2012. 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 June 30, 2013 and 2012

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total gross patient service revenue	\$ 36,339,038	34,785,332	31,170,487
Contractual adjustments and provisions for bad debt	<u>(13,149,252)</u>	<u>(13,660,061)</u>	<u>(12,162,527)</u>
Net patient service revenue	<u>\$ 23,189,786</u>	<u>21,125,271</u>	<u>19,007,960</u>
 Contractual adjustments and provisions for bad debt as a percent of total gross patient service revenue	 <u>36.18%</u>	 <u>39.27%</u>	 <u>39.02%</u>

Total operating expenses increased by \$1,488,496 or 6.3% in 2013 and increased by \$3,076,699 or 15.1% in 2012. Shortly after fiscal year 2013 began, two long term physicians left the hospital to pursue other opportunities. The hospital brought in locum coverage until permanent replacements could be found which resulted in higher recruitment expenses and purchased services. Interest expense also increased significantly in 2013 due to interest expense for the new facility.

The operating margin (total operating revenue less total operating expenses divided by total operating revenue) was (4.2)% in 2013 which decreased from (7.5)% in 2012. Operating loss in 2013 was \$1,014,625 compared to operating loss of \$1,629,384 in 2012.

Other operating revenue comprised 3.2% of total operating revenue in 2013 and 3.3% of total operating revenue in 2012. Table 4 shows the detail for this line item.

Table 4: Other Revenue

	<u>2013</u>	<u>2012</u>	<u>2011</u>
EHR incentive	\$ 245,185	230,988	-
Employee meals	122,043	90,680	73,525
Meals on wheels and congregate meals	53,847	58,518	54,157
Wellness program	30,539	32,497	26,001
Lifeline, net	9,501	12,759	15,676
Medical records transcripts	4,460	4,899	6,196
Contracted wound care	3,585	-	-
Dietary	648	4,601	10,431
Gain (loss) on disposal of assets	500	25,827	(6,948)
Other miscellaneous	<u>286,032</u>	<u>256,831</u>	<u>94,104</u>
 Total other revenue	 <u>756,340</u>	 <u>717,600</u>	 <u>273,142</u>

Clarinda Regional Health Center

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

Organizational Statistical Data

Table 5: Statistical Data

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Patient days:			
Acute	1,385	1,380	1,229
Swing bed	897	890	820
Total	<u>2,282</u>	<u>2,270</u>	<u>2,049</u>
Admissions:			
Acute	480	516	447
Swing bed	142	140	129
Total	<u>622</u>	<u>656</u>	<u>576</u>
Discharges:			
Acute	464	509	439
Swing bed	136	143	134
Total	<u>600</u>	<u>652</u>	<u>573</u>
Average length of stay, acute	2.89	2.67	2.75
Beds, acute and swing	25	25	25

The Health Center's Cash Flows

The Health Center experienced positive cash flows from operations of \$3,031,948 in 2013 compared to a positive cash flows from operations of \$1,231,384 in 2012. Increases in patient and other accounts receivable and third-party payor settlements were largely offset by increases in deferred revenue.

Capital Assets

Gross capital assets increased approximately \$740,000 in fiscal year 2013 due to the completion of the new hospital and purchase of related equipment. As of June 30, 2013 and 2012 the Health Center had \$25,247,330 and \$26,965,248, respectively, invested in capital assets net of accumulated depreciation. In 2013 the Health Center had \$762,139 of capital asset additions offset by depreciation of \$2,480,057.

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

Clarinda Regional Health Center

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

Long-Term Debt

Table 6: Long-Term Debt

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Hospital revenue bonds, Series 2010B	\$ 5,900,000	6,130,000	6,355,000
Hospital revenue bonds, Series 2010C	1,745,000	1,745,000	1,745,000
Hospital revenue bonds, Series 2010D	18,560,929	18,782,249	14,105,663
Less unamortized bond discount	(180,235)	(190,366)	(197,391)
Obligations under capital lease	<u>220,218</u>	<u>438,978</u>	<u>127,667</u>
Total long-term debt	<u><u>26,245,912</u></u>	<u><u>26,905,861</u></u>	<u><u>22,135,939</u></u>

Approximately \$26,205,929 of the outstanding long-term debt held by the Health Center 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 Health Center 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 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 Health Center 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 Health Center'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 on a non-GAAP basis adjusted for equipment improvements and lease payments. There were no amendments to the budget in the current year.

