

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

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

**Together with Independent Auditor's Report**

# Clarinda Regional Health Center

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## Clarinda Regional Health Center

Officials  
June 30, 2015

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<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 Tunncliff	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, 2015 and 2014, 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, 2015 and 2014, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2015 the Health Center adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27. 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, the schedule of the Health Center's proportionate share of the Net Pension Liability, and the schedule of the Health Center contributions on pages 35 through 37 be presented to supplement the basic financial statements, 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 September 16, 2015 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,  
September 16, 2015.

## **Clarinda Regional Health Center**

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

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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, 2015. 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, 2015 and 2014 financial report includes audited financial statements that include:

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

#### **Financial Highlights**

- The Health Center's net total assets increased by \$217,987 or 0.6% in 2015 and decreased by \$1,469,745 or 3.7% in 2014.
- The Health Center's net position decreased by \$6,048,218 or 66.2% in 2015 and decreased by \$588,376 or 6.1% in 2014.
- The Health Center reported an operating income of \$1,338,849 in 2015 and operating income of \$310,859 in 2014.

#### **The Balance Sheet and Statement of Revenue, Expenses and Changes in Net Position**

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

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

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

# Clarinda Regional Health Center

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

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### Financial Analysis of the Health Center

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

**Table 1: Assets, Liabilities and Net Position**

	<u>2015</u>	<u>(not restated) 2014</u>	<u>(not restated) 2013</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 5,470,971	3,435,674	2,511,729
Short-term investments	5,368,393	5,338,063	5,296,773
Assets limited as to use or restricted	1,054,524	1,041,325	1,122,905
Patient accounts receivable, net	2,366,949	2,701,338	2,814,614
Other current assets	1,148,268	1,140,727	1,278,292
Capital assets, net	21,510,586	23,257,177	25,247,330
Other non-current assets	1,546,996	1,334,396	1,446,802
Total assets	<u>38,466,687</u>	<u>38,248,700</u>	<u>39,718,445</u>
<b>Deferred Outflows of Resources</b>			
Discount on long-term debt refunding, net	160,400	170,238	180,235
Pension related deferred outflows	1,983,752	-	-
<b>Liabilities</b>			
Long-term debt	24,760,915	25,258,079	25,813,057
Other current and non-current liabilities	10,311,705	3,779,209	3,870,413
Total liabilities	<u>35,072,620</u>	<u>29,037,288</u>	<u>29,683,470</u>
<b>Deferred Inflows of Resources</b>			
Deferred meaningful use revenue	-	245,185	490,369
Pension related deferred inflows	2,449,972	-	-
<b>Net Position</b>			
Net position	<u>\$ 3,088,247</u>	<u>9,136,465</u>	<u>9,724,841</u>

## Clarinda Regional Health Center

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

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Asset categories changing significantly during 2015 included an increase in cash and cash equivalents primarily due to a full year of participation in the 340B Drug Pricing Program. This program is administered by the Office of Pharmacy Affairs within the Health Resources and Service Administration, and requires drug manufacturers participating in Medicare and/or Medicaid to sell covered patient drugs to covered entities at discounted prices. The Health Center contracts with a local retail pharmacy to provide this benefit. In addition, the Health Center's cash and cash equivalents increased due to the inclusion of the Clarinda Hospital Auxiliary's assets. In prior years, these assets had been loosely held by the Auxiliary with no oversight by the Health Center. Through advisement from legal counsel, the decision was made to move these assets under the umbrella of the Health Center's tax identification number. Patient accounts receivable, net decreased significantly from the prior year. Conscious efforts were made to increase collections on patient accounts and an increase in the allowance for contractual adjustments based on volumes contributed to this decrease. In October, 2014 the Health Center finalized the sale of the Medical Office Building to Waubonsie Mental Health Center, Inc. This transaction contributed to the decrease in capital assets from the prior year. Other non-current assets increased from prior year due to increases in the debt service reserve and interest accounts in relation to the Series B, C, and D Hospital Revenue Bonds.

Current assets increased by \$1,751,978 or 12.8% in 2015 and increased by \$632,814 or 4.9% in 2014.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$7,599,673 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year. Pension related deferred outflows increased over \$1.9 million due to this statement.

Liability categories changing significantly during 2015 included an increase in accounts payable due to accruals made for goods received or services rendered on or before June 30<sup>th</sup> with no invoice received. Accrued salaries and benefits increased slightly due to wage adjustments throughout the year. An increase in estimated third-party payor settlements reflect the anticipated repayment to payors for prior year's claims. Long term debt due to borrowing continues to decrease as payments are made on the Series 2010 bonds. Other postemployment benefits increased in accordance with the Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. An actuarial report was completed by Gallagher Benefit Services, Inc. to determine the net Other Postemployment Benefits (OPEB) obligation as of June 30, 2015. Deferred revenue associated with the Medicare incentive payment program for achieving meaningful use also decreased in 2015, as the deferred revenue was fully recognized. In reference to GASB 68, pension related deferred inflows increased in fiscal year 2015.

