

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

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

Together with Independent Auditor's Report

Clarinda Regional Health Center

Table of Contents

	<u>Page</u>
Officials – June 30, 2014	1
Independent Auditor's Report	2 – 3
Required Supplementary Information:	
Management's Discussion and Analysis	4 – 9
Basic Financial Statements:	
Statements of Net Position June 30, 2014 and 2013	10
Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2014 and 2013	11
Statements of Cash Flows For the Years Ended June 30, 2014 and 2013	12 – 13
Notes to Financial Statements June 30, 2014 and 2013	14 – 28
Required Supplementary Information:	
Schedule of Funding Progress for the Retiree Health Plan	29
Other Supplementary Information:	
Exhibit 1 - Patient Service Revenue For the Years Ended June 30, 2014 and 2013	30
Exhibit 2 - Other Operating Revenue For the Years Ended June 30, 2014 and 2013	31
Exhibit 3 - Departmental Expenses For the Years Ended June 30, 2014 and 2013	32
Exhibit 4 - Patient Receivables and Allowance for Uncollectible Accounts June 30, 2014 and 2013	33
Exhibit 5 - Inventories/Prepaid Expenses June 30, 2014 and 2013	34
Exhibit 6 - Financial and Statistical Highlights For the Years Ended June 30, 2014 and 2013	35
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	36 – 37
Schedule of Findings and Responses	38 – 39
Summary Schedule of Prior Audit Findings	40
Audit Staff	41

Clarinda Regional Health Center

Officials
June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ron Richardson	Chairman	2015
Dale McAllister	Vice Chairman	2017
Stanley Johnson	Secretary/Treasurer	2017
Joy Tunnicliff	Trustee	2015
Mary Etta Hanson	Trustee	2017
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 years ended June 30, 2014 and 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 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 audits 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, 2014 and 2013, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

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 9 and the schedule of funding progress for the retiree health plan on page 29, 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 November 18, 2014 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,
November 18, 2014.

Clarinda Regional Health Center

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

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, 2014. 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, 2014 and 2013 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 financial statements

Financial Highlights

- The Health Center's net total assets decreased by \$1,469,745 or 3.7% in 2014 and decreased by \$1,376,423 or 3.3% in 2013.
- The Health Center's net position decreased by \$588,376 or 6.1% in 2014 and decreased by \$518,351 or 5.1% in 2013.
- The Health Center reported an operating loss of \$695,174 in 2014 and operating loss of \$997,920 in 2013.

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 deferred outflows, liabilities and deferred inflows and provides information about the amounts of investments in resources and the obligations to Organization creditors. 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 patient service revenue
- Schedules of other operating revenue
- Schedule of departmental expenses
- Schedules of aging analysis of accounts receivable from patients and allowance for uncollectible accounts
- Schedule of inventories and prepaid expenses
- Comparative statistics

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 are 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.

Clarinda Regional Health Center

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

Table 1: Assets, Liabilities and Net Position

	<u>2014</u>	<u>2013 Restated</u>	<u>2012</u>
Assets			
Cash and cash equivalents	\$ 3,435,674	2,511,729	1,259,480
Short-term investments	5,338,063	5,296,773	4,538,933
Assets limited as to use or restricted	1,041,325	1,122,905	1,524,066
Patient accounts receivable, net	2,701,338	2,814,614	2,488,552
Other current assets	1,140,727	1,278,292	1,912,900
Capital assets, net	23,257,177	25,247,330	26,965,248
Other non-current assets	1,334,396	1,446,802	2,405,689
Total assets	<u>38,248,700</u>	<u>39,718,445</u>	<u>41,094,868</u>
Deferred Outflows of Resources			
Discount on long-term debt refunding, net	170,238	180,235	190,366
Liabilities			
Long-term debt	25,258,079	25,813,057	26,444,744
Other current and non-current liabilities	3,779,209	3,870,413	3,904,335
Total liabilities	<u>29,037,288</u>	<u>29,683,470</u>	<u>30,349,079</u>
Deferred Inflows of Resources			
Deferred meaningful use revenue	245,185	490,369	692,963
Net Position			
Net position	<u>\$ 9,136,465</u>	<u>9,724,841</u>	<u>10,243,192</u>

Asset categories changing significantly during 2014 included an increase in cash and cash equivalents due to incentive payments received from the federal government in reference to meeting the requirements of an electronic health record. The hospital has also booked a receivable of approximately \$550,000 for estimated third-party payor settlements related to open cost reports. During the year, the hospital received a donation of \$750,000. This money was placed in a CD for future use. Capital assets decreased due to the write-off of the 2010 bond issuance costs according to GASB 65. These bonds were used to finance the new facility completed in January, 2012. In April, 2014, the hospital started participating in the 340B retail drug program.

Current assets increased by \$632,814 or 4.9% in 2014 and increased by \$1,300,381 or 11.1% in 2013.

Liability categories changing significantly during 2014 included a decrease in accounts payable due to the ability to pay down outstanding accounts quicker. Accrued salaries and benefits increased slightly. The addition of new doctors and mid-level providers attributed to this increase. Long-term debt due to borrowing continues to decrease as payments are made on the Series 2010 bonds. Deferred revenue associated with the Medicare incentive payment program for achieving meaningful use also decreased in 2014, as the deferred revenue was partially recognized.