- The Health Center's total operating revenue was ahead of budget by \$1,907,910 or 8.7%
- The Health Center's total operating expenses were over budget by \$13,711 or 0.06%

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 Health Center

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 Health Center'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

Statements of Net Position June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,511,729	1,259,481
Short-term investments	5,296,773	4,538,933
Assets limited as to use or restricted, current portion	1,122,905	1,524,066
Receivables -		
Patients, net of estimated uncollectible accounts of \$886,562 in 2013 and \$986,469 in 2012	2,814,614	2,488,552
Other	185,513	1,072,940
Inventories	451,566	440,486
Prepaid expenses	192,619	129,474
Estimated third-party payor settlements	448,594	270,000
	<u>13,024,313</u>	<u>11,723,932</u>
Total current assets		
Assets limited as to use or restricted, net of current portion	<u>1,446,802</u>	<u>2,048,985</u>
Capital assets, net	<u>25,247,330</u>	<u>26,965,248</u>
Other assets,		
Debt issuance costs, net	<u>339,998</u>	<u>356,703</u>
Total assets	<u>\$ 40,058,443</u>	<u>41,094,868</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of long-term debt	\$ 613,090	651,483
Accounts payable -		
Trade	910,037	701,434
Capital	268,485	678,298
Accrued salaries, vacation and benefits payable	1,309,001	1,197,672
Accrued interest on long-term debt	389,800	394,448
Deferred revenue	<u>490,369</u>	<u>692,963</u>
Total current liabilities	3,980,782	4,316,298
Long-term debt, net of current portion	25,632,822	26,254,378
Other postemployment benefits	<u>380,000</u>	<u>281,000</u>
Total liabilities	<u>29,993,604</u>	<u>30,851,676</u>
Commitments and contingencies		
Net position:		
Net investment in capital assets	516,889	2,717,990
Restricted	788,552	649,210
Unrestricted	<u>8,759,398</u>	<u>6,875,992</u>
Total net position	<u>10,064,839</u>	<u>10,243,192</u>
Total liabilities and net position	<u>\$ 40,058,443</u>	<u>41,094,868</u>

See notes to financial statements

Clarinda Regional Health Center

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

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:		
Net patient service revenue before provision for bad debt	\$ 24,678,249	22,531,311
Provision for bad debt	(1,488,463)	(1,406,040)
Net patient service revenue	23,189,786	21,125,271
Other operating revenue	756,340	717,600
Total operating revenue	<u>23,946,126</u>	<u>21,842,871</u>
OPERATING EXPENSES:		
Salaries	9,495,958	9,865,590
Employee benefits	3,182,319	3,068,178
Professional fees and purchased services	1,244,527	1,163,142
Supplies and other	6,974,597	6,001,446
Utilities	287,604	258,184
Insurance	254,057	246,326
Depreciation and amortization	2,506,895	2,337,282
Interest	1,014,794	532,107
Total operating expenses	<u>24,960,751</u>	<u>23,472,255</u>
OPERATING LOSS	<u>(1,014,625)</u>	<u>(1,629,384)</u>
NONOPERATING REVENUE (EXPENSE):		
Investment income	44,965	34,683
Other, net	(1,524)	14,151
Nonoperating revenue	<u>43,441</u>	<u>48,834</u>
EXCESS EXPENSES OVER REVENUES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(971,184)	(1,580,550)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>792,831</u>	<u>224,209</u>
DECREASE IN NET POSITION	(178,353)	(1,356,341)
NET POSITION, Beginning of year	<u>10,243,192</u>	<u>11,599,533</u>
NET POSITION, End of year	<u>\$ 10,064,839</u>	<u>10,243,192</u>

See notes to financial statements

Clarinda Regional Health Center

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

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 22,685,130	20,703,008
Cash paid to employee salaries and benefits	(12,467,948)	(12,714,854)
Cash paid to suppliers and contractors	(8,626,407)	(7,364,044)
Other receipts and payments, net	<u>1,441,173</u>	<u>607,274</u>
Net cash provided by operating activities	<u>3,031,948</u>	<u>1,231,384</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(1,171,954)	(10,608,472)
Proceeds from sale of property and equipment	500	84,867
Principal payments on long-term debt	(670,080)	(349,484)
Proceeds from issuance of long-term debt	--	4,676,586
Interest paid on long-term debt	(1,019,442)	(829,599)
Capital grants and contributions	<u>792,831</u>	<u>224,209</u>
Net cash used in capital and related financing activities	<u>(2,068,145)</u>	<u>(6,801,893)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	57,298	19,285
Other	(2,024)	(11,676)
Change in investments and assets limited as to use or restricted, net	<u>233,171</u>	<u>4,788,937</u>
Net cash provided by investing activities	<u>288,445</u>	<u>4,796,546</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,252,248	(773,963)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,259,481</u>	<u>2,033,444</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 2,511,729</u>	<u>1,259,481</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
Property and equipment acquired with capital leases assumed	--	435,795
Capitalized interest included in property and equipment additions	--	444,645
Change in unrealized losses	12,333	(15,398)

See notes to financial statements

Clarinda Regional Health Center

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

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,014,625)	(1,629,384)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	2,506,895	2,337,282
Interest expense included in operating expenses	1,014,794	532,107
(Increase) decrease in current assets -		
Receivables -		
Patients	(326,062)	(105,263)
Other	887,427	(803,289)
Inventories	(11,080)	12,987
Prepaid expenses	(63,145)	(14,320)
Estimated third-party payor settlements	(178,594)	(270,000)
Increase (decrease) in current liabilities -		
Accounts payable - trade	208,603	306,387
Accrued salaries, vacation and benefits payable	111,329	148,914
Deferred revenue	(202,594)	692,963
Other postemployment benefits	99,000	70,000
Estimated third-party payor settlements	--	(47,000)
Net cash provided by operating activities	\$ <u>3,031,948</u>	<u>1,231,384</u>

See notes to financial statements

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a description of the reporting entity and a summary of significant accounting policies of Clarinda Regional Health Center (Health Center). These policies are in accordance with U.S. generally accepted accounting principles. The Health Center is a city public hospital organized under Chapter 392 of the Code of Iowa and governed by a Board of Trustees elected for terms of four years.