The current ratio (current assets divided by current liabilities) for 2015 was 3.88 and 2014 was 4.10. 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, 2015 and 2014

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

	<u>2015</u>	<u>(not restated) 2014</u>	<u>(not restated) 2013</u>
<b>Operating revenue</b>			
Net patient service revenue before provision for bad debt	\$ 27,897,094	26,098,329	24,678,249
Provision for bad debt	(1,144,456)	(1,367,634)	(1,488,463)
Other operating revenue	<u>2,702,674</u>	<u>1,173,173</u>	<u>756,340</u>
Total operating revenue	<u>29,455,312</u>	<u>25,903,868</u>	<u>23,946,126</u>
<b>Operating expenses</b>			
Salaries and employee benefits	15,161,814	14,234,668	12,678,277
Professional fees and purchased services	2,119,102	1,278,607	1,244,527
Supplies and other	7,772,815	7,070,556	6,974,597
Other operating expenses	515,307	479,773	541,661
Depreciation and amortization	<u>2,547,425</u>	<u>2,529,405</u>	<u>2,490,190</u>
Total operating expenses	<u>28,116,463</u>	<u>25,593,009</u>	<u>23,929,252</u>
<b>Operating income</b>	<u>1,338,849</u>	<u>310,859</u>	<u>16,874</u>
<b>Non-operating revenue (expense)</b>			
Interest expense	(987,613)	(1,006,033)	(1,014,794)
Investment income	50,238	59,060	44,965
Other non-operating revenue (expense)	<u>71,651</u>	<u>(47,617)</u>	<u>(1,524)</u>
Total non-operating revenue, net	<u>(865,724)</u>	<u>(994,590)</u>	<u>(971,353)</u>
Excess revenues over expenses before capital grants and contributions	473,125	(683,731)	(954,479)
Capital grants and contributions	<u>131,800</u>	<u>95,355</u>	<u>792,831</u>
<b>Increase (decrease) in net position</b>	604,925	(588,376)	(161,648)
Net position, beginning of year, as restated	<u>2,483,322</u>	<u>9,724,841</u>	<u>9,886,489</u>
Net position, end of year	<u>\$ 3,088,247</u>	<u>9,136,465</u>	<u>9,724,841</u>

Net patient service revenue increased \$2,021,943 or 8.2% in 2015 and increased \$1,540,909 or 6.6% in 2014. 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, 2015 and 2014

**Table 3: Net Patient Service Revenue and Contractual Adjustments**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total gross patient service revenue	\$ 43,522,014	39,144,841	36,339,038
Contractual adjustments and provisions for bad debt	(16,769,376)	(14,414,146)	(13,149,252)
Net patient service revenue	<u>\$ 26,752,638</u>	<u>24,730,695</u>	<u>23,189,786</u>
Contractual adjustments and provisions for bad debt as a percent of total gross patient service revenue	<u>38.53%</u>	<u>36.82%</u>	<u>36.18%</u>

Total operating expenses increased by \$2,523,454 or 9.9% in 2015 and increased by \$1,663,757 or 7.0% in 2014. The most significant increases in operating expenses were salaries and employee benefits which increased \$927,146. Professional fees and purchased services also increased significantly due to a reclassification of expenses for contracted labor. Supplies and other expenses increased \$702,259 from prior year. A majority of the increase in this area was due to the increase in pharmacy drug expenses.

The operating margin (total operating revenue less total operating expenses divided by total operating revenue) was a positive 4.6% in 2015 which increased from a positive 1.2% in 2014. Operating income in 2015 was \$1,338,849 compared to operating income of \$310,859 in 2014.

Other operating revenue comprised 9.2% of total operating revenue in 2015 and 4.5% of total operating revenue in 2014. Table 4 shows the detail for this line item.

**Table 4: Other Revenue**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
340B drug revenue	\$ 2,021,667	362,057	--
Health Center EHR incentive	240,397	306,285	245,185
Employee meals	149,793	136,720	122,043
Other miscellaneous	143,908	164,858	286,032
Contracted wound care	112,706	57,715	3,585
Meals on wheels	61,333	50,366	53,847
Wellness program	6,164	28,495	30,539.00
Lifeline, net	3,337	16,686	9,501
Medical records transcripts	2,803	2,345	4,460.00
Dietary	1,386	654	648.00
Clinic EHR incentive	-	57,662	-
Gain (loss) on disposal of capital assets	(40,820)	(10,670)	500
Total other revenue	<u>\$ 2,702,674</u>	<u>1,173,173</u>	<u>756,340</u>

## Clarinda Regional Health Center

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

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#### Organizational Statistical Data

**Table 5: Statistical Data**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Patient days:			
Acute	1,381	1,282	1,385
Swing bed	755	696	897
Total	<u>2,136</u>	<u>1,978</u>	<u>2,282</u>
Admissions:			
Acute	487	466	480
Swing bed	127	129	142
Total	<u>614</u>	<u>595</u>	<u>622</u>
Discharges:			
Acute	487	464	464
Swing bed	127	116	136
Total	<u>614</u>	<u>580</u>	<u>600</u>
Average length of stay, acute	2.84 days	2.76 days	2.98 days
Beds, acute and swing	25	25	25

#### The Health Center's Cash Flows

The Health Center experienced positive cash flows from operations of \$4,376,951 in 2015 compared to a positive cash flows from operations of \$2,850,465 in 2014. Increases in patient and other accounts receivable and third-party payor settlements were largely offset by payments to employee salaries and benefits and accounts payable.

#### Capital Assets

Capital assets decreased significantly in fiscal year 2015 due to the sale of the medical office building to Waubonsie Mental Health Center, Inc. Capital expenditures in 2015 related to computer software and hardware, the purchase of the MRI machine, and medication dispensers and supply cabinets. As of June 30, 2015 and 2014 the Health Center had \$21,510,586 and \$23,257,177, respectively, invested in capital assets net of accumulated depreciation. In 2015 the Health Center had \$1,055,798 of capital asset additions offset by depreciation of \$2,547,425.

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, 2015 and 2014

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### Long-Term Debt

**Table 6: Long-Term Debt**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Hospital revenue bonds, Series 2010B	\$ 5,420,000	5,665,000	5,900,000
Hospital revenue bonds, Series 2010C	1,745,000	1,745,000	1,745,000
Hospital revenue bonds, Series 2010D	18,093,079	18,331,309	18,560,929
Obligations under capital lease	<u>-</u>	<u>76,640</u>	<u>220,218</u>
Total long-term debt	<u>\$ 25,258,079</u>	<u>25,817,949</u>	<u>26,426,147</u>

Approximately \$25,258,079 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. Other capital lease obligations for the Health Center have been paid in full as of June 30, 2015.

