

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE**

**COMBINED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2004 AND 2003**

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
TABLE OF CONTENTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

<b>BOARD OF TRUSTEES</b>	
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>3</b>
<b>COMBINED FINANCIAL STATEMENTS</b>	
<b>COMBINED BALANCE SHEETS</b>	<b>9</b>
<b>COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>	<b>11</b>
<b>COMBINED STATEMENTS OF CASH FLOWS</b>	<b>12</b>
<b>NOTES TO COMBINED FINANCIAL STATEMENTS</b>	<b>14</b>
<b>SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULES OF NET PATIENT SERVICE REVENUES</b>	<b>25</b>
<b>SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES AND OTHER REVENUES</b>	<b>27</b>
<b>SCHEDULES OF OPERATING EXPENSES</b>	<b>28</b>
<b>SCHEDULES OF AGE ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS</b>	<b>32</b>
<b>SCHEDULE OF INVENTORIES AND PREPAID EXPENSES</b>	<b>33</b>
<b>SCHEDULE OF INSURANCE</b>	<b>34</b>
<b>COMPARATIVE STATISTICS (UNAUDITED)</b>	<b>35</b>
<b>REPORT ON CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>36</b>
<b>SCHEDULE OF FINDINGS</b>	<b>38</b>
<b>INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS</b>	<b>40</b>

CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
BOARD OF TRUSTEES  
YEAR ENDED JUNE 30, 2004

<u>Name</u>	<u>Title</u>
John Clark	Chairman
Dallas Glenn	Vice Chairman
Joy Tunnickliff	Secretary/Treasurer
Judy Lane	Member
Randy Pullen	Member
* * * * *	
Keith Heuser	CEO

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Clarinda Regional Health Center  
Clarinda, Iowa

We have audited the accompanying combined balance sheets of Clarinda Regional Health Center and Affiliate, an enterprise fund of the City of Clarinda, Iowa, as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Clarinda Regional Health Center and Affiliate as of June 30, 2004 and 2003, and the results of its operations and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2004 on our consideration of Clarinda Regional Health Center and Affiliate's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3-8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information from pages 25 to 34 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the schedule of statistics on page 35 has been summarized from the Organization's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.

A handwritten signature in black ink that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in a cursive, flowing style.

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
October 15, 2004

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

This section of the Clarinda Regional Health Center and Affiliate annual audited financial report represents management's discussion and analysis of the Health Center's financial performance during the fiscal year ended June 30, 2004. 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, 2004 and 2003 Independent Auditors' Report includes audited financial statements that include:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

**Financial Highlights**

- The Health Center's total assets increased by \$407,200 or 4.9% in 2004 and decreased by \$737,800 or 8.1% in 2003.
- The Health Center's net assets increased by \$657,736 or 14.4% in 2004 and decreased by \$560,200 or 10.9% in 2003.
- The Health Center reported an operating gain of \$412,425 in 2004, and operating losses of \$654,863 in 2003 and \$881,006 in 2002.

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

These financial statements report information about Clarinda Regional Health Services and Affiliate using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet 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 Health Center creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the Health Center's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the hospital that determines the hospital'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 Revenues
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedule of Operating Expenses
- Schedules of Age Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedule of Inventories and Prepaid Expenses
- Schedule of Insurance
- Comparative Statistics

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

There were no significant changes in Clarinda Regional Health Services and Affiliate's accounting policies for the Fiscal Year Ended June 30, 2004.

**Financial Analysis of the Health Center**

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows are summarized in the following tables. Tables 1 and 2 report on the changes in the Health Center's net assets. Increases or decreases in net assets 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 hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Clarinda, Iowa and the surrounding areas.

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Assets:</b>			
Current Assets	\$ 2,789,092	\$ 2,189,458	\$ 2,943,069
Noncurrent Cash and Investments	1,041,020	937,516	1,071,413
Capital Assets, Net	4,924,663	5,220,572	5,070,845
Other Assets	3,000	3,000	3,000
<b>Total Assets</b>	<u><u>\$ 8,757,775</u></u>	<u><u>\$ 8,350,546</u></u>	<u><u>\$ 9,088,327</u></u>
<b>Liabilities:</b>			
Total Current Liabilities	\$ 1,675,344	\$ 1,671,195	\$ 1,944,462
Long-Term Debt (Less Current Maturities)	1,848,033	2,102,689	2,007,045
<b>Total Liabilities</b>	<u>3,523,377</u>	<u>3,773,884</u>	<u>3,951,507</u>
<b>Total Net Assets</b>	<u>5,234,398</u>	<u>4,576,662</u>	<u>5,136,820</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 8,757,775</u></u>	<u><u>\$ 8,350,546</u></u>	<u><u>\$ 9,088,327</u></u>