A. *Reporting Entity*

The Health Center's financial statements are an integral part of the City of Clarinda, Iowa. The accompanying financial statements are not intended to present fairly the financial position and changes in financial position of the City of Clarinda, Iowa, in conformity with accounting principles generally accepted in the United States of America.

Clarinda Medical 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.

For financial reporting purposes, the Health Center has included all funds, organizations, agencies, boards, commissions and authorities. The Health Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Health Center are such that exclusion would cause the Health Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Health Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Health Center. 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 Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for Health Services. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential health care services through limited service hospitals and rural health networks. The Health Center is a Critical Access Hospital, operating with 25 acute-care beds. CAH's are acute care facilities that provide emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

Management believes that the Health Center is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Health Center's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

C. *Basis of Presentation*

The statement of net position displays the Health Center's assets and liabilities, with the difference reported as net position. Net positions are reported in the following categories:

Net investment in capital assets – This component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted – This component of net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

When both restricted and unrestricted resources are available for use, generally it is the Health Center's policy to use restricted resources first.

D. *Basis of Accounting and Accounting Standards*

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

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). Revenue is recognized when earned and expenses are recorded when the liability is incurred.

E. *Use of Estimates*

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

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use under debt agreements.

G. Patient Receivables, Net

The Health Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Health Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Health Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

H. Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

I. Assets Limited as to Use or Restricted

Assets limited as to use or restricted include the following:

By Board of Trustees - Periodically, the Health Center's Board of Trustees has set aside assets for future capital improvements. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

By Debt Agreement – These funds are reserve funds held as security for the Series 2010 bonds. These funds are used for the payment of principal and interest on the Series 2010 bonds when insufficient funds are available in the sinking fund.

J. Investments

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

K. *Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the half year method for the first year and the straight-line method for the remaining life of the asset. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital leases are depreciated over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	5 to 30 years
Buildings and building improvements	5 to 40 years
Equipment	3 to 25 years

The Health Center's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as capital grants and contributions.

L. *Deferred Financing Costs*

Deferred financing costs related to the issuance of the long-term debt are being amortized over the life of the related debt under the bonds outstanding method. Amortization expense of \$26,838 and \$17,336 for 2013 and 2012, respectively, is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net position.

M. *Compensated Absences*

Health Center policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

N. *Statements of Revenue, Expenses and Changes in Net Position*

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

O. *Income Taxes*

Under the Code of Iowa, Chapter 392, the Health Center is an instrumentality of the City of Clarinda, Iowa. As such, the Health Center is exempt from paying income taxes.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

P. Net Patient Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, and discounted charges. The Health Center has agreements with third-party payors who provide payment based on fee schedule amounts. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Q. Grants and Contributions

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

R. 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 is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Health Center provides a variety of community health services at or below cost.

S. Risk Management

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

T. Management

The Health Center is a provider of healthcare services as a Critical Access Hospital. During the year, the Health Center had an agreement for management services with Mercy Medical Center-Des Moines. Administration and support services fees of \$361,000 and \$326,000 were incurred for the years ended June 30, 2013 and 2012, respectively.

U. Reclassification

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 reporting format.

V. Change in Accounting Principle

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

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

W. Subsequent Events

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

(2) Cash, Investments and Assets Limited as to Use or Restricted

The Health Center's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Health Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Health Center manages the following risks in accordance with their formal investment policy:

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013 the Health Center's investments in U.S. Government agency obligations not directly guaranteed by the U.S. government were rated AA+ by Standards & Poor's and its investments in U.S. Treasury money market mutual funds were rated AA+ by Standard & Poor's.

Interest Rate Risk: The Health Center's investment policy does not limit investments on interest rate risk. The Health Center complies with State of Iowa statutes in regards to interest rate risk.

Custodial credit risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Health Center will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Health Center's investment policy does not address how investments are to be held.

The Health Center's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Health Center's agent in the Health Center's name.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

The composition of investments and assets limited as to use or restricted as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Short-term cash and investments:		
Cash and cash equivalents	\$ 2,511,729	1,259,481
Certificates of deposit	5,189,792	4,441,373
Investments	106,981	97,560
	<u>7,808,502</u>	<u>5,798,414</u>
Assets limited as to use or restricted:		
By bond agreements –		
Project fund	960,336	1,982,462
Sinking fund	555,134	676,141
Debt service reserve fund	788,552	649,210
	<u>265,685</u>	<u>265,238</u>
Internally designated for health insurance		
	<u>2,569,707</u>	<u>3,573,051</u>
Total assets limited as to use or restricted		
	<u>10,378,209</u>	<u>9,371,465</u>
Total investments		
	<u>8,931,407</u>	<u>7,322,480</u>
Less amounts required to meet current obligations		
Long-term portion	\$ <u>1,446,802</u>	<u>2,048,985</u>

(3) Net Patient Service Revenue

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

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient non-acute services and certain outpatient services and rural health clinic services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicare Administrative Contractor. The Health Center is reimbursed on a prospectively determined rate per episode for home care services rendered to Medicare beneficiaries. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011.