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 \$2,173,789 or 8.0%
- The Health Center's total operating expenses were under budget by \$860,442 or 3.0%

### 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, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,470,971	3,435,674
Short-term investments	5,368,393	5,338,063
Assets limited as to use or restricted, current portion	1,054,524	1,041,325
Receivables -		
Patients, net of estimated uncollectible accounts of \$944,284 in 2015 and \$996,162 in 2014	2,366,949	2,701,338
Other	368,589	326,907
Inventories	507,432	435,033
Prepaid expenses	272,247	178,901
Estimated third-party payor settlements	--	199,886
Total current assets	<u>15,409,105</u>	<u>13,657,127</u>
Assets limited as to use or restricted, net of current portion	1,546,996	1,334,396
Capital assets, net	<u>21,510,586</u>	<u>23,257,177</u>
Total assets	<u><u>38,466,687</u></u>	<u><u>38,248,700</u></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Discount on long-term debt refunding, net	160,400	170,238
Pension related deferred outflows	<u>1,983,752</u>	<u>--</u>
Total deferred outflows of resources	<u>2,144,152</u>	<u>170,238</u>
Total assets and deferred outflows of resources	<u><u>40,610,839</u></u>	<u><u>38,418,938</u></u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	497,164	559,870
Accounts payable -		
Trade	891,946	656,400
Capital	173,207	173,208
Accrued salaries, vacation and benefits payable	1,642,507	1,554,844
Accrued interest on long-term debt	384,153	384,887
Estimated third-party payor settlements	<u>382,773</u>	<u>--</u>
Total current liabilities	3,971,750	3,329,209
Long-term debt, net of current portion	24,760,915	25,258,079
Other postemployment benefits	540,000	450,000
Net pension liability	<u>5,799,955</u>	<u>--</u>
Total liabilities	<u>35,072,620</u>	<u>29,037,288</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred meaningful use revenue	--	245,185
Pension related deferred inflows	<u>2,449,972</u>	<u>--</u>
Total deferred inflows of resources	2,449,972	245,185
Commitments and contingencies:		
<b>NET POSITION</b>		
Net investment in capital assets	(762,662)	79,144
Restricted	897,199	804,115
Unrestricted	<u>2,953,710</u>	<u>8,253,206</u>
Total net position	<u>3,088,247</u>	<u>9,136,465</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 40,610,839</u></u>	<u><u>38,418,938</u></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, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 27,897,094	26,098,329
Provision for bad debt	<u>(1,144,456)</u>	<u>(1,367,634)</u>
Net patient service revenue	26,752,638	24,730,695
Other operating revenue	<u>2,702,674</u>	<u>1,173,173</u>
Total operating revenue	<u>29,455,312</u>	<u>25,903,868</u>
OPERATING EXPENSES:		
Salaries	11,507,090	10,727,074
Employee benefits	3,654,724	3,507,594
Professional fees and purchased services	2,119,102	1,278,607
Supplies and other	7,772,815	7,070,556
Utilities	280,005	284,837
Insurance	235,302	194,936
Depreciation and amortization	<u>2,547,425</u>	<u>2,529,405</u>
Total operating expenses	<u>28,116,463</u>	<u>25,593,009</u>
OPERATING INCOME	<u>1,338,849</u>	<u>310,859</u>
NONOPERATING REVENUE (EXPENSE):		
Interest expense	(987,613)	(1,006,033)
Investment income	50,238	59,060
Other, net	<u>71,651</u>	<u>(47,617)</u>
Total nonoperating expense, net	<u>(865,724)</u>	<u>(994,590)</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	473,125	(683,731)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>131,800</u>	<u>95,355</u>
INCREASE (DECREASE) IN NET POSITION	604,925	(588,376)
NET POSITION, beginning of year, as restated	<u>2,483,322</u>	<u>9,724,841</u>
NET POSITION, end of year	<u>\$ 3,088,247</u>	<u>9,136,465</u>

*See notes to financial statements*

## Clarinda Regional Health Center

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

	<u>2015</u>	<u>(not restated) 2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 27,669,686	25,092,679
Cash paid for employee salaries and benefits	(15,371,119)	(13,918,825)
Cash paid to suppliers and contractors	(10,337,423)	(9,052,322)
Other receipts and payments, net	<u>2,415,807</u>	<u>728,933</u>
Net cash provided by operating activities	<u>4,376,951</u>	<u>2,850,465</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(1,049,616)	(579,543)
Proceeds from sale of capital assets	217,800	2,000
Principal payments on long-term debt	(559,871)	(608,195)
Interest paid on long-term debt	(988,347)	(1,010,946)
Capital grants and contributions	<u>131,800</u>	<u>95,355</u>
Net cash used in capital and related financing activities	<u>(2,248,234)</u>	<u>(2,101,329)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	48,908	76,028
Other	112,471	(36,947)
Change in investments and assets limited as to use or restricted, net	<u>(254,799)</u>	<u>135,728</u>
Net cash provided by (used in) investing activities	<u>(93,420)</u>	<u>174,809</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,035,297	923,945
CASH AND CASH EQUIVALENTS, Beginning of year	<u>3,435,674</u>	<u>2,511,729</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 5,470,971</u>	<u>3,435,674</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:		
Change in unrealized losses	<u>\$ (1,330)</u>	<u>16,968</u>