Asset categories changing significantly during 2004 and 2003 included Cash and Cash Equivalents, and accounts receivable. Current Assets increased by \$599,600 or 27.4% in 2004 and decreased by \$753,600 or 25.6% in 2003. Accounts receivable increased by \$312,500 or 19.0% in 2004 and decreased by \$631,100 or 27.7% in 2003.

Liability categories changing significantly during 2004 and 2003 included accrued expenses and note payable. Accrued expenses increased by \$208,800 or 24.3% in 2004 and increased by \$176,100 or 25.8% in 2003. Note payable decreased by \$550,000 or 100% in 2003 (there was no change in 2004, the remained at \$0).

The current ratio (current assets divided by current liabilities) for 2004 was 1.66 and 2003 was 1.31. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred.

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

**Table 2: Statement of Revenues, Expenses & Changes in Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 12,727,158	\$ 11,098,887	\$ 10,312,957
Operating Expenses	12,314,733	11,753,750	11,193,963
Operating Income	412,425	(654,863)	(881,006)
Non-Operating Revenues (Expenses)	245,311	94,705	52,293
Excess of Revenues over Expenses before Capital Grants and Contributions	657,736	(560,158)	(828,713)
Capital Grants and Contributions	-	-	28,360
Increase in Net Assets	657,736	(560,158)	(800,353)
Net Assets, Beginning of Year	4,576,662	5,136,820	5,937,173
Net Assets, End of Year	<u>\$ 5,234,398</u>	<u>\$ 4,576,662</u>	<u>\$ 5,136,820</u>

Net patient service revenue increased \$1,752,800 or 16.3% in 2004 and increased \$745,100 or 7.5% in 2003. To arrive at net patient service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

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

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 20,186,374	\$ 19,376,419	\$ 15,884,030
Contractual Adjustments and Provisions for Bad Debt	(7,682,435)	(8,625,255)	(5,877,978)
Net Patient Service Revenue	<u>\$ 12,503,939</u>	<u>\$ 10,751,164</u>	<u>\$ 10,006,052</u>
Contractual Adjustments as a Percent of Revenues	<u>38.06%</u>	<u>44.51%</u>	<u>37.01%</u>

Total operating expenses increased \$561,000 or 4.8% in 2004 and increased \$559,800 or 5.0% in 2003. The operating expenses are broken by department on the Schedules of Operating Expenses on pages 33-36 of the audited financial statements.

The Operating Margin (total operating revenue less total operating expenses divided by total operating revenue) was (3.2%) in 2004 down from (5.9%) in 2003. Operating income in 2004 was 412,425 and in 2003 was (\$654,863).

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

Other Operating Revenue made up 1.8% of total operating revenue in 2004 and 3.2% in 2003. Table 4 shows the detail for this line item.

**Table 4: Other Revenues**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Lifeline (Net)	\$ (461)	\$ 3,097	\$ 4,209
Dietary	4,642	3,183	(1,902)
Employee Meals	40,980	40,933	44,032
Meals on Wheels and Congregate Meals	78,784	74,805	51,555
Wellness Program	5,037	5,349	7,162
Daycare	-	21,466	112,475
Athletic Trainer Fees	-	-	21,443
Medical Records Transcripts	3,216	3,767	2,915
Rental Income, Net	38,397	26,400	28,800
Other	52,624	168,723	36,216
Total Other Revenues	<u>\$ 223,219</u>	<u>\$ 347,723</u>	<u>\$ 306,905</u>

**Health Center Statistical Data**

Table 5 shows the Health Center's statistical data.