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

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.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

The Health Center has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Health Center under these agreements includes discounts from established charges and prospectively determined rates.

The following illustrates the Health Center's patient service revenue at its established rates and revenue deductions by major third-party payers:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue:		
Inpatient services	\$ 4,158,762	4,501,456
Outpatient	26,098,392	24,127,828
Swing bed	1,501,446	1,451,649
Clinic	4,580,438	4,704,400
	<u>36,339,038</u>	<u>34,785,333</u>
Deductions from patient service revenue:		
Medicare	5,064,330	5,628,529
Medicaid	1,609,575	1,528,888
Other payers	4,760,378	4,910,717
Charity care	226,506	185,888
	<u>11,660,789</u>	<u>12,254,022</u>
Net patient service revenue before provision for bad debt	\$ <u>24,678,249</u>	<u>22,531,311</u>

The Health Center reports net patient service revenue at estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 52% and 6%, respectively, of the Health Center's net patient revenue for the year ended June 30, 2013 compared to 48% for Medicare and 6% for Medicaid in 2012. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(4) Composition of Patient Receivables

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

	<u>2013</u>	<u>2012</u>
Patient accounts	\$ 4,669,986	4,336,096
Less estimated third-party contractual adjustments	(968,810)	(861,075)
Less allowance for doubtful accounts	(886,562)	(986,469)
	<u>\$ 2,814,614</u>	<u>2,488,552</u>

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

The Health Center is located in Clarinda, Iowa. The Health Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers was as follows:

	<u>2013</u>	<u>2012</u>
Medicare	40%	28%
Medicaid	5	10
Other third-party payors	44	47
Private pay	11	15
	<u>100%</u>	<u>100%</u>

(5) Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012 were as follows:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2013</u>
Capital assets, not being depreciated,				
Land	\$ 237,502	--	--	237,502
Construction in progress	56,910	67,441	(51,300)	73,051
Total capital assets, not being depreciated	<u>294,412</u>	<u>67,441</u>	<u>(51,300)</u>	<u>310,553</u>
Capital assets, being depreciated:				
Land improvements	220,633	--	--	220,633
Hospital buildings	28,459,258	76,414	--	28,535,672
Fixed equipment	3,088,374	252,575	--	3,340,949
Major moveable equipment	8,129,793	365,709	45,704	8,541,206
Total capital assets, being depreciated	<u>39,898,058</u>	<u>694,698</u>	<u>45,704</u>	<u>40,638,460</u>
Less accumulated depreciation:				
Land improvements	220,633	--	--	220,633
Hospital buildings	5,827,171	1,544,505	--	7,371,676
Fixed equipment	1,842,816	262,832	--	2,105,648
Major moveable equipment	5,336,602	672,720	(5,596)	6,003,726
Total accumulated depreciation	<u>13,227,222</u>	<u>2,480,057</u>	<u>(5,596)</u>	<u>15,701,683</u>
Total capital assets, being depreciated, net	<u>26,670,836</u>	<u>(1,785,359)</u>	<u>51,300</u>	<u>24,936,777</u>
Total capital assets, net	<u>\$ 26,965,248</u>	<u>(1,717,918)</u>	<u>--</u>	<u>25,247,330</u>

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

	June 30, 2011	Additions	Transfers and 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>294,412</u>
Capital assets, being depreciated:				
Land improvements	220,633	--	--	220,633
Hospital buildings	5,423,983	--	23,035,275	28,459,258
Fixed equipment	1,880,831	--	1,207,543	3,088,374
Major moveable equipment	6,129,701	1,586,171	413,921	8,129,793
Total capital assets, being depreciated	<u>13,655,148</u>	<u>1,586,171</u>	<u>24,656,739</u>	<u>39,898,058</u>
Less accumulated depreciation:				
Land improvements	207,656	12,977	--	220,633
Hospital buildings	4,281,811	1,547,777	(2,417)	5,827,171
Fixed equipment	1,747,707	191,630	(96,521)	1,842,816
Major moveable equipment	5,136,455	567,562	(367,415)	5,336,602
Total accumulated depreciation	<u>11,373,629</u>	<u>2,319,946</u>	<u>(466,353)</u>	<u>13,227,222</u>
Total capital assets, being depreciated, net	<u>2,281,519</u>	<u>(733,775)</u>	<u>25,123,092</u>	<u>26,670,836</u>
Total capital assets, net	<u>\$ 19,522,063</u>	<u>7,502,224</u>	<u>(59,039)</u>	<u>26,965,248</u>

(6) Long-Term Debt

Long-term debt activity of the Health Center for the years ended June 30, 2013 and 2012 consisted of the following:

	June 30, 2012	Borrowings	Payments	June 30, 2013	Due Within One Year
2010 Hospital Revenue Bonds, Series B (A)	6,130,000	--	230,000	5,900,000	235,000
2010 Hospital Revenue Bonds, Series C (B)	1,745,000	--	--	1,745,000	-
2010 Hospital Revenue Bonds, Series D (C)	18,782,249	--	221,320	18,560,929	229,620
Capital lease obligations (D)	438,978	--	218,760	220,218	148,470
	<u>27,096,227</u>	<u>--</u>	<u>670,080</u>	<u>26,426,147</u>	<u>613,090</u>
Less unamortized bond discount	190,366	--	10,131	180,235	--
	<u>\$ 26,905,861</u>	<u>--</u>	<u>659,949</u>	<u>26,245,912</u>	<u>613,090</u>
	June 30, 2011	Borrowings	Payments	June 30, 2012	Due Within One Year
2010 Hospital Revenue Bonds, Series B (A)	\$ 6,355,000	--	225,000	6,130,000	230,000
2010 Hospital Revenue Bonds, Series C (B)	1,745,000	--	--	1,745,000	--
2010 Hospital Revenue Bonds, Series D (C)	14,105,663	4,676,586	--	18,782,249	221,320
Capital lease obligations (D)	127,667	435,795	124,484	438,978	200,163
	<u>22,333,330</u>	<u>5,112,381</u>	<u>349,484</u>	<u>27,096,227</u>	<u>651,483</u>
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>

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

- (A) Series 2010B Hospital Revenue Bonds; issued in the original amount of \$6,355,000. Required semi-annual payments of interest only through June 2012. The interest rate adjusts annually, ranging from 2.60% as of June 30, 2012 to 6.15% as of June 30, 2030. Semi-annual principal and interest payments commenced July 2012 and continue through June 2030.
- (B) Series 2010C Hospital Revenue Bonds; issued in the original amount of \$1,745,000. Requires semi-annual payments of principal and interest commencing December 2030 and continuing through June 2033. The net interest rate is fixed at 6.00%.
- (C) Series 2010D Hospital Revenue Bonds; issued in the original amount of \$18,900,000. Requires semi-annual payments of principal and interest through December 2050. Semi-annual payments of interest continued through December 2012. At December 2012, semi-annual principal and interest payments commenced and will continue through December 2050. The net interest rate is fixed at 3.06%.
- (D) The Health Center leases certain equipment under capital leases arrangement. Leases require monthly payments of principal and interest ranging from approximately \$2,400 to \$10,600 at rates ranging from 4.52% and 8.30%. Leases are secured by equipment.

In conjunction with the issuance of the Health Center Revenue Bonds, the Health Center has agreed to comply with certain covenants as described in the bond indentures which places limits on the incurrence of additional borrowings and requires that the Health Center satisfy certain measures of financial performance as long as the bonds are outstanding.

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 \$555,134 as of June 30, 2013.

A summary of the Health Center's future principal and interest payments as of June 30, 2013 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 613,095	992,823	1,605,918
2015	554,973	971,629	1,526,602
2016	497,164	953,538	1,450,702
2017	516,433	935,098	1,451,531
2018	541,049	915,173	1,456,222
2019-2023	3,062,592	4,222,530	7,285,122
2024-2028	3,843,234	3,462,836	7,306,070
2029-2033	4,899,636	2,486,891	7,386,527
2034-2038	2,584,077	1,629,865	4,213,942
2039-2043	3,106,319	1,183,897	4,290,216
2044-2048	3,734,105	648,766	4,382,871
2049-2051	<u>2,473,470</u>	<u>127,816</u>	<u>2,601,286</u>
	\$ <u>26,426,147</u>	<u>18,530,862</u>	<u>44,957,009</u>

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

(7) Professional Liability Insurance

The Health Center carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Health Center carries an umbrella policy which also provides \$4,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Health Center should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. The Health Center does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. For the years ending June 30, 2013 and 2012, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying financial statements.

(8) Other Postemployment Benefits (OPEB)

Plan Description – The Health Center sponsors a postretirement medical plan that provides post-termination medical insurance coverage for the participant and the participant's family through the age of 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).

Funding Policy – The Health Center pays for all or a portion of active employees' coverage. The amount depends on whether single or family coverage is elected. Upon retirement, the retired participant continuing their coverage pays the premium including any increase in single premium after retirement. The Health Center is currently using a pay-as-you-go method of benefit financing. The Health Center contributed \$36,000 and \$55,495 to the plan during the years ended June 30, 2013 and 2012, respectively.

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

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 122,000	116,000
Interest on net OPEB obligation	13,000	9,495
Annual OPEB cost (expense)	135,000	125,495
Contributions made	36,000	55,495
Increase in net OPEB obligation	99,000	70,000
Net OPEB obligation, beginning of year	281,000	211,000
Net OPEB obligation, end of year	<u>\$ 380,000</u>	<u>281,000</u>

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

The Health Center's annual OPEB cost, the percentage of annual OPEB contributed to the plan, and the net OPEB obligations for fiscal years 2009 through 2013 are as follows:

Fiscal year ended June 30:	Annual OPEB Cost	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 135,000	23.7%	\$ 380,000
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	35,000

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$748,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$748,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$9,145,987 and the ratio of the UAAL to covered payroll was 8.18%.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2012 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the Health Center's funding policy. The projected annual health cost trend rate is 5%.