*See notes to financial statements*

## Clarinda Regional Health Center

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

	<u>2015</u>	<u>(not restated) 2014</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ 1,338,849	310,859
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	2,547,425	2,529,405
(Gain) loss on disposal of capital assets	--	(57,662)
Decrease in net pension liability	(1,799,718)	--
Increase in deferred outflows of resources	(1,037,222)	--
Increase in deferred inflows of resources	2,449,972	--
(Increase) decrease in current assets -		
Receivables -		
Patients	334,389	113,276
Other	(41,682)	(141,394)
Inventories	(72,399)	16,533
Prepaid expenses	(93,346)	13,718
Estimated third-party payor settlements	199,886	248,708
Increase (decrease) in current liabilities -		
Accounts payable - trade	235,546	(253,637)
Accrued salaries, vacation and benefits payable	87,663	245,843
Deferred revenue	(245,185)	(245,184)
Other postemployment benefits	90,000	70,000
Estimated third-party payor settlements	382,773	--
Net cash provided by operating activities	<u>\$ 4,376,951</u>	<u>2,850,465</u>

*See notes to financial statements*

# Clarinda Regional Health Center

## Notes to Financial Statements June 30, 2015 and 2014

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### (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, 2015 and 2014

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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. Several provisions have been implemented while other provisions are slated to take effect at specified times over approximately the next decade.

### C. *Basis of Presentation*

The statement of net position displays the Health Center's assets, deferred inflows and outflows of resources, 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, 2015 and 2014

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*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, 2015 and 2014

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### 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. *Deferred Outflows of Resources*

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

### M. *Compensated Absences*

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

### N. *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# Clarinda Regional Health Center

## Notes to Financial Statements June 30, 2015 and 2014

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O. *Deferred Inflows of Resources*

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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

Deferred outflows of resources in the statements of net position also 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.

P. *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.

Q. *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.

R. *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.

S. *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.

T. *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.

## Clarinda Regional Health Center

### Notes to Financial Statements June 30, 2015 and 2014

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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.

#### U. *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.

#### V. *Management*

In January, 2014 the Health Center entered into a one year, and thereafter it shall be renewed automatically for successive one-year terms, affiliation agreement with Bryan Health (Bryan), a Nebraska nonprofit corporation, intending to provide various management services for the Health Center beginning January 1, 2015. Bryan employs and provides to the Health Center a full-time President and Chief Executive Officer and a Chief Nursing Officer.

#### W. *Reclassification*

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 reporting format.

#### X. *Subsequent Events*

The Health Center considered events occurring through September 16, 2015 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

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

The Health Center's deposits in banks at June 30, 2015 and 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The 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, 2015 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.

## Clarinda Regional Health Center

### Notes to Financial Statements June 30, 2015 and 2014

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*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.

The composition of investments and assets limited as to use or restricted as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Short-term investments:		
Certificates of deposit	\$ 5,242,961	5,213,274
Cash, cash equivalents and mutual funds	<u>125,432</u>	<u>124,789</u>
	<u>5,368,393</u>	<u>5,338,063</u>
Assets limited as to use or restricted (money market funds):		
By bond agreements –		
Project fund	809,990	809,909
Sinking fund	627,845	495,611
Debt service reserve fund	897,199	804,115
Internally designated for health insurance	<u>266,486</u>	<u>266,086</u>
Total assets limited as to use or restricted	<u>2,601,520</u>	<u>2,375,721</u>
Less amounts required to meet current obligations	<u>1,054,524</u>	<u>1,041,325</u>
Long-term portion	<u>\$ 1,546,996</u>	<u>1,334,396</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.

## Clarinda Regional Health Center

### Notes to Financial Statements June 30, 2015 and 2014

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**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.

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

	<u>2015</u>	<u>2014</u>
Gross patient service revenue:		
Inpatient services	\$ 4,285,439	3,756,325
Outpatient	31,906,546	28,637,228
Swing bed	1,161,663	1,142,292
Clinic	<u>6,168,366</u>	<u>5,608,996</u>
Total gross patient service revenue	<u>43,522,014</u>	<u>39,144,841</u>
Deductions from patient service revenue:		
Medicare	6,825,710	5,890,658
Medicaid	2,924,020	1,888,104
Other payers	5,818,944	5,115,599
Charity care	<u>56,246</u>	<u>152,151</u>
Total deductions from patient service revenue	<u>15,624,920</u>	<u>13,046,512</u>
Net patient service revenue before provision for bad debt	<u>\$ 27,897,094</u>	<u>26,098,329</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 45% and 9%, respectively, of the Health Center's net patient revenue for the year ended June 30, 2015 compared to 48% for Medicare and 9% for Medicaid in 2014. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

## Clarinda Regional Health Center

### Notes to Financial Statements June 30, 2015 and 2014

#### (4) Other Revenue

Other revenue for the years ended June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
340B drug revenue	\$ 2,021,667	362,057
Health Center EHR incentive	240,397	306,285
Employee meals	149,793	136,720
Other miscellaneous	143,908	164,858
Contracted wound care	112,706	57,715
Meals on wheels	61,333	50,366
Wellness program	6,164	28,495
Lifeline, net	3,337	16,686
Medical records transcripts	2,803	2,345
Dietary	1,386	654
Clinic EHR incentive	--	57,662
Loss on disposal of capital assets	<u>(40,820)</u>	<u>(10,670)</u>
	<u>\$ 2,702,674</u>	<u>1,173,173</u>

*See accompanying independent auditor's report*

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>2015</u>	<u>2014</u>
Medicare Electronic health record incentive payments	\$ 240,397	245,185
Medicaid Electronic health record incentive payments	<u>--</u>	<u>61,100</u>
Total electronic health record incentive payments	<u>\$ 240,397</u>	<u>306,285</u>
Deferred Medicare reimbursement	<u>\$ --</u>	<u>245,185</u>