**Table 5: Statistical Data**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Patient Days</b>			
Acute	1,914	2,477	2,527
Swing Bed	755	729	600
Total	<u>2,669</u>	<u>3,206</u>	<u>3,127</u>
<b>Admissions</b>			
Acute	668	675	794
Swing Bed	93	94	72
Total	<u>761</u>	<u>769</u>	<u>866</u>
<b>Discharges</b>			
Acute	671	674	792
Swing Bed	94	92	69
Total	<u>765</u>	<u>766</u>	<u>861</u>
<b>Average Length of Stay, Acute</b>	<u>2.9</u>	<u>3.7</u>	<u>3.2</u>
<b>Beds</b>			
Acute and Swing	25	25	25
<b>Occupancy Percentage</b>			
Acute and Swing, Based on 25 Beds	29.2%	35.1%	34.3%

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**The Health Center's Cash Flows**

The Health Center experienced positive cash flow from operations of approximately \$667,900 in 2004 and \$871,100 in 2003. This was expended primarily for capital acquisitions and for debt reduction (see table 2 and table 6 regarding decreases in debt).

**Capital Assets**

At June 30, 2004 the Health Center had \$4,924,700 invested in capital assets net of accumulated depreciation.

**Long Term Debt**

Table 6 shows a summary of the Health Center's long term debt outstanding.

**Table 6: Long Term Debt**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Hospital Revenue Bonds, Series 1997A	\$ 643,157	\$ 708,259	\$ 771,952
Hospital Revenue Bonds, Series 1997B	1,066,447	1,158,016	1,237,851
Obligations Under Capital Lease	<u>399,246</u>	<u>479,750</u>	<u>172,533</u>
Total Long Term Debt	<u>\$ 2,108,850</u>	<u>\$ 2,346,025</u>	<u>\$ 2,182,336</u>

The most significant outstanding long-term debt held by the Health Center are the Series 1997 A and Series 1997 B Hospital Revenue Bonds. The Series A bonds are due in monthly installments of principal and interest through September 2012. The Series B bonds are due in monthly installments of principal and interest through September 2013.

**Economic Factors**

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

The Health Center has experienced an improved operating margin this past year as a result of its designation as a Critical Access Hospital. This designation has meant significantly higher reimbursement from Medicare and Medicaid.

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.

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Contacting the Health Center**

The financial report is designed to provide our citizens, customers, and creditors with a general overview of Clarinda Regional Health Center and Affiliate'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 Keith Heuser, CEO at Clarinda Regional Medical Center, 17<sup>th</sup> and Wells Streets, Clarinda, Iowa 51632.

## COMBINED FINANCIAL STATEMENTS

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
COMBINED BALANCE SHEETS  
JUNE 30, 2004 AND 2003**

<b>ASSETS</b>	2004	2003
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 438,379	\$ 36,464
Investments	-	100,000
Patient Receivables, Less Allowance for Uncollectible Accounts (2004, \$714,737; 2003, \$642,877)	1,959,504	1,647,031
Other Receivables	79,349	122,879
Third Party Settlements Receivable	19,973	-
Inventory	282,670	251,480
Prepaid Expenses	9,217	31,604
Total Current Assets	2,789,092	2,189,458
<b>NONCURRENT CASH AND INVESTMENTS</b>		
Restricted by Bond Agreement	942,507	839,416
Internally Designated for Health Insurance	98,513	98,100
Total Noncurrent Cash and Investments	1,041,020	937,516
<b>CAPITAL ASSETS, NET</b>	4,924,663	5,220,572
<b>OTHER ASSETS</b>	3,000	3,000
Total Assets	\$ 8,757,775	\$ 8,350,546

See accompanying Notes to Combined Financial Statements.

	<u>2004</u>	<u>2003</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 260,817	\$ 243,336
Accounts Payable	347,107	512,122
Accrued Expenses	1,067,420	858,589
Third Party Settlements Payable	-	57,148
Total Current Liabilities	<u>1,675,344</u>	<u>1,671,195</u>
<b>LONG-TERM DEBT</b> , Less Current Maturities	<u>1,848,033</u>	<u>2,102,689</u>
Total Liabilities	3,523,377	3,773,884
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt	2,815,813	2,874,547
Restricted		
By Bond Agreement	942,507	839,416
Unrestricted	<u>1,476,078</u>	<u>862,699</u>
Total Net Assets	<u>5,234,398</u>	<u>4,576,662</u>
Total Liabilities and Net Assets	<u>\$ 8,757,775</u>	<u>\$ 8,350,546</u>