The current ratio (current assets divided by current liabilities) for 2014 was 4.10 and 2013 was 3.73. 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.

Clarinda Regional Health Center

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

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

	<u>2014</u>	<u>2013 Restated</u>	<u>2012</u>
Operating revenue			
Net patient service revenue before provision for bad debt	\$ 26,098,329	24,678,249	22,531,311
Provision for bad debt	(1,367,634)	(1,488,463)	(1,406,040)
Other operating revenue	1,173,173	756,340	717,600
Total operating revenue	<u>25,903,868</u>	<u>23,946,126</u>	<u>21,842,871</u>
Operating expenses			
Salaries and employee benefits	14,234,668	12,678,277	12,933,768
Professional fees and purchased services	1,278,607	1,244,527	1,163,142
Supplies and other	7,070,556	6,974,597	6,001,446
Other operating expenses	479,773	541,661	504,510
Depreciation and amortization	2,529,405	2,490,190	2,337,282
Interest expense	1,006,033	1,014,794	532,107
Total operating expenses	<u>26,599,042</u>	<u>24,944,046</u>	<u>23,472,255</u>
Operating loss	<u>(695,174)</u>	<u>(997,920)</u>	<u>(1,629,384)</u>
Non-operating revenue (expense)			
Investment income	59,060	44,965	34,683
Other non-operating revenue (expense)	(47,617)	(1,524)	14,151
Total non-operating revenue	<u>11,443</u>	<u>43,441</u>	<u>48,834</u>
Excess expenses over revenues before capital grants and contributions	(683,731)	(954,479)	(1,580,550)
Capital grants and contributions	<u>95,355</u>	<u>792,831</u>	<u>224,209</u>
Decrease in net position	<u>(588,376)</u>	<u>(161,648)</u>	<u>(1,356,341)</u>
Net position, beginning of year, as previously reported	9,724,841	10,243,192	11,599,533
Cumulative effect of accounting change	<u>--</u>	<u>(356,703)</u>	<u>--</u>
Net position, beginning of year, as restated	<u>9,724,841</u>	<u>9,886,489</u>	<u>11,599,533</u>
Net position, end of year	<u>\$ 9,136,465</u>	<u>9,724,841</u>	<u>10,243,192</u>

Net patient service revenue increased \$1,540,909 or 6.6% in 2014 and increased \$2,064,515 or 9.8% in 2013. 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, 2014 and 2013

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total gross patient service revenue	\$ 39,144,841	36,339,038	34,785,333
Contractual adjustments and provisions for bad debt	<u>(14,414,146)</u>	<u>(13,149,252)</u>	<u>(13,660,062)</u>
Net patient service revenue	<u>\$ 24,730,695</u>	<u>23,189,786</u>	<u>21,125,271</u>
Contractual adjustments and provisions for bad debt as a percent of total gross patient service revenue	<u>36.82%</u>	<u>36.18%</u>	<u>39.27%</u>

Total operating expenses increased by \$1,654,996 or 6.6% in 2014 and increased by \$1,471,791 or 6.3% in 2013. The most significant increases in operating expenses were salaries and employee benefits which increased \$1,556,391.

The operating margin (total operating revenue less total operating expenses divided by total operating revenue) was a negative 2.7% in 2014 which improved from a negative 4.2% in 2013. Operating loss in 2014 was \$695,174 compared to operating loss of \$997,920 in 2013.

Other operating revenue comprised 4.5% of total operating revenue in 2014 and 3.2% of total operating revenue in 2013. Table 4 shows the detail for this line item.

Table 4: Other Revenue

	<u>2014</u>	<u>2013</u>	<u>2012</u>
EHR incentive	\$ 363,946	245,185	230,988
Employee meals	136,720	122,043	90,680
Meals on wheels and congregate meals	50,366	53,847	58,518
Wellness program	28,495	30,539	32,497
Lifeline, net	16,686	9,501	12,759
Medical records transcripts	2,345	4,460	4,899
Contracted wound care	57,715	3,585	--
Dietary	654	648	4,601
340B drug revenue	362,057	--	--
Gain (loss) on disposal of capital assets	(10,670)	500	25,827
Other miscellaneous	<u>164,859</u>	<u>286,032</u>	<u>256,831</u>
Total other revenue	<u>\$ 1,173,173</u>	<u>756,340</u>	<u>717,600</u>

Clarinda Regional Health Center

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

Organizational Statistical Data

Table 5: Statistical Data

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Patient days:			
Acute	1,282	1,385	1,380
Swing bed	696	897	890
Total	<u>1,978</u>	<u>2,282</u>	<u>2,270</u>
Admissions:			
Acute	466	480	516
Swing bed	129	142	140
Total	<u>595</u>	<u>622</u>	<u>656</u>
Discharges:			
Acute	464	464	509
Swing bed	116	136	143
Total	<u>580</u>	<u>600</u>	<u>652</u>
Average length of stay, acute	2.76 days	2.98 days	2.71 days
Beds, acute and swing	25	25	25

The Health Center's Cash Flows

The Health Center experienced positive cash flows from operations of \$2,908,127 in 2014 compared to a positive cash flows from operations of \$3,031,948 in 2013. Increases in cash received from patients and third-party payors were largely offset by payments for employee salaries and benefits and accounts payable.