Mortality rates are from the RP-2000 Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2012 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2012.

The UAAL is being amortized in level dollar amounts on a closed basis over 26 years.

(9) Pension Plan

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

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2013 and 2012

Plan members are required to contribute 5.78% of their annual salary and the Health Center is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$812,000, \$795,000, and \$596,000, respectively.

(10) Self-Funded Health Insurance

The Health Center has established a self-funded employee health insurance fund. Under the self-insured plan, the Health Center pays claims up to certain limits and carries stop loss insurance for claims in excess of the limits. Stop-loss coverage is provided through a commercial insurance company. The Health Center incurred health insurance expenses of \$1,296,799 and \$1,247,380 as of June 30, 2013 and 2012, respectively.

(11) Sufficient Estimates and Concentrations

Current Economic Conditions

The current protracted economic environment continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in 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 rising unemployment rates, have made it difficult for certain 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 allowances for accounts and contributions receivable that could negatively impact the Health Center's ability to meet debt covenants or maintain sufficient liquidity.

(12) Commitments and Contingencies

Commitments

The Health Center leases certain equipment under various noncancellable operating leases. The rental expense for the operating leases was \$780,580 and \$355,850 for the years ended June 30, 2013 and 2012, respectively. The Health Center expects future lease payments for the next three years to be approximately \$750,000 each year.

(13) Risks and Uncertainties

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

Clarinda Regional Health Center

**Schedule of Funding Progress for the Retiree Health Plan
June 30, 2013**

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 % of Covered Payroll [(b-a)/c]
2013	7/1/2012	\$ -	\$ 748,000	\$ 748,000	0.00%	\$ 9,145,987	8.18%
2012	7/1/2010	-	808,000	808,000	0.00%	10,214,001	7.91%
2011	7/1/2010	-	808,000	808,000	0.00%	8,098,845	9.98%
2010	7/1/2008	-	615,000	615,000	0.00%	7,608,036	8.08%
2009	7/1/2008	-	615,000	615,000	0.00%	7,136,867	8.62%

Patient Service Revenue
For the Years Ended June 30, 2013 and 2012

	2013			2012		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
DAILY PATIENT SERVICES:						
Medical and surgical	\$ 1,633,823	535,773	2,169,596	1,710,078	327,711	2,037,789
	<u>1,633,823</u>	<u>535,773</u>	<u>2,169,596</u>	<u>1,710,078</u>	<u>327,711</u>	<u>2,037,789</u>
NURSING SERVICES:						
Emergency	43,800	3,104,780	3,148,580	60,227	2,513,603	2,573,830
Operating room	308,925	2,015,967	2,324,892	506,579	2,099,377	2,605,956
Recovery room	18,836	264,375	283,211	16,758	207,130	223,888
Home health	--	16,448	16,448	--	31,131	31,131
	<u>371,561</u>	<u>5,401,570</u>	<u>5,773,131</u>	<u>583,564</u>	<u>4,851,241</u>	<u>5,434,805</u>
OTHER PROFESSIONAL SERVICES:						
Laboratory	614,976	5,199,275	5,814,251	570,420	4,486,443	5,056,863
Pharmacy	1,141,151	2,945,070	4,086,221	1,074,594	3,089,513	4,164,107
Clarinda Medical Associates	--	3,586,805	3,586,805	--	3,861,815	3,861,815
Radiology	172,958	3,243,915	3,416,873	240,911	2,775,735	3,016,646
CT scan	322,000	2,889,484	3,211,484	365,480	3,029,360	3,394,840
Physical therapy	128,830	1,197,300	1,326,130	111,489	1,172,001	1,283,490
Inhalation therapy	706,014	526,557	1,232,571	717,624	500,952	1,218,576
Ambulance service	--	1,195,160	1,195,160	--	938,550	938,550
Clinic	4,409	806,919	811,328	2,997	735,347	738,344
Intravenous therapy	117,693	518,041	635,734	125,987	587,916	713,903
Anesthesiology	55,863	554,872	610,735	66,531	576,230	642,761
Cardiac rehabilitation	91,935	481,643	573,578	86,010	440,379	526,389
Occupational therapy	113,068	271,870	384,938	102,750	266,080	368,830
Nuclear medicine	15,740	284,791	300,531	29,609	337,576	367,185
Ultrasound	21,655	277,713	299,368	34,460	318,755	353,215
Villisca Rural Health Clinic	--	252,990	252,990	--	174,077	174,077
Electrocardiology	23,323	206,496	229,819	26,720	203,544	230,264
Wound care	5,336	168,858	174,194	10,019	59,414	69,433
Speech therapy	10,120	127,983	138,103	9,525	122,398	131,923
Blood service	43,479	41,050	84,529	17,496	21,307	38,803
Diabetes management	--	16,979	16,979	--	11,918	11,918
Dietary consulting	--	12,115	12,115	--	8,876	8,876
Hypnotherapy	--	1,875	1,875	--	1,930	1,930
	<u>3,588,550</u>	<u>24,807,761</u>	<u>28,396,311</u>	<u>3,592,622</u>	<u>23,720,116</u>	<u>27,312,738</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>5,593,934</u>	<u>30,745,104</u>	<u>36,339,038</u>	<u>5,886,264</u>	<u>28,899,068</u>	<u>34,785,332</u>
LESS:						
Contractual allowances and other deductions, primarily Medicare and Medicaid			(11,434,283)			(12,068,133)
Charity care services and other discounts, based on charges forgone			(226,506)			(185,888)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			24,678,249			22,531,311
PROVISION FOR BAD DEBT			(1,488,463)			(1,406,040)
NET PATIENT SERVICE REVENUE			<u>23,189,786</u>			<u>21,125,271</u>