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
COMBINED STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>OPERATING REVENUES</b>		
Net Patient Service Revenues (net of provision for bad debts of \$697,638 in 2004 and \$514,830 in 2003)	\$ 12,503,939	\$ 10,751,164
Other Revenues	<u>223,219</u>	<u>347,723</u>
Total Revenues	12,727,158	11,098,887
<b>EXPENSES</b>		
Salaries	5,412,385	5,128,537
Employee Benefits	1,418,567	1,410,540
Medical Professional Fees	183,758	197,965
Supplies and Expenses	3,264,391	3,107,493
General Services	464,589	383,595
Administrative Services	1,004,524	911,434
Depreciation	469,670	472,464
Interest	<u>96,849</u>	<u>141,722</u>
Total Expenses	<u>12,314,733</u>	<u>11,753,750</u>
<b>OPERATING INCOME (LOSS)</b>	412,425	(654,863)
<b>NON-OPERATING GAINS</b>		
Investment Income	36,346	29,111
Contributions	<u>208,965</u>	<u>65,594</u>
Net Non-Operating Gains	<u>245,311</u>	<u>94,705</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	657,736	(560,158)
Net Assets Beginning of Year	<u>4,576,662</u>	<u>5,136,820</u>
Net Assets End of Year	<u>\$ 5,234,398</u>	<u>\$ 4,576,662</u>

See accompanying Notes to Combined Financial Statements.

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
COMBINED STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third Parties	\$ 12,157,875	\$ 11,382,841
Cash Paid to Employees	(6,787,136)	(6,307,537)
Cash Paid to Suppliers	(4,926,065)	(4,551,906)
Other Receipts and Payments, Net	223,219	347,723
Net Cash Provided by Operating Activities	667,893	871,121
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Restricted and Unrestricted Contributions	208,965	65,594
Net Cash Provided by Noncapital Financing Activities	208,965	65,594
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest paid on Long-Term Debt	(96,849)	(141,722)
Acquisition of Capital Assets	(173,761)	(218,378)
Principle Payments on Long-Term Debt and Note Payable	(237,175)	(790,124)
Net Cash Used By Capital and Related Financing Activities	(507,785)	(1,150,224)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in Noncurrent Cash and Investments	(3,504)	133,897
Income on Investments	36,346	29,111
Net Cash Provided by Investing Activities	32,842	163,008
 Net Increase in Cash and Cash Equivalents	401,915	(50,501)
 Cash and Cash Equivalents Beginning of Year	36,464	86,965
 Cash and Cash Equivalents End of Year	\$ 438,379	\$ 36,464

See accompanying Notes to Combined Financial Statements.

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ 412,425	\$ (654,863)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities		
Interest Expense Considered Capital Financing Activity	96,849	141,722
Depreciation	469,670	472,464
Decrease (Increase) In:		
Patient and Other Receivables , Net	(268,943)	654,529
Inventory	(31,190)	18,485
Prepaid Expenses	22,387	30,096
Increase (Decrease) In:		
Accounts Payable and Accrued Expenses	43,816	231,540
Estimated Amounts Due to/from Third-Party Payers	(77,121)	(22,852)
Net Cash Provided by Operating Activities	\$ 667,893	\$ 871,121
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Capital Lease Obligations Incurred for Equipment	\$ -	\$ 403,813

See accompanying Notes to Combined Financial Statements.

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Clarinda Regional Health Center (the Health Center) is a city public hospital under Chapter 392 of the Code of Iowa, and is an enterprise fund of the City of Clarinda, Iowa. The Health Center and Clarinda Medical Foundation (the Foundation) are collectively referred to here as Clarinda Regional Health Center and Affiliate (the Organization). The Organization primarily earns revenues by providing health care services to patients on an inpatient and outpatient basis. The Health Center is exempt from income taxes as a political subdivision of the State of Iowa. The Foundation is a 501(c)(3) not-for-profit organization.

**A. Reporting Entity**

For financial reporting purposes, the Organization has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Organization has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Organization are such that exclusion would cause the Organization's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Organization to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Organization. The Foundation is included in the Health Center's financial statements as a component unit. The Foundation is a legally separate not-for-profit corporation that is in substance a part of the Health Center's operations. It is organized primarily to benefit the Health Center.

Accounts of the Foundation are combined with the accounts of the Health Center for financial reporting purposes. Transactions between the Health Center and the Foundation are eliminated in combination.

The activity in the Foundation consists primarily of the operations of Clarinda Medical Associates, a clinic owned by the Health Center. Clarinda Medical Associates is reflected as a department of the Health Center.