Capital Assets

Capital assets decreased significantly in fiscal year 2014 due to the impact of annual depreciation expense. Most capital expenditures in 2014 related to computer software and hardware to aid in becoming a meaningful user of electronic health records. As of June 30, 2014 and 2013 the Health Center had \$23,257,177 and \$25,247,330, respectively, invested in capital assets net of accumulated depreciation. In 2014 the Health Center had \$688,971 of capital asset additions offset by depreciation of \$2,519,411.

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, 2014 and 2013

Long-Term Debt

Table 6: Long-Term Debt

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Hospital revenue bonds, Series 2010B	\$ 5,665,000	5,900,000	6,130,000
Hospital revenue bonds, Series 2010C	1,745,000	1,745,000	1,745,000
Hospital revenue bonds, Series 2010D	18,331,309	18,560,929	18,782,249
Obligations under capital lease	<u>76,640</u>	<u>220,218</u>	<u>438,978</u>
Total long-term debt	<u>\$ 25,817,949</u>	<u>26,426,147</u>	<u>27,096,227</u>

Approximately \$25,741,309 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 2013. Semi-annual payments of principal and interest began in June 2013 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 \$76,640 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 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 \$1,243,880 or 5.0%
- The Health Center's total operating expenses were under budget by \$311,570 or 1.2%

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, 2014 and 2013

	<u>2014</u>	<u>2013 Restated</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,435,674	2,511,729
Short-term investments	5,338,063	5,296,773
Assets limited as to use or restricted, current portion	1,041,325	1,122,905
Receivables -		
Patients, net of estimated uncollectible accounts of \$996,162 in 2014 and \$886,562 in 2013	2,701,338	2,814,614
Other	326,907	185,513
Inventories	435,033	451,566
Prepaid expenses	178,901	192,619
Estimated third-party payor settlements	199,886	448,594
	<u>13,657,127</u>	<u>13,024,313</u>
Total current assets		
Assets limited as to use or restricted, net of current portion	1,334,396	1,446,802
Capital assets, net	<u>23,257,177</u>	<u>25,247,330</u>
Total assets	<u>38,248,700</u>	<u>39,718,445</u>
DEFERRED OUTFLOWS OF RESOURCES		
Discount on long-term debt refunding, net	<u>170,238</u>	<u>180,235</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	559,870	613,090
Accounts payable -		
Trade	656,400	910,037
Capital	173,208	268,485
Accrued salaries, vacation and benefits payable	1,554,844	1,309,001
Accrued interest on long-term debt	384,887	389,800
	<u>3,329,209</u>	<u>3,490,413</u>
Total current liabilities		
Long-term debt, net of current portion	25,258,079	25,813,057
Other postemployment benefits	450,000	380,000
	<u>29,037,288</u>	<u>29,683,470</u>
Total liabilities		
DEFERRED INFLOWS OF RESOURCES		
Deferred meaningful use revenue	<u>245,185</u>	<u>490,369</u>
Commitments and contingencies		
NET POSITION		
Net investment in capital assets	79,144	1,783,456
Restricted	804,115	788,552
Unrestricted	8,253,206	7,152,833
	<u>9,136,465</u>	<u>9,724,841</u>
Total net position	<u>\$ 9,136,465</u>	<u>9,724,841</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, 2014 and 2013

	<u>2014</u>	<u>2013 Restated</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 26,098,329	24,678,249
Provision for bad debt	<u>(1,367,634)</u>	<u>(1,488,463)</u>
Net patient service revenue	24,730,695	23,189,786
Other operating revenue	<u>1,173,173</u>	<u>756,340</u>
Total operating revenue	<u>25,903,868</u>	<u>23,946,126</u>
OPERATING EXPENSES:		
Salaries	10,727,074	9,495,958
Employee benefits	3,507,594	3,182,319
Professional fees and purchased services	1,278,607	1,244,527
Supplies and other	7,070,556	6,974,597
Utilities	284,837	287,604
Insurance	194,936	254,057
Depreciation and amortization	2,529,405	2,490,190
Interest	<u>1,006,033</u>	<u>1,014,794</u>
Total operating expenses	<u>26,599,042</u>	<u>24,944,046</u>
OPERATING LOSS	<u>(695,174)</u>	<u>(997,920)</u>
NONOPERATING REVENUE (EXPENSE):		
Investment income	59,060	44,965
Other, net	<u>(47,617)</u>	<u>(1,524)</u>
Total nonoperating revenue	<u>11,443</u>	<u>43,441</u>
EXCESS OF EXPENSES OVER REVENUES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(683,731)	(954,479)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>95,355</u>	<u>792,831</u>
DECREASE IN NET POSITION	<u>(588,376)</u>	<u>(161,648)</u>
NET POSITION, beginning of year, as previously reported	9,724,841	10,243,192
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (NOTE 14)	<u>--</u>	<u>(356,703)</u>
NET POSITION, beginning of year, as restated	<u>9,724,841</u>	<u>9,886,489</u>
NET POSITION, end of year	<u>\$ 9,136,465</u>	<u>9,724,841</u>