# Clarinda Regional Health Center

## Notes to Financial Statements June 30, 2015 and 2014

### (5) Composition of Patient Receivables

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

	<u>2015</u>	<u>2014</u>
Patient accounts	\$ 4,190,602	4,505,721
Less estimated third-party contractual adjustments	(906,826)	(808,221)
Less allowance for uncollectible accounts	<u>(944,284)</u>	<u>(996,162)</u>
	<u>\$ 2,339,492</u>	<u>2,701,338</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>2015</u>	<u>2014</u>
Medicare	21%	28%
Medicaid	6	6
Other third-party payors	35	30
Private pay	<u>38</u>	<u>36</u>
	<u>100%</u>	<u>100%</u>

### (6) Capital Assets

Capital assets activity for the years ended June 30, 2015 and 2014 were as follows:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2015</u>
Capital assets, not being depreciated:				
Land	\$ 237,502	--	--	237,502
Construction in progress	5,210	49,504	(43,312)	11,402
Total capital assets, not being depreciated	<u>242,712</u>	<u>49,504</u>	<u>(43,312)</u>	<u>248,904</u>
Capital assets, being depreciated:				
Land improvements	220,633	--	--	220,633
Hospital buildings	28,535,672	--	(1,594,132)	26,941,540
Fixed equipment	3,350,949	--	--	3,350,949
Major moveable equipment	8,947,160	1,055,798	(66,282)	9,936,676
Total capital assets, being depreciated	<u>41,054,414</u>	<u>1,055,798</u>	<u>(1,660,414)</u>	<u>40,449,798</u>
Less accumulated depreciation:				
Land improvements	220,633	--	--	220,633
Hospital buildings	8,920,396	1,513,799	(1,353,729)	9,080,466
Fixed equipment	2,392,534	284,653	--	2,677,187
Major moveable equipment	6,506,386	739,134	(35,690)	7,209,830
Total accumulated depreciation	<u>18,039,949</u>	<u>2,537,586</u>	<u>(1,389,419)</u>	<u>19,188,116</u>
Total capital assets, being depreciated, net	<u>23,014,465</u>	<u>(1,481,788)</u>	<u>(270,995)</u>	<u>21,261,682</u>
Total capital assets, net	<u>\$ 23,257,177</u>	<u>(1,432,284)</u>	<u>(314,307)</u>	<u>21,510,586</u>

# Clarinda Regional Health Center

## Notes to Financial Statements June 30, 2015 and 2014

	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>

Depreciation expense of \$2,537,586 and \$2,519,411 for the years ended June 30, 2015 and 2014, respectively, is included in the statements of revenue, expenses and changes in net position.

### (7) Long-Term Debt

Long-term debt activity of the Health Center for the years ended June 30, 2015 and 2014 consisted of the following:

	June 30, 2014	Borrowings	Payments	June 30, 2015	Due Within One Year
2010 Hospital Revenue Bonds, Series B (A)	\$ 5,665,000	--	245,000	5,420,000	250,000
2010 Hospital Revenue Bonds, Series C (B)	1,745,000	--	--	1,745,000	--
2010 Hospital Revenue Bonds, Series D (C)	18,331,309	--	238,230	18,093,079	247,164
Capital lease obligations (D)	76,640	--	76,640	--	-
	<u>\$ 25,817,949</u>	<u>--</u>	<u>559,870</u>	<u>25,258,079</u>	<u>497,164</u>
	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>

- (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, 2015 to 6.15% as of June 30, 2030. Semi-annual principal and interest payments commenced July 2013 and continue through June 2030.

## Clarinda Regional Health Center

### Notes to Financial Statements June 30, 2015 and 2014

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- (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 \$627,845 as of June 30, 2015.

A summary of the Health Center's future principal and interest payments as of June 30, 2015 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	586,377	870,882	1,457,259
2021-2025	3,341,254	3,948,268	7,289,522
2026-2030	4,234,867	3,085,350	7,320,217
2031-2035	4,058,882	2,074,343	6,133,225
2036-2040	2,781,517	1,461,262	4,242,779
2041-2045	3,343,661	981,219	4,324,880
2046-2050	4,019,414	425,712	4,445,127
2051	776,435	21,796	798,231
	<u>\$ 25,258,079</u>	<u>16,566,410</u>	<u>41,824,490</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.

## Clarinda Regional Health Center

### Notes to Financial Statements June 30, 2015 and 2014

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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, 2015 and 2014, 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 or family coverage is elected. Upon retirement, the retired participant continuing their coverage pays the premium including any increase in single premium after retirement. The Health Center is currently using a pay-as-you-go method of benefit financing. The Health Center contributed \$90,000 and \$70,000 to the plan during the years ended June 30, 2015 and 2014, respectively.

Annual OPEB Cost and Net OPEB Obligation – The Health Center's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Health Center, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Health Center's annual OPEB expense for the year, the amount actuarially contributed to the plan, and changes in the Health Center's annual OPEB obligation:

	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 153,000	122,000
Interest on net OPEB obligation	18,000	13,000
<b>Annual OPEB expense</b>	<b>171,000</b>	<b>135,000</b>
Contributions made	81,000	65,000
<b>Increase in net OPEB obligation</b>	<b>90,000</b>	<b>70,000</b>
Net OPEB obligation, beginning of year	450,000	380,000
Net OPEB obligation, end of year	<u>\$ 540,000</u>	<u>450,000</u>

# Clarinda Regional Health Center

## Notes to Financial Statements June 30, 2015 and 2014

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The Health Center's annual OPEB cost, the percentage of annual OPEB contributed to the plan, and the net OPEB obligations for fiscal years 2011 through 2015 are as follows:

	<u>Annual OPEB Cost</u>	<u>Percent of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
<b>Fiscal year ended June 30:</b>			
2015	\$ 171,000	37.9	540,000
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

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2017, the actuarial accrued liability was \$1,195,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,195,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$11,102,743 and the ratio of the UAAL to covered payroll was 10.76%.

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.

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, 2014 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2014.

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.