**B. Use of Estimates**

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

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Basis of Accounting**

Basis of accounting refers to when revenues 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 generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Organization applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

**D. Assets, Liabilities and Net Assets**

The following accounting policies are followed in preparing the balance sheets:

*Cash and Cash Equivalents* - For purposes of the statement of cash flows, the Organization considers savings accounts and all other highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents.

*Patient Receivables* - The Organization provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 90 days are turned over to in-house pre-collections. When in-house pre-collections are unsuccessful accounts are turned over to collection agents. In addition, an allowance is estimated for other accounts based on historic experience of the Organization. At June 30, 2004 and 2003, the allowance for uncollectible accounts was \$714,737 and \$642,877, respectively.

*Inventory* - Inventory is valued at cost using the first-in, first-out method.

*Capital Assets, Net* - Capital assets are stated on the basis of cost. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the depreciable assets. It is the Organization's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets.

*Investments* - Investments are valued at purchase cost, or fair value at the date of acquisition if donated.

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities and Net Assets (continued)**

*Noncurrent Cash and Investments* – Noncurrent cash and investments include assets which are restricted by debt agreements, assets which have been restricted by contributors or grantors and assets designated by the board of trustees. Restricted funds are used to differentiate funds which are limited by creditors or donors to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period. There were no assets restricted by donors or grantors at June 30, 2004 and 2003.

**E. Contributions**

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

**F. Restricted Resources**

When the Organization has both restricted and unrestricted resources available to finance a particular program, it is the Organization's policy to use restricted resources before unrestricted resources.

**G. Operating Revenues and Expenses**

The Organization's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Organization's principal activity. Other revenues, including interest income, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

**H. Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Medicare and Medicaid cost reports have been settled through June 30, 2002.

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Charity Care**

The Organization 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 Organization does not pursue collection of amounts determined to qualify as charity care, an allowance has been recorded to offset the revenue recorded. Charity care provided during the years ending June 30, 2004 and 2003 was \$77,119 and \$47,708, respectively.

**J. Investments in Debt and Equity Securities**

Investments in debt and equity securities are reported as fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

**NOTE 2 NET PATIENT SERVICE REVENUES**

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. The Medicare cost report through the fiscal year ended June 30, 2002 has been settled.

**Medicare**

Inpatient acute care services rendered to Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. For the period July 1, 2002 through August 31, 2003, outpatient services were paid under the Ambulatory Payment Classification (APC) method, which reimburses the Organization a predetermined amount for most outpatient services. The Organization's classification of patients under the Medicare program and the appropriateness of their admission were subject to an independent review by a peer review organization under contract with the Organization.

On September 1, 2003, the Organization elected Critical Access Hospital (CAH) designation for Medicare. As a CAH, the Organization is reimbursed for Inpatient, Swing Bed, and Outpatient services to Medicare patients on a reasonable cost basis. Medicare reimburses the Organization for these services using interim rates, with a final settlement determined based on the annual cost report that is filed by the Organization. This cost report is subject to audits by the Medicare fiscal intermediary.

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 2 NET PATIENT SERVICE REVENUES**

**Medicaid**

The Organization receives reimbursement for services provide to Medicaid beneficiaries based on the cost of providing those services. Interim payments are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Organization's cost reports have been finalized by the Medicaid intermediary through June 30, 2001.

**Other Payors**

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

A summary of patient service revenues and contractual adjustments is as follows:

	<u>2004</u>	<u>2003</u>
Total Patient Service Revenue	\$ 20,186,374	\$ 19,376,419
Contractual Adjustments		
Medicare	(5,014,179)	(6,268,774)
Medicaid	(891,778)	(657,502)
Provision for Bad Debt	(697,638)	(514,830)
Other	<u>(1,078,840)</u>	<u>(1,184,149)</u>
Total Contractual Adjustments and Bad Debts	<u>(7,682,435)</u>	<u>(8,625,255)</u>
Net Patient Service Revenues	<u>\$ 12,503,939</u>	<u>\$ 10,751,164</u>