See notes to financial statements

Clarinda Regional Health Center

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

	<u>2014</u>	<u>2013</u> <u>Restated</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 25,092,679	22,685,130
Cash paid for employee salaries and benefits	(13,918,825)	(12,467,948)
Cash paid to suppliers and contractors	(9,052,322)	(8,626,407)
Other receipts and payments, net	<u>797,265</u>	<u>1,440,673</u>
Net cash provided by operating activities	<u>2,918,797</u>	<u>3,031,448</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(647,875)	(1,154,247)
Proceeds from sale of capital assets	2,000	--
Principal payments on long-term debt	(608,195)	(686,787)
Interest paid on long-term debt	(1,010,946)	(1,019,442)
Capital grants and contributions	<u>95,355</u>	<u>792,831</u>
Net cash used in capital and related financing activities	<u>(2,169,661)</u>	<u>(2,067,645)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	76,028	57,298
Other	(36,947)	(2,024)
Change in investments and assets limited as to use or restricted, net	<u>135,728</u>	<u>233,171</u>
Net cash provided by investing activities	<u>174,809</u>	<u>288,445</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	923,945	1,252,248
CASH AND CASH EQUIVALENTS, Beginning of year	<u>2,511,729</u>	<u>1,259,481</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 3,435,674</u>	<u>2,511,729</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
Change in unrealized losses	<u>\$ 16,968</u>	<u>12,333</u>

See notes to financial statements

Clarinda Regional Health Center

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

	<u>2014</u>	<u>2013</u> <u>Restated</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (695,174)	(997,920)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	2,529,405	2,490,190
Interest expense included in operating expenses	1,006,033	1,014,794
(Gain) loss on disposal of capital assets	10,670	(500)
(Increase) decrease in current assets -		
Receivables -		
Patients	113,276	(326,062)
Other	(141,394)	887,427
Inventories	16,533	(11,080)
Prepaid expenses	13,718	(63,145)
Estimated third-party payor settlements	248,708	(178,594)
Increase (decrease) in current liabilities -		
Accounts payable - trade	(253,637)	208,603
Accrued salaries, vacation and benefits payable	245,843	111,329
Deferred revenue	(245,184)	(202,594)
Other postemployment benefits	70,000	99,000
Net cash provided by operating activities	\$ <u>2,918,797</u>	<u>3,031,448</u>

See notes to financial statements

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

(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 healthcare services for residents of southwest Iowa and surrounding communities and support the charitable healthcare 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 healthcare 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 healthcare 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 healthcare 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 healthcare 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, 2014 and 2013

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 expendable – 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. *Measurement Focus and Basis of Accounting*

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

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

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 uncollectible 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 uncollectible 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 uncollectible 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 uncollectible 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 uncollectible 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 health insurance. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

By Bond 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, 2014 and 2013

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 amortized 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 such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. 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. Absent explicit donor stipulations about how long those capital assets must be maintained, expirations of donor restrictions are reported when the donated or acquired capital assets are placed into service.

L. 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.

M. Deferred Inflows of Resources

Deferred inflows of resources consist of meaningful use revenue that will be recognized as revenue in the year it is earned.

N. Deferred Outflows of Resources

Deferred outflows of resources in the statements of net position consist of discounts on long-term debt that will not be recognized as an increase in expense until the year for which it is amortized.

O. 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 healthcare services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

P. 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.

Q. 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.

R. 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.

S. 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.

T. 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.

U. 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 approximately \$398,000 and \$361,000 were incurred for the years ended June 30, 2014 and 2013, respectively.

V. Reclassification

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 reporting format.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

W. *Change in Accounting Principle*

During 2014, the Health Center has adopted the provisions of GASB Statement No. 65, which requires reclassification of certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources on the statement of net position. GASB 65 also requires recognition of certain items previously reported as assets and liabilities as outflows of resources or inflows of resources on the statement of revenue, expenses and changes in net position. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The cumulative effect of the accounting change in connection with the implementation of GASB 65 was a reduction of \$356,703 in net position as of the beginning of 2013 (see Note 14).

X. *Subsequent Events*

The Health Center considered events occurring through November 18, 2014 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

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

The Health Center's deposits in banks at June 30, 2014 and 2013 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The 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, 2014 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, 2014 and 2013

The composition of investments and assets limited as to use or restricted as of June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Short-term investments:		
Certificates of deposit	\$ 5,213,274	5,189,792
Cash, cash equivalents and mutual funds	124,789	106,981
	<u>5,338,063</u>	<u>5,296,733</u>
Assets limited as to use or restricted (money market funds):		
By bond agreements –		
Project fund	809,909	960,336
Sinking fund	495,611	555,134
Debt service reserve fund	804,115	788,552
Internally designated for health insurance	<u>266,086</u>	<u>265,685</u>
Total assets limited as to use or restricted	<u>2,375,721</u>	<u>2,569,707</u>
Less amounts required to meet current obligations	<u>1,041,325</u>	<u>1,122,905</u>
Long-term portion	<u>\$ 1,334,396</u>	<u>1,446,802</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 (MAC). 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 MAC 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. 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.