## Clarinda Regional Health Center

### Notes to Financial Statements June 30, 2015 and 2014

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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, 2015 and 2014, respectively. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2015, 2014, and 2013 were approximately \$1,003,189, \$954,000, and \$812,000, respectively.

#### Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

#### Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

#### Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Health Center contributed 8.93 percent for a total rate of 14.88 percent.

The Health Center's contributions to IPERS for the year ended June 30, 2015 were \$1,003,189.

# Clarinda Regional Health Center

## Notes to Financial Statements June 30, 2015 and 2014

### Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Health Center reported a liability of \$5,799,955 for its proportionate share of the net pension liability. The Health Center's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health Center's proportion of the net pension liability was based on the Health Center's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Health Center's proportion was .1505487 percent, which was an increase of .0001439 from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Health Center recognized pension expense of \$386,968. At June 30, 2015, the Health Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 64,810	14,722
Changes of assumptions	263,178	351
Net difference between projected and actual earnings on pension plan investments	--	2,434,899
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	652,575	--
Hospital contributions subsequent to the measurement date	<u>1,003,189</u>	<u>--</u>
Total	<u><u>1,983,752</u></u>	<u><u>2,449,972</u></u>

\$1,003,189 reported as deferred outflows of resources related to pensions resulting from the Health Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$ (535,614)
2017	(535,614)
2018	(535,614)
2019	(535,614)
2020	<u>21,458</u>
	<u><u>\$ (2,120,998)</u></u>

There were no non-employer contributing entities at IPERS.

# Clarinda Regional Health Center

## Notes to Financial Statements June 30, 2015 and 2014

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### Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

### Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Health Center will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

# Clarinda Regional Health Center

## Notes to Financial Statements June 30, 2015 and 2014

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### Sensitivity of the Health Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Health Center's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Health Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Health Center's proportionate share of the net pension liability	\$ <u>11,402,125</u>	<u>5,799,955</u>	<u>1,071,931</u>

### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

### Payables to the Pension Plan

At June 30, 2015, the Health Center reported payables to the defined benefit pension plan of \$47,987 for legally required employer contributions and \$26,204 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

## **(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 \$1,910,822 and \$1,466,657 as of June 30, 2015 and 2014, 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, 2015 and 2014

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### (13) Commitments and Contingencies

#### Commitments

The Health Center leases certain equipment under various noncancellable operating leases. The rental expense for the operating leases was \$533,570 and \$921,770 for the years ended June 30, 2015 and 2014, 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

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$ 9,136,465
Net pension liability at June 30, 2014	(7,599,673)
Deferred outflows of resources related to contributions Made after the July 30, 2013 measurement date	<u>946,530</u>
Net position July 1, 2014, as restated	<u>\$ 2,483,322</u>

**Clarinda Regional Health Center**

**Schedule of Funding Progress for the Retiree Health Plan  
June 30, 2015**

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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]
2015	7/1/2014	\$ -	\$ 1,195,000	\$ 1,195,000	0.00%	\$ 11,102,743	10.76%
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*

**Clarinda Regional Health Center**

**Schedule of the Health Center's Proportionate Share of the Net Position  
Required Supplementary Information  
June 30, 2015**

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	<u>2015</u>
Health Center's proportion of net pension liability	0.1505487%
Health Center's proportionate share of the net pension liability	\$ 5,800
Health Center's covered-employee payroll	\$ 11,232
Health Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	51.64%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amounts presented for each fiscal year were determined as of June 30.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Health Center will present information for those years for which information is available.

**Clarinda Regional Health Center**

**Schedule of Hospital Contributions  
June 30, 2015**

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Iowa Public Employee's Retirement System  
Last 10 Fiscal Years  
(In Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contribution	\$ 1,003	954	812	795	596	541	483	452	428	391
Contributions in relation to the statutorily required contribution	<u>(1,003)</u>	<u>(954)</u>	<u>(812)</u>	<u>(795)</u>	<u>(596)</u>	<u>(541)</u>	<u>(483)</u>	<u>(452)</u>	<u>(428)</u>	<u>(391)</u>
Contribution deficiency (excess)	\$ <u>    --</u>	<u>    --</u>								
Hospital's covered-employee payroll	\$ 11,232	10,683	9,355	9,839	8,588	8,148	7,606	7,459	7,469	6,800
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.68%	8.08%	6.94%	6.64%	6.35%	6.06%	5.73%	5.75%

*See accompanying independent auditor's report*

## Clarinda Regional Health Center

### Notes to Required Supplementary Information – Pension Liability June 30, 2015

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#### Notes to Required Supplementary Information – Pension Liability

##### *Changes of benefit terms*

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

##### *Changes of assumptions*

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group. Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64. Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements. Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