**NOTE 3 PATIENT RECEIVABLES**

Patient receivables reported as current assets by the Organization at June 30, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,955,094	\$ 2,014,011
Receivable from Medicare	570,154	139,610
Receivable from Medicaid	148,993	136,287
Total Patient Receivables	<u>2,674,241</u>	<u>2,289,908</u>
Less Allowance for Doubtful Accounts	<u>(714,737)</u>	<u>(642,877)</u>
Patient Receivables, Net	<u>\$ 1,959,504</u>	<u>\$ 1,647,031</u>

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 4 DEPOSITS AND INVESTMENTS**

The Organization's deposits at June 30, 2004 and 2003 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 Organization 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 and the Treasurer of the State of Iowa; 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 Organization's cash and cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Organization at year end. The Organization's cash and cash equivalents and investments are all Category 1 which means that the cash and cash equivalents and investments are insured or registered or the securities are held by the Organization or its agent in the Organization's name.

At June 30, 2004 and 2003, the Organization had bank balances as follows:

	<u>2004</u>	<u>2003</u>
Insured or Collateralized by Iowa Insurance Trust	<u>\$ 1,541,555</u>	<u>\$ 1,568,806</u>
Carrying Amount	<u>\$ 1,479,399</u>	<u>\$ 1,050,015</u>

At June 30, 2004 and 2003, the Organization's investments consisted of the following:

	<u>2004</u>	<u>2003</u>
Carrying Amount		
U.S. Government Agency Securities (at Fair Value)	<u>\$ -</u>	<u>\$ 23,965</u>

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)**

The carrying amount of deposits and investments shown above are included in the Organization's balance sheets as follows:

	<u>2003</u>	<u>2003</u>
Deposits	\$ 1,479,399	\$ 1,050,015
Investments	-	23,965
	<u>\$ 1,479,399</u>	<u>\$ 1,073,980</u>

Included in the following balance sheet captions

Cash and Cash Equivalents	\$ 438,379	\$ 36,464
Investments	-	100,000
Noncurrent Cash and Investments		
Restricted by Bond Agreement	942,507	839,416
Internally Designated for Health Insurance	<u>98,513</u>	<u>98,100</u>
	<u>\$ 1,479,399</u>	<u>\$ 1,073,980</u>

**NOTE 5 CAPITAL ASSETS**

Summaries of capital assets for the years ended June 30, 2004 and 2003 are as follows:

<b>Capital Assets</b>	<u>July 1, 2003</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>June 30, 2004</u>
Land Improvements	\$ 243,757	\$ 27,225	\$ -	\$ 270,982
Building	6,557,779	8,456	-	6,566,235
Fixed Equipment	851,441	-	-	851,441
Movable Equipment	4,160,562	48,995	-	4,209,557
Construction in Progress	-	89,085	-	89,085
Totals	11,813,539	173,761	-	11,987,300
<b>Accumulated Depreciation</b>				
Land Improvements	147,726	12,549	-	160,275
Building	2,577,244	186,131	-	2,763,375
Fixed Equipment	387,651	92,878	-	480,529
Movable Equipment	<u>3,480,346</u>	<u>178,112</u>	-	<u>3,658,458</u>
Totals	<u>6,592,967</u>	<u>\$ 469,670</u>	<u>\$ -</u>	<u>7,062,637</u>
	<u>\$ 5,220,572</u>			<u>\$ 4,924,663</u>

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

<b>Capital Assets</b>	July 1, 2002	Additions	(Retirements)	June 30, 2003
Land Improvements	\$ 243,757	\$ -	\$ -	\$ 243,757
Building	6,412,391	145,388	-	6,557,779
Fixed Equipment	435,336	416,105	-	851,441
Movable Equipment	4,088,557	72,005	-	4,160,562
Construction in Progress	11,306	985	(12,291)	-
<b>Totals</b>	<b>11,191,347</b>	<b>634,483</b>	<b>(12,291)</b>	<b>11,813,539</b>
<b>Accumulated Depreciation</b>				
Land Improvements	135,585	12,141	-	147,726
Building	2,385,170	192,074	-	2,577,244
Fixed Equipment	319,469	68,182	-	387,651
Movable Equipment	3,280,279	200,067	-	3,480,346
<b>Totals</b>	<b>6,120,503</b>	<b>\$ 472,464</b>	<b>\$ -</b>	<b>6,592,967</b>
	<u><u>\$ 5,070,844</u></u>			<u><u>\$ 5,220,572</u></u>

Construction in progress at June 30, 2004, consists of a nurse call system and a computer system for the home health agency. Both projects are expected to be completed during the fiscal year ended June 30, 2005. The approximate cost of the nurse call system is \$75,000, and the approximate cost of the home health agency computer system is \$27,500. Both projects are getting funded from the operations of the Organization.