See accompanying independent auditor's report

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

	<u>2013</u>	<u>2012</u>
EHR incentive	\$ 245,185	230,988
Employee meals	122,043	90,680
Meals on wheels	53,847	58,518
Wellness program	30,539	32,497
Lifeline, net	9,501	12,759
Medical records transcripts	4,460	4,899
Contracted wound care	3,585	--
Dietary	648	4,601
Gain on disposal	500	25,827
Other	<u>286,032</u>	<u>256,831</u>
	<u>\$ 756,340</u>	<u>717,600</u>

See accompanying independent auditor's report

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

	2013			2012		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
NURSING SERVICES:						
Nursing administration	\$ 82,745	62,451	145,196	144,140	4,113	148,253
Routine care	1,018,369	131,476	1,149,845	1,000,556	229,568	1,230,124
Operating room	721,291	459,355	1,180,646	783,862	496,569	1,280,431
Emergency services	914,383	105,675	1,020,058	845,220	100,014	945,234
Home health agency	19,803	3,737	23,540	49,801	5,388	55,189
	<u>2,756,591</u>	<u>762,694</u>	<u>3,519,285</u>	<u>2,823,579</u>	<u>835,652</u>	<u>3,659,231</u>
OTHER PROFESSIONAL SERVICES:						
Ambulance service	198,565	92,364	290,929	165,448	129,019	294,467
Anesthesiology	294,354	35,661	330,015	239,762	39,845	279,607
Cardiac rehabilitation	54,674	62,897	117,571	60,204	73,703	133,907
Central service and supply	79,381	--	79,381	79,326	--	79,326
Clarinda Medical Associates	1,758,674	--	1,758,674	2,183,199	--	2,183,199
Clinic	262,403	31,441	293,844	263,022	39,781	302,803
CT scan	--	163,663	163,663	--	137,408	137,408
Electrocardiology	3,496	2,805	6,301	3,820	4,060	7,880
Hypnotherapy	1,051	105	1,156	1,480	1,706	3,186
Inhalation therapy	158,647	133,657	292,304	168,959	137,337	306,296
Laboratory	386,943	468,209	855,152	384,512	415,443	799,955
Nuclear medicine	--	95,543	95,543	--	152,916	152,916
Occupational therapy	--	2,128	2,128	--	2,968	2,968
Performance management	1,175	120	1,295	37,871	1,775	39,646
Pharmacy	157,229	1,116,381	1,273,610	179,542	1,155,310	1,334,852
Physical therapy	75,465	9,972	85,437	74,682	28,783	103,465
Radiology	480,751	587,334	1,068,085	451,136	288,456	739,592
Speech therapy	81,158	8,866	90,024	85,932	10,127	96,059
Ultrasound	55,593	15,444	71,037	56,797	20,798	77,595
Villisca Rural Health Clinic	111,271	25,712	136,983	91,158	27,815	118,973
Wellness	59,119	21,197	80,316	60,899	20,727	81,626
Wound care	66,522	2,733	69,255	59,690	1,159	60,849
	<u>4,286,471</u>	<u>2,876,232</u>	<u>7,162,703</u>	<u>4,647,439</u>	<u>2,689,136</u>	<u>7,336,575</u>
GENERAL SERVICES:						
Plant operations	201,403	832,595	1,033,998	194,426	341,339	535,765
Diabetes management	36,293	604	36,897	32,223	1,657	33,880
Dietary	427,826	311,350	739,176	406,742	298,701	705,443
Housekeeping	248,569	136,439	385,008	231,700	155,400	387,100
Clarinda Medical Foundation	69,933	13,675	83,608	80,233	30,781	111,014
	<u>984,024</u>	<u>1,294,663</u>	<u>2,278,687</u>	<u>945,324</u>	<u>827,878</u>	<u>1,773,202</u>
ADMINISTRATIVE AND FISCAL SERVICES						
Medical records	277,757	138,547	416,304	268,152	161,614	429,766
Employee benefits	--	3,182,319	3,182,319	--	3,068,178	3,068,178
Social services	51,393	433	51,826	53,543	999	54,542
Administrative	852,391	1,355,649	2,208,040	815,192	1,260,971	2,076,163
Community relations	37,006	10,246	47,252	37,242	9,075	46,317
Quality improvement	59,769	1,541	61,310	71,396	2,435	73,831
Infection control	--	29,398	29,398	54,946	13,741	68,687
Clarinda Medical Association	--	585,003	585,003	--	160,005	160,005
Data processing	190,556	461,852	652,408	148,777	544,450	693,227
	<u>1,468,872</u>	<u>5,764,988</u>	<u>7,233,860</u>	<u>1,449,248</u>	<u>5,221,468</u>	<u>6,670,716</u>
NONDEPARTMENTAL:						
Medical professional fees	--	1,244,527	1,244,527	--	1,163,142	1,163,142
Depreciation and amortization	--	2,506,895	2,506,895	--	2,337,282	2,337,282
Interest	--	1,014,794	1,014,794	--	532,107	532,107
	<u>--</u>	<u>4,766,216</u>	<u>4,766,216</u>	<u>--</u>	<u>4,032,531</u>	<u>4,032,531</u>
TOTAL EXPENSES	\$ 9,495,958	15,464,793	24,960,751	9,865,590	13,606,665	23,472,255