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.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

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

	<u>2014</u>	<u>2013</u>
Gross patient service revenue:		
Inpatient services	\$ 3,756,325	4,158,762
Outpatient	28,637,228	26,098,392
Swing bed	1,142,292	1,501,446
Clinic	<u>5,608,996</u>	<u>4,580,438</u>
Total gross patient service revenue	<u>39,144,841</u>	<u>36,339,038</u>
Deductions from patient service revenue:		
Medicare	5,890,658	5,064,330
Medicaid	1,888,104	1,609,575
Other payers	5,115,599	4,760,378
Charity care	<u>152,151</u>	<u>226,506</u>
Total deductions from patient service revenue	<u>13,046,512</u>	<u>11,660,789</u>
Net patient service revenue before provision for bad debt	<u>\$ 26,098,329</u>	<u>24,678,249</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 48% and 9%, respectively, of the Health Center's net patient revenue for the year ended June 30, 2014 compared to 52% for Medicare and 6% for Medicaid in 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(4) Other Revenue

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

	<u>2014</u>	<u>2013</u>
Health Center EHR incentive	\$ 306,285	245,185
Clinic EHR incentive	57,662	--
Employee meals	136,720	122,043
Meals on wheels	50,366	53,847
Wellness program	28,495	30,539
Lifeline, net	16,686	9,501
Medical records transcripts	2,345	4,460
Contracted wound care	57,715	3,585
Dietary	654	648
340B drug revenue	362,057	--
Gain (loss) on disposal of capital assets	(10,670)	500
Other miscellaneous	<u>164,858</u>	<u>286,032</u>
	<u>\$ 1,173,173</u>	<u>756,340</u>

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2012, the Health Center qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The incentive amount is computed using several elements, one of which includes using the value of undepreciated assets required to implement the EHR system. In addition, the Iowa Department of Health and Human Services provides EHR incentive payments that will be earned and received through various payments through 2015. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

The Health Center has elected to record a portion of the incentive payment as other operating revenue in the period earned, and defer amounts related to future Medicare reimbursement. Amounts recorded are as follows:

	<u>2014</u>	<u>2013</u>
Medicare Electronic health record incentive payments	\$ 245,185	245,185
Medicaid Electronic health record incentive payments	61,100	--
Total electronic health record incentive payments	<u>\$ 306,285</u>	<u>245,185</u>
Deferred Medicare reimbursement	<u>\$ 245,185</u>	<u>490,369</u>

(5) Composition of Patient Receivables

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

	<u>2014</u>	<u>2013</u>
Patient accounts	\$ 4,505,721	4,669,986
Less estimated third-party contractual adjustments	(808,221)	(968,810)
Less allowance for uncollectible accounts	(96,162)	(86,562)
	<u>\$ 2,701,338</u>	<u>2,814,614</u>

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>2014</u>	<u>2013</u>
Medicare	28%	34%
Medicaid	6	5
Other third-party payors	30	27
Private pay	36	34
	<u>100%</u>	<u>100%</u>

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

(6) Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013 were as follows:

	June 30, 2013	Additions	Transfers and Disposals	June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 237,502	--	--	237,502
Construction in progress	73,051	79,202	(147,043)	5,210
Total capital assets, not being depreciated	<u>310,553</u>	<u>79,202</u>	<u>(147,043)</u>	<u>242,712</u>
Capital assets, being depreciated:				
Land improvements	220,633	--	--	220,633
Hospital buildings	28,535,672	--	--	28,535,672
Fixed equipment	3,340,949	10,000	--	3,350,949
Major moveable equipment	8,541,206	599,769	(193,815)	8,947,160
Total capital assets, being depreciated	<u>40,638,460</u>	<u>609,769</u>	<u>(193,815)</u>	<u>41,054,414</u>
Less accumulated depreciation:				
Land improvements	220,633	--	--	220,633
Hospital buildings	7,371,676	1,548,720	--	8,920,396
Fixed equipment	2,105,648	286,886	--	2,392,534
Major moveable equipment	6,003,726	683,805	(181,145)	6,506,386
Total accumulated depreciation	<u>15,701,683</u>	<u>2,519,411</u>	<u>(181,145)</u>	<u>18,039,949</u>
Total capital assets, being depreciated, net	<u>24,936,777</u>	<u>(1,909,642)</u>	<u>(12,670)</u>	<u>23,014,465</u>
Total capital assets, net	<u>\$ 25,247,330</u>	<u>(1,830,440)</u>	<u>(159,713)</u>	<u>23,257,177</u>
	June 30, 2012	Additions	Transfers and Disposals	June 30, 2013
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>

Depreciation expense of \$2,519,411 and \$2,480,057 for the years ended June 30, 2014 and 2013, respectively, is included in the statements of revenue, expenses and changes in net position.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

(7) Long-Term Debt

Long-term debt activity of the Health Center for the years ended June 30, 2014 and 2013 consisted of the following:

	June 30, 2013	Borrowings	Payments	June 30, 2014	Due Within One Year
2010 Hospital Revenue Bonds, Series B (A)	\$ 5,900,000	--	235,000	5,665,000	245,000
2010 Hospital Revenue Bonds, Series C (B)	1,745,000	--	--	1,745,000	--
2010 Hospital Revenue Bonds, Series D (C)	18,560,929	--	229,620	18,331,309	238,230
Capital lease obligations (D)	220,218	--	143,578	76,640	76,640
	<u>\$ 26,426,147</u>	<u>--</u>	<u>608,198</u>	<u>25,817,949</u>	<u>559,870</u>

	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>

- (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 3.10% as of June 30, 2014 to 6.15% as of June 30, 2030. Semi-annual principal and interest payments commenced July 2013 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 2013. At December 2013, 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. Original cost of equipment under lease arrangements is \$435,815.