**NOTE 6 LONG-TERM DEBT**

A schedule of changes in long-term debt for 2004 and 2003 is as follows:

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Hospital Revenue Bonds, 1997 Series A	\$ 708,259	\$ -	\$ (65,102)	\$ 643,157	\$ 63,906
Hospital Revenue Bonds, 1997 Series B	1,158,016	-	(91,569)	1,066,447	90,695
Obligations Under Capital Lease	479,750	-	(80,504)	399,246	106,216
<b>Total Long-Term Debt</b>	<u><u>\$ 2,346,025</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (237,175)</u></u>	<u><u>\$ 2,108,850</u></u>	<u><u>\$ 260,817</u></u>

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
Hospital Revenue Bonds, 1997 Series A	\$ 771,952	\$ -	\$ (63,693)	\$ 708,259	\$ 60,463
Hospital Revenue Bonds, 1997 Series B	1,237,851	-	(79,835)	1,158,016	85,810
Obligations Under Capital Lease	<u>172,533</u>	<u>403,813</u>	<u>(96,596)</u>	<u>479,750</u>	<u>97,063</u>
Total Long-Term Debt	<u>\$ 2,182,336</u>	<u>\$ 403,813</u>	<u>\$ (240,124)</u>	<u>\$ 2,346,025</u>	<u>\$ 243,336</u>

Hospital Revenue Bonds, 1997 Series A require monthly payments of principal and interest at 5.55%. The interest rate is adjustable every five years beginning in October 2002. The interest rate at June 30, 2004, was 3.65%. Principal and interest payments are due through September 2012.

Hospital Revenue Bonds, 1997 Series B require monthly payments of principal and interest at 5.55%. The interest rate is adjustable every five years beginning in October 2003. Principal and interest payments are due through September 2013.

The 1997 Series A and B Revenue Bond agreements require the Organization to maintain a minimum balance of Board Designated funds based on the outstanding balance on the bonds. The minimum required balance was approximately \$685,000 at June 30, 2004 and \$750,000 at June 30, 2003.

In connection with the Hospital Revenue Bonds 1997 Series A and B, the Organization is required to comply with specific covenants as outlined within the loan agreement. At June 30, 2004, the Organization is in compliance with the various covenants.

The Organization leases certain equipment under capital lease arrangements. Leases require monthly payments of principal and interest at rates from 5.14% to 6.44%. Leases are secured by equipment.

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Years Ending June 30:	Long Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2005	\$ 154,601	\$ 91,321	\$ 106,216	\$ 17,431
2006	163,403	82,519	96,207	10,549
2007	172,706	73,216	90,991	5,429
2008	182,539	63,383	89,392	3,277
2009	192,931	52,991	16,440	1,320
2010-2014	843,424	97,404	-	-
	<u>\$ 1,709,604</u>	<u>\$ 460,834</u>	<u>\$ 399,246</u>	<u>\$ 38,006</u>

The following is the leased equipment by major class at June 30, 2004 and 2003:

	2004	2003
Equipment	\$ 670,713	\$ 670,713
Less Accumulated Depreciation	(200,209)	(167,495)
Net Property Under Capital Lease	<u>\$ 470,504</u>	<u>\$ 503,218</u>

**NOTE 7 PENSION AND RETIREMENT BENEFITS**

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

Plan members are required to contribute 3.70% of their annual salary and the Organization is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Organization's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were approximately \$305,300, \$275,000, and \$276,000, respectively, equal to the required contributions for each year.

**NOTE 8 RELATED ORGANIZATION**

Effective September 1, 2002 the Health Center entered into a contractual arrangement with Mercy Medical Center – Des Moines, under which Mercy Medical Center – Des Moines provides management consultation and other services to Clarinda Regional Health Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of Clarinda Regional Health Center. Expenses for the services received amounted to \$184,006 and \$92,721 for the years ended June 30, 2004 and 2003, respectively.