See accompanying independent auditor's report

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

Age of Accounts	2013		2012	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,446,812	52.39 %	2,190,988	50.53 %
31 - 60	671,083	14.37	585,134	13.49
61 - 90	473,405	10.14	267,044	6.16
91 - 120	186,724	4.00	314,172	7.25
121 and over	891,962	19.10	978,758	22.57
	<u>4,669,986</u>	<u>100.00 %</u>	<u>4,336,096</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(886,562)		(986,469)	
Allowance for contractual adjustments	<u>(968,810)</u>		<u>(861,075)</u>	
	<u>\$ 2,814,614</u>		<u>2,488,552</u>	
			2013	2012
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year			\$ 986,469	827,838
Provision and write offs, net			<u>(99,907)</u>	<u>158,631</u>
Balance, end of year			<u>\$ 886,562</u>	<u>986,469</u>

See accompanying independent auditor's report

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

	<u>2013</u>	<u>2012</u>
SUPPLIES:		
General	200,311	191,116
Pharmacy	231,490	228,217
Dietary	15,553	14,987
Office supplies	<u>4,212</u>	<u>6,166</u>
	<u>\$ 451,566</u>	<u>440,486</u>
PREPAID EXPENSES:		
Insurance	\$ 44,026	50,342
Maintenance and other	<u>148,593</u>	<u>79,132</u>
	<u>\$ 192,619</u>	<u>129,474</u>

See accompanying independent auditor's report

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

	<u>2013</u>	<u>2012</u>
Patient days:		
Hospital -		
Adult and pediatric	1,385	1,380
Swing bed - skilled	<u>897</u>	<u>890</u>
	<u>2,282</u>	<u>2,270</u>
Discharges:		
Hospital adult and pediatric	464	509
Hospital swing bed - skilled	<u>136</u>	<u>143</u>
	<u>600</u>	<u>652</u>
Average length of stay:		
Hospital adult and pediatric	2.98	2.71
Hospital swing bed - skilled	10.18	6.22
Observation visits	261	276
Surgical procedures	793	851
Emergency room visits	4,569	4,504
Full-time equivalents personnel	217	219

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

To the Board of Trustees
Clarinda Regional Health Center
Clarinda, IA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Clarinda Regional Health Center (Health Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements, and have issued our report thereon dated December 5, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item II-A-13, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of this Report

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

SEIM JOHNSON, LLP

Omaha, Nebraska,
December 5, 2013.

Clarinda Regional Health Center

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-13

Internal Control Deficiencies:

II-A-13

Criteria: The design or operation of the Health Center's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.

Condition: We identified misstatements in the financial statements during the audit that were not initially identified by the Health Center's internal controls.

Effect: Audit entries were required to adjust the estimated amounts due to/from third party payors.

Cause: The process used by management to estimate third-party payor settlements and allowances for contractual adjustments in accounts receivable was not as extensive or detailed enough to properly compute the estimates.

Recommendation: Tremendous detail is needed to accurately estimate accounts receivable allowances and third-party settlements. The Health Center should review and revise its estimation process of the stated accounts to ensure that financial statements are properly stated and has subsequently implemented a new model to assist with this process going forward.

*Views of Responsible
Officials and Planned
Corrective Action:*

The Health Center concurs with the recommendation and will review and improve its estimation processes and procedures.

Instances of Non-Compliance

No matters were reported.

Clarinda Regional Health Center

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2013

Part III: Other Findings Related to Required Statutory Reporting

III-A-13

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-B-13

Travel Expense: No expenditures of the Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

III-C-13

Business Transactions: No business transactions between the Health Center and the Health Center officials and/or employees were noted to violate the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said the Health Center to \$1,500 without publicly invited and opened written competitive bids.

III-D-13

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

III-E-13

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health Center's investment policy.

Clarinda Regional Health Center

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

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

Morgan L. Meyer, CPA, Senior Auditor

Gavin D. Blum, Staff Auditor