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 \$495,611 as of June 30, 2014.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

A summary of the Health Center's future principal and interest payments as of June 30, 2014 is as follows:

<u>Year</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$	559,870	971,629	1,531,499
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		561,026	893,769	1,454,795
2020-2024		3,198,377	4,090,052	7,288,429
2025-2029		4,035,293	3,279,774	7,315,067
2030-2034		4,490,248	2,266,517	6,756,765
2035-2039		2,680,980	1,547,115	4,228,095
2040-2044		3,222,806	1,084,423	4,307,229
2045-2049		3,874,134	536,296	4,410,431
2050-2051		1,640,569	64,655	1,705,224
	\$	<u>25,817,949</u>	<u>17,538,039</u>	<u>43,355,989</u>

(8) 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, 2014 and 2013, 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.

(9) 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 of 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 \$70,000 and \$36,000 to the plan during the years ended June 30, 2014 and 2013, respectively.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

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>2014</u>	<u>2013</u>
Annual required contribution	\$ 122,000	122,000
Interest on net OPEB obligation	13,000	13,000
Annual OPEB expense	135,000	135,000
Contributions made	65,000	36,000
Increase in net OPEB obligation	70,000	99,000
Net OPEB obligation, beginning of year	380,000	281,000
Net OPEB obligation, end of year	<u>\$ 450,000</u>	<u>380,000</u>

The Health Center’s annual OPEB cost, the percentage of annual OPEB contributed to the plan, and the net OPEB obligations for fiscal years 2010 through 2014 are as follows:

Fiscal year ended June 30:	Annual OPEB Cost	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 135,000	26.6	450,000
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

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, 2014, 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 \$10,768,356 and the ratio of the UAAL to covered payroll was 6.95%.

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 healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. 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.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

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, 2013 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2013.

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

(10) 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.

Plan members are required to contribute 5.95% and 5.78% of their annual salary and the Health Center is required to contribute 8.93% and 8.67% of annual covered payroll for the years ended June 30, 2014 and 2013, respectively. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were approximately \$954,000, \$812,000, and \$795,000, respectively.

(11) 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 \$1,466,657 and \$1,296,799 as of June 30, 2014 and 2013, respectively.

(12) 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.

Clarinda Regional Health Center

Notes to Financial Statements June 30, 2014 and 2013

(13) Commitments and Contingencies

Commitments

The Health Center leases certain equipment under various noncancellable operating leases. The rental expense for the operating leases was \$921,770 and \$780,580 for the years ended June 30, 2014 and 2013, respectively. The Health Center expects future lease payments for the next three years to be approximately \$750,000 each year.

(14) 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.

(15) Change in Accounting Principle

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

<u>Description</u>	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>Restated Balance</u>
Deferred financing costs, net	\$ 339,998	(339,998)	--
Depreciation amortization expense	2,506,895	(16,705)	2,490,190
Decrease in net position	(178,353)	16,705	(161,648)
Net position, June 30, 2012	10,243,192	(356,703)	9,886,489

Clarinda Regional Health Center

**Schedule of Funding Progress for the Retiree Health Plan
June 30, 2014**

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]
2014	7/1/2012	\$ -	\$ 748,000	\$ 748,000	0.00%	\$ 10,768,356	6.95%
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%

See accompanying independent auditor's report

**Patient Service Revenue
For the Years Ended June 30, 2014 and 2013**

	2014			2013		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
DAILY PATIENT SERVICES:						
Medical and surgical	\$ 1,568,295	513,287	2,081,582	1,633,823	535,773	2,169,596
NURSING SERVICES:						
Emergency	52,433	3,406,293	3,458,726	43,800	3,104,780	3,148,580
Operating room	158,758	2,203,662	2,362,420	308,925	2,015,967	2,324,892
Recovery room	12,204	322,821	335,025	18,836	264,375	283,211
Home health	--	--	--	--	16,448	16,448
	<u>223,395</u>	<u>5,932,776</u>	<u>6,156,171</u>	<u>371,561</u>	<u>5,401,570</u>	<u>5,773,131</u>
OTHER PROFESSIONAL SERVICES:						
Laboratory	583,443	5,703,093	6,286,537	614,976	5,199,275	5,814,251
Pharmacy	902,806	3,827,356	4,730,162	1,141,151	2,945,070	4,086,221
Clarinda Medical Associates	56,533	4,369,965	4,426,498	66,275	3,520,530	3,586,805
Radiology	199,592	3,409,089	3,608,681	172,958	3,243,915	3,416,873
CT scan	250,800	2,886,065	3,136,865	322,000	2,889,484	3,211,484
Physical therapy	112,149	1,309,108	1,421,257	128,830	1,197,300	1,326,130
Ambulance service	--	1,351,282	1,351,282	--	1,195,160	1,195,160
Inhalation therapy	623,452	565,669	1,189,121	706,014	526,557	1,232,571
Clinic	300	794,666	794,966	4,409	806,919	811,328
Anesthesiology	36,106	683,927	720,033	55,863	554,872	610,735
Cardiac rehabilitation	91,915	619,165	711,080	91,935	481,643	573,578
Villisca Rural Health Clinic	--	444,365	444,365	--	252,990	252,990
Intravenous therapy	50,921	381,066	431,987	117,693	518,041	635,734
Occupational therapy	92,606	271,784	364,390	113,068	271,870	384,938
Nuclear medicine	5,370	313,870	319,240	15,740	284,791	300,531
Ultrasound	12,615	284,962	297,577	21,655	277,713	299,368
Electrocardiology	48,920	214,127	263,047	23,323	206,496	229,819
Speech therapy	14,560	145,450	160,010	10,120	127,983	138,103
Wound care	4,059	124,428	128,487	5,336	168,858	174,194
Blood service	20,780	49,651	70,431	43,478	41,051	84,529
Diabetes management	--	34,032	34,032	--	16,979	16,979
Dietary consulting	--	16,215	16,215	--	12,115	12,115
Hypnotherapy	--	825	825	--	1,875	1,875
	<u>3,106,927</u>	<u>27,800,160</u>	<u>30,907,088</u>	<u>3,654,824</u>	<u>24,741,487</u>	<u>28,396,311</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>4,898,617</u>	<u>34,246,223</u>	<u>39,144,841</u>	<u>5,660,208</u>	<u>30,678,830</u>	<u>36,339,038</u>
LESS:						
Contractual allowances and other deductions, primarily Medicare and Medicaid			(12,894,361)			(11,434,283)
Charity care services and other discounts, based on charges forgone			(152,151)			(226,506)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			26,098,329			24,678,249
PROVISION FOR BAD DEBT			(1,367,634)			(1,488,463)
NET PATIENT SERVICE REVENUE			\$ <u>24,730,695</u>			<u>23,189,786</u>