**Patient Service Revenue**  
**For the Years Ended June 30, 2015 and 2014**

	2015			2014 (not restated)		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
DAILY PATIENT SERVICES:						
Medical and surgical	\$ 1,892,872	597,289	2,490,161	1,568,295	513,287	2,081,582
NURSING SERVICES:						
Emergency	62,943	3,861,267	3,924,210	52,433	3,406,293	3,458,726
Operating room	220,818	2,023,588	2,244,406	158,758	2,203,662	2,362,420
Recovery room	18,390	357,833	376,223	12,204	322,821	335,025
Home health	--	--	--	--	--	--
	<u>302,151</u>	<u>6,242,688</u>	<u>6,544,839</u>	<u>223,395</u>	<u>5,932,776</u>	<u>6,156,171</u>
OTHER PROFESSIONAL SERVICES:						
Laboratory	636,713	6,393,971	7,030,685	583,443	5,703,094	6,286,537
Pharmacy	991,946	4,818,993	5,810,939	902,806	3,827,356	4,730,162
Clarinda Medical Associates	66,020	4,664,883	4,730,903	56,533	4,369,965	4,426,498
Radiology	230,456	4,046,918	4,277,374	199,592	3,409,089	3,608,681
CT scan	208,800	3,042,811	3,251,611	250,800	2,886,065	3,136,865
Ambulance service	--	1,452,927	1,452,927	--	1,351,282	1,351,282
Physical therapy	103,768	1,156,199	1,259,967	112,149	1,309,108	1,421,257
Inhalation therapy	574,394	552,485	1,126,879	623,452	565,669	1,189,121
Clinic	100	930,443	930,543	300	794,666	794,966
Anesthesiology	59,259	780,191	839,450	36,106	683,927	720,033
Cardiac rehabilitation	81,975	680,005	761,980	91,915	619,165	711,080
Intravenous therapy	84,823	540,154	624,977	50,921	381,066	431,987
Villisca Rural Health Clinic	--	573,040	573,040	--	444,365	444,365
Electrocardiology	76,270	295,640	371,910	48,920	214,127	263,047
Nuclear medicine	7,770	356,105	363,875	5,370	313,870	319,240
Ultrasound	17,580	340,907	358,487	12,615	284,962	297,577
Occupational therapy	78,327	275,209	353,536	92,606	271,784	364,390
Speech therapy	10,855	149,870	160,725	14,560	145,450	160,010
Wound care	2,277	139,167	141,444	4,059	124,428	128,487
Blood service	20,746	21,947	42,693	20,780	49,651	70,431
Diabetes management	--	11,224	11,224	--	34,032	34,032
Dietary consulting	--	10,270	10,270	--	16,215	16,215
Hypnotherapy	--	1,575	1,575	--	825	825
	<u>3,252,079</u>	<u>31,234,934</u>	<u>34,487,014</u>	<u>3,106,927</u>	<u>27,800,161</u>	<u>30,907,088</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>5,447,102</u>	<u>38,074,911</u>	<u>43,522,014</u>	<u>4,898,617</u>	<u>34,246,224</u>	<u>39,144,841</u>
LESS:						
Contractual allowances and other deductions, primarily Medicare and Medicaid			(15,568,674)			(12,894,361)
Charity care services and other discounts, based on charges forgone			(56,246)			(152,151)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			27,897,094			26,098,329
PROVISION FOR BAD DEBT			(1,144,456)			(1,367,634)
NET PATIENT SERVICE REVENUE			\$ <u>26,752,638</u>			<u>24,730,695</u>

See accompanying independent auditor's report

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

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	<u>2015</u>	<u>2014</u>
340B drug revenue	\$ 2,021,667	362,057
Health Center EHR incentive	240,397	306,285
Employee meals	149,793	136,720
Other miscellaneous	143,908	164,858
Contracted wound care	112,706	57,715
Meals on wheels	61,333	50,366
Wellness program	6,164	28,495
Lifeline, net	3,337	16,686
Medical records transcripts	2,803	2,345
Dietary	1,386	654
Clinic EHR incentive	--	57,662
Loss on disposal of capital assets	<u>(40,820)</u>	<u>(10,670)</u>
	<u>\$ 2,702,674</u>	<u>1,173,173</u>

*See accompanying independent auditor's report*

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

	2015			2014 (not restated)		
	Salaries	Other	Total	Salaries	Other	Total
<b>NURSING SERVICES:</b>						
Operating room	905,289	488,287	1,393,576	816,643	407,834	1,224,477
Routine care	\$ 1,060,655	143,042	1,203,697	1,072,846	235,477	1,308,323
Emergency services	1,054,417	114,821	1,169,238	1,004,487	121,529	1,126,016
Nursing administration	--	5,206	5,206	1,429	126,220	127,649
Home health agency	--	--	--	--	--	--
	<u>3,020,361</u>	<u>751,356</u>	<u>3,771,717</u>	<u>2,895,405</u>	<u>891,060</u>	<u>3,786,465</u>
<b>OTHER PROFESSIONAL SERVICES:</b>						
Pharmacy	167,604	2,648,228	2,815,832	161,653	1,453,147	1,614,800
Clarinda Medical Associates	2,624,734	--	2,624,734	2,527,015	--	2,527,015
Laboratory	411,917	520,562	932,479	343,443	501,892	845,335
Radiology	492,277	414,918	907,195	485,240	660,789	1,146,029
Ambulance service	278,777	118,874	397,651	246,985	121,030	368,015
Clinic	339,093	47,152	386,245	315,418	47,909	363,327
Anesthesiology	306,633	43,609	350,242	320,463	42,644	363,107
Inhalation therapy	169,296	159,444	328,740	170,194	159,011	329,205
Villisca Rural Health Clinic	259,259	37,156	296,415	140,197	44,856	185,053
CT scan	--	233,509	233,509	--	242,469	242,469
Nuclear medicine	--	149,795	149,795	--	127,815	127,815
Cardiac rehabilitation	57,999	87,197	145,196	58,411	74,867	133,278
Speech therapy	95,848	9,259	105,107	89,413	8,696	98,109
Ultrasound	56,921	35,076	91,997	56,160	32,530	88,690
Central service and supply	88,655	209	88,864	80,523	1,397	81,920
Wellness	73,483	13,496	86,979	64,560	10,402	74,962
Physical therapy	70,477	16,495	86,972	70,279	12,330	82,609
Wound care	73,516	5,043	78,559	70,115	13,486	83,601
Performance management	56,092	406	56,498	53,812	1,001	54,813
Electrocardiology	3,863	1,815	5,678	3,646	3,035	6,681
Occupational therapy	--	1,128	1,128	--	2,036	2,036
Hypnotherapy	915	--	915	722	1,281	2,003
	<u>5,627,359</u>	<u>4,543,371</u>	<u>10,170,730</u>	<u>5,258,249</u>	<u>3,562,623</u>	<u>8,820,872</u>
<b>GENERAL SERVICES:</b>						
Dietary	523,883	373,428	897,311	480,926	335,458	816,384
Plant operations	214,289	429,556	643,845	201,532	457,156	658,688
Housekeeping	269,478	153,625	423,103	257,250	153,677	410,927
Clarinda Medical Foundation	71,172	34,656	105,828	54,706	10,099	64,805
Auxiliary	--	36,280	36,280	--	--	--
Diabetes management	30,335	957	31,292	41,142	1,685	42,827
	<u>1,109,157</u>	<u>1,028,502</u>	<u>2,137,659</u>	<u>1,035,556</u>	<u>958,075</u>	<u>1,993,631</u>
<b>ADMINISTRATIVE AND FISCAL SERVICES</b>						
Employee benefits	--	3,654,724	3,654,724	--	3,507,548	3,507,548
Administrative	974,777	1,068,698	2,043,475	902,995	1,326,565	2,229,560
Data processing	242,629	573,823	816,452	208,037	503,763	711,800
Medical records	307,404	83,697	391,101	263,156	89,394	352,550
Clarinda Medical Association	--	176,846	176,846	--	175,699	175,699
Infection control	82,137	24,060	106,197	16,192	26,293	42,485
Community relations	52,265	11,988	64,253	51,013	13,357	64,370
Quality improvement	35,200	25,515	60,715	41,976	2,163	44,139
Social services	55,801	266	56,067	54,495	1,383	55,878
	<u>1,750,213</u>	<u>5,619,617</u>	<u>7,369,830</u>	<u>1,537,864</u>	<u>5,646,165</u>	<u>7,184,029</u>
<b>NONDEPARTMENTAL:</b>						
Depreciation and amortization	--	2,547,425	2,547,425	--	2,529,405	2,529,405
Medical professional fees	--	2,119,102	2,119,102	--	1,278,607	1,278,607
Interest	--	987,613	987,613	--	1,006,033	1,006,033
	<u>--</u>	<u>5,654,140</u>	<u>5,654,140</u>	<u>--</u>	<u>4,814,045</u>	<u>4,814,045</u>
<b>TOTAL EXPENSES</b>	<b>\$ 11,507,090</b>	<b>17,596,986</b>	<b>29,104,076</b>	<b>10,727,074</b>	<b>15,871,968</b>	<b>26,599,042</b>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Uncollectible Accounts  
June 30, 2015 and 2014**