See accompanying independent auditor's report

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

	<u>2014</u>	<u>2013</u>
Health Center EHR incentive	\$ 306,285	245,185
Clinic EHR incentive	57,662	--
Employee meals	136,720	122,043
Meals on wheels	50,366	53,847
Wellness program	28,495	30,539
Lifeline, net	16,686	9,501
Medical records transcripts	2,345	4,460
Contracted wound care	57,715	3,585
Dietary	654	648
340B drug revenue	362,057	--
Gain (loss) on disposal of capital assets	(10,670)	500
Other miscellaneous	164,858	286,032
	<u>\$ 1,173,173</u>	<u>756,340</u>

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

	2014			2013 Restated		
	Salaries	Other	Total	Salaries	Other	Total
NURSING SERVICES:						
Routine care	\$ 1,072,846	235,477	1,308,323	1,018,369	131,477	1,149,846
Operating room	816,643	407,834	1,224,477	721,291	459,355	1,180,646
Emergency services	1,004,487	121,529	1,126,016	914,383	105,675	1,020,058
Nursing administration	1,429	126,220	127,649	82,745	62,451	145,196
Home health agency	--	--	--	19,803	3,737	23,540
	<u>2,895,405</u>	<u>891,060</u>	<u>3,786,465</u>	<u>2,756,591</u>	<u>762,695</u>	<u>3,519,286</u>
OTHER PROFESSIONAL SERVICES:						
Clarinda Medical Associates	2,527,015	--	2,527,015	1,758,674	--	1,758,674
Pharmacy	161,653	1,453,147	1,614,800	157,229	1,116,381	1,273,610
Radiology	485,240	660,789	1,146,029	480,751	587,334	1,068,085
Laboratory	343,443	501,892	845,335	386,943	468,209	855,152
Ambulance service	246,985	121,030	368,015	198,565	92,364	290,929
Clinic	315,418	47,909	363,327	262,403	31,441	293,844
Anesthesiology	320,463	42,644	363,107	294,354	35,661	330,015
Inhalation therapy	170,194	159,011	329,205	158,647	133,657	292,304
CT scan	--	242,469	242,469	--	163,663	163,663
Villisca Rural Health Clinic	140,197	44,856	185,053	111,271	25,712	136,983
Cardiac rehabilitation	58,411	74,867	133,278	54,674	62,897	117,571
Nuclear medicine	--	127,815	127,815	--	95,543	95,543
Speech therapy	89,413	8,696	98,109	81,158	8,866	90,024
Ultrasound	56,160	32,530	88,690	55,593	15,444	71,037
Wound care	70,115	13,486	83,601	66,522	2,733	69,255
Physical therapy	70,279	12,330	82,609	75,465	9,972	85,437
Central service and supply	80,523	1,397	81,920	79,381	--	79,381
Wellness	64,560	10,402	74,962	59,119	21,197	80,316
Performance management	53,812	1,001	54,813	1,175	120	1,295
Electrocardiology	3,646	3,035	6,681	3,496	2,805	6,301
Occupational therapy	--	2,036	2,036	--	2,128	2,128
Hypnotherapy	722	1,281	2,003	1,051	105	1,156
	<u>5,258,249</u>	<u>3,562,623</u>	<u>8,820,872</u>	<u>4,286,471</u>	<u>2,876,232</u>	<u>7,162,703</u>
GENERAL SERVICES:						
Dietary	480,926	335,458	816,384	427,826	311,350	739,176
Plant operations	201,532	457,156	658,688	201,403	832,595	1,033,998
Housekeeping	257,250	153,677	410,927	248,569	136,439	385,008
Clarinda Medical Foundation	54,706	10,099	64,805	69,933	13,675	83,608
Diabetes management	41,142	1,685	42,827	36,293	604	36,897
	<u>1,035,556</u>	<u>958,075</u>	<u>1,993,631</u>	<u>984,024</u>	<u>1,294,663</u>	<u>2,278,687</u>
ADMINISTRATIVE AND FISCAL SERVICES						
Employee benefits	--	3,507,548	3,507,548	--	3,182,319	3,182,319
Administrative	902,995	1,326,565	2,229,560	852,391	1,355,648	2,208,039
Data processing	208,037	503,763	711,800	190,556	461,852	652,408
Medical records	263,156	89,394	352,550	277,757	138,547	416,304
Clarinda Medical Association	--	175,699	175,699	--	585,003	585,003
Community relations	51,013	13,357	64,370	37,006	10,246	47,252
Social services	54,495	1,383	55,878	51,393	433	51,826
Quality improvement	41,976	2,163	44,139	59,769	1,541	61,310
Infection control	16,192	26,293	42,485	--	29,398	29,398
	<u>1,537,864</u>	<u>5,646,165</u>	<u>7,184,029</u>	<u>1,468,872</u>	<u>5,764,987</u>	<u>7,233,859</u>
NONDEPARTMENTAL:						
Depreciation and amortization	--	2,529,405	2,529,405	--	2,490,190	2,490,190
Medical professional fees	--	1,278,607	1,278,607	--	1,244,527	1,244,527
Interest	--	1,006,033	1,006,033	--	1,014,794	1,014,794
	<u>--</u>	<u>4,814,045</u>	<u>4,814,045</u>	<u>--</u>	<u>4,749,511</u>	<u>4,749,511</u>
TOTAL EXPENSES	\$ 10,727,074	15,871,968	26,599,042	9,495,958	15,448,088	24,944,046

See accompanying independent auditor's report

**Patient Receivables and Allowance for Uncollectible Accounts
June 30, 2014 and 2013**

Age of Accounts	2014		2013	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,466,585	54.74 %	2,446,812	52.39 %
31 - 60	531,249	11.79	671,083	14.37
61 - 90	259,545	5.76	473,405	10.14
91 - 120	283,732	6.30	186,724	4.00
121 and over	964,610	21.41	891,962	19.10
	<u>4,505,721</u>	<u>100.00 %</u>	<u>4,669,986</u>	<u>100.00 %</u>
Less:				
Allowance for uncollectible accounts	(996,162)		(886,562)	
Allowance for contractual adjustments	<u>(808,221)</u>		<u>(968,810)</u>	
	<u>\$ 2,701,338</u>		<u>2,814,614</u>	

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS:

	2014	2013
Balance, beginning of year	\$ 886,562	986,469
Provision of uncollectible accounts	1,581,858	1,667,288
Recoveries of accounts previously written off	(214,224)	(178,825)
Accounts written off	<u>(1,258,034)</u>	<u>(1,588,370)</u>
Balance, end of year	<u>\$ 996,162</u>	<u>886,562</u>

See accompanying independent auditor's report

Inventories/Prepaid Expenses
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
INVENTORIES:		
General	\$ 173,126	200,311
Pharmacy	245,691	231,490
Dietary	11,684	15,553
Office supplies	<u>4,532</u>	<u>4,212</u>
	<u>\$ 435,033</u>	<u>451,566</u>
PREPAID EXPENSES:		
Insurance	\$ 61,966	44,026
Maintenance and other	<u>116,935</u>	<u>148,593</u>
	<u>\$ 178,901</u>	<u>192,619</u>

See accompanying independent auditor's report

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

	<u>2014</u>	<u>2013</u>
Patient days:		
Hospital -		
Adult and pediatric	1,282	1,385
Swing bed - skilled	<u>696</u>	<u>897</u>
	<u>1,978</u>	<u>2,282</u>
Discharges:		
Hospital adult and pediatric	464	464
Hospital swing bed - skilled	<u>116</u>	<u>136</u>
	<u>580</u>	<u>600</u>
Average length of stay:		
Hospital adult and pediatric	2.76	2.98
Hospital swing bed - skilled	6.00	6.60
Observation visits	306	261
Surgical procedures	860	793
Emergency room visits	4,541	4,569
Full-time equivalents personnel	223	217

**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, 2014, 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 November 18, 2014.

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-14, 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, 2014 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.

Health Center's Response to Findings

The Health Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Health Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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,
November 18, 2014.

Clarinda Regional Health Center

Schedule of Findings and Responses For the Year Ended June 30, 2014

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-14

Internal Control Deficiencies:

Significant deficiency -

II-A-14

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 Responses For the Year Ended June 30, 2014

Part III: Other Findings Related to Required Statutory Reporting

III-A-14

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-14

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-14

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-14

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

III-E-14

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.

III-F-14

Publishing Requirements: An annual condensed statement of total receipts and expenditures is to be published in a newspaper of the city in which the Health Center is located according to Chapter 392.6 of the Code of Iowa.

Clarinda Regional Health Center

**Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2013**

Finding	Finding title	Status	If not corrected, corrective action plan or other explanation
II-A-13	Management estimates	Not corrected	Management is aware of this deficiency in its estimate process and performed interim estimates during the year. However, an estimate was not performed as of the fiscal year end resulting in an audit journal entry. Similar finding reported at II-A-14.

Clarinda Regional Health Center

**Audit Staff
For the Year Ended June 30, 2014**

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

Bryce A. Arp, Staff Auditor

Brad D. Pieper, Staff Auditor