Age of Accounts	2015		2014	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,455,730	58.23 %	2,466,585	54.74 %
31 - 60	419,884	9.95	531,249	11.79
61 - 90	262,127	6.21	259,545	5.76
91 - 120	245,274	5.81	283,732	6.30
121 and over	835,044	19.80	964,610	21.41
	<u>4,218,059</u>	<u>100.00 %</u>	<u>4,505,721</u>	<u>100.00 %</u>
Less:				
Allowance for uncollectible accounts	(944,284)		(996,162)	
Allowance for contractual adjustments	<u>(906,826)</u>		<u>(808,221)</u>	
	<u>\$ 2,366,949</u>		<u>2,701,338</u>	

	2015	2014
ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS:		
Balance, beginning of year	\$ 996,162	886,562
Provision of uncollectible accounts	1,372,390	1,581,858
Recoveries of accounts previously written off	(227,934)	(214,224)
Accounts written off	<u>(1,196,334)</u>	<u>(1,258,034)</u>
Balance, end of year	<u>\$ 944,284</u>	<u>996,162</u>

*See accompanying independent auditor's report*

**Inventories/Prepaid Expenses**  
**June 30, 2015 and 2014**

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	<u>2015</u>	<u>2014</u>
INVENTORIES:		
General	\$ 204,904	173,126
Pharmacy	279,457	245,691
Dietary	14,624	11,684
Office supplies	<u>8,447</u>	<u>4,532</u>
	<u>\$ 507,432</u>	<u>435,033</u>
PREPAID EXPENSES:		
Insurance	\$ 111,183	61,966
Maintenance and other	<u>161,064</u>	<u>116,935</u>
	<u>\$ 272,247</u>	<u>178,901</u>

*See accompanying independent auditor's report*

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


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	<u>2015</u>	<u>2014</u>
Patient days:		
Hospital -		
Adult and pediatric	1,381	1,282
Swing bed - skilled	<u>755</u>	<u>696</u>
	<u><u>2,136</u></u>	<u><u>1,978</u></u>
Discharges:		
Hospital adult and pediatric	487	464
Hospital swing bed - skilled	<u>127</u>	<u>116</u>
	<u><u>614</u></u>	<u><u>580</u></u>
Average length of stay:		
Hospital adult and pediatric	2.84	2.76
Hospital swing bed - skilled	5.94	6.00
Observation visits	323	306
Surgical procedures	880	860
Emergency room visits	5,416	4,541
Full-time equivalents personnel	233	223

**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, 2015, 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 September 16, 2015.

**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.

**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, 2015 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,  
September 16, 2015.

# Clarinda Regional Health Center

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

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### Part I: Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were identified 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-15

##### Internal Control Deficiencies:

No matters were reported

##### Instances of Non-Compliance

No matters were reported.

### Part III: Other Findings Related to Required Statutory Reporting

#### III-A-15

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-15

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-15

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-15

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

#### III-E-15

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-15

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, 2014

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<u>Finding</u>	<u>Finding title</u>	<u>Status</u>	<u>If not corrected, corrective action plan or other explanation</u>
II-A-14	Management estimates	Finding cleared	Management was aware of this deficiency in its estimate process and performed interim estimates during the year. An estimate was performed as of the fiscal year end 2015 resulting in an appropriate estimate at year end 2015.

## **Clarinda Regional Health Center**

**Audit Staff  
For the Year Ended June 30, 2015**

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**This audit was performed by:**

Brian D. Green, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

Brad D. Pieper, Staff Auditor

Jaiden N. Potter, Staff Auditor