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2004 AND 2003**

**NOTE 9 COMMITMENTS AND CONTINGENCIES**

**Hospital Risk Management**

The Organization 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. There has been no significant reduction in insurance coverage from the previous year in any of the Organization's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**Malpractice Insurance**

The Organization has insurance coverage to provide protection for professional liability losses on a claims made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

**Self-Funded Employee Health Insurance Plan**

The Organization has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual claims and to provide claims processing and other administrative duties. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not paid at the end of the year. Total expenses recognized under the plan by the Organization for the years ended June 30, 2004 and 2003 were approximately \$495,000 and \$680,000, respectively.

**Capital Lease Obligation**

Subsequent to June 30, 2004, the Organization entered into a lease agreement for a CT Scanner. The agreement is considered to be a capital lease in accordance with U.S. generally accepted accounting standards. As a result, a capital lease payable in the amount of approximately \$674,000 and a related fixed asset will be recorded during the year ended June 30, 2005.

**NOTE 10 BUDGET AND BUDGETARY ACCOUNTING**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget. The budgeted numbers below were for the Hospital only and do not include Clarinda Medical Foundation. The reported expenses for the year ended June 30, 2004 were \$12,314,733 as compared to the budgeted amount of \$10,921,302. The reported revenues for the same period were \$12,972,469 as compared to the budgeted amount of \$11,765,905.

(This page intentionally left blank)

## SUPPLEMENTARY INFORMATION

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
SCHEDULES OF NET PATIENT SERVICE REVENUES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
<b>ROUTINE SERVICES</b>		
Medical and Surgical	\$ 1,168,900	\$ 1,623,456
Obstetric	49,317	53,069
Nursery	36,681	38,467
	<u>1,254,898</u>	<u>1,714,992</u>
<b>OTHER NURSING SERVICES</b>		
Operating Room	1,623,614	1,668,455
Recovery Room	127,458	144,616
Delivery Room	38,195	59,842
Emergency Room	997,547	893,343
Home Health Agency	341,352	292,387
	<u>3,128,166</u>	<u>3,058,643</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Ambulance	776,348	716,414
Anesthesiology	470,342	515,715
Blood Service	124,177	162,193
Cardiac Rehabilitation	443,691	484,571
Central Service and Supply	154,354	289,555
Clinic	442,685	521,493
CT Scan	1,519,540	1,502,980
Electrocardiology	281,744	268,264
Electrocephalography	7,361	5,481
Inhalation Therapy	760,572	739,409
Intravenous Therapy	254,207	240,724
Laboratory	2,708,249	2,535,746
Nuclear Medicine	1,481,565	816,524
Occupational Therapy	155,332	198,482
Pharmacy	2,185,278	1,769,791
Physical Therapy	531,810	585,066
Radiology	995,582	1,091,004
Speech Therapy	15,568	16,434
Ultrasound	349,328	439,873
Villisca Rural Health Clinic	260,528	232,945
Clarinda Medical Associates	1,962,168	1,517,828
	<u>15,880,429</u>	<u>14,650,492</u>
Patient Service Revenues	20,263,493	19,424,127
Less Charity Care	<u>(77,119)</u>	<u>(47,708)</u>
	20,186,374	19,376,419
Less: Contractual Adjustments and Bad Debts	<u>(7,682,435)</u>	<u>(8,625,255)</u>
Net Patient Service Revenues	<u>\$ 12,503,939</u>	<u>\$ 10,751,164</u>

INPATIENT		OUTPATIENT	
2004	2003	2004	2003
\$ 1,060,716	\$ 1,329,893	\$ 108,184	\$ 293,563
49,317	53,069	-	-
36,681	38,467	-	-
<u>1,146,714</u>	<u>1,421,429</u>	<u>108,184</u>	<u>293,563</u>
278,091	416,681	1,345,523	1,251,774
13,416	19,767	114,042	124,849
35,444	58,142	2,751	1,700
254,958	346,962	742,589	546,381
-	-	341,352	292,387
<u>581,909</u>	<u>841,552</u>	<u>2,546,257</u>	<u>2,217,091</u>
-	-	776,348	716,414
87,883	128,284	382,459	387,431
78,858	95,988	45,319	66,205
47,170	70,922	396,521	413,649
59,659	156,225	94,695	133,330
174,989	22,932	267,696	498,561
315,674	320,111	1,203,866	1,182,869
48,252	77,311	233,492	190,953
960	1,320	6,401	4,161
581,626	590,801	178,946	148,608
185,219	190,241	68,988	50,483
517,453	678,520	2,190,796	1,857,226
70,934	76,113	1,410,631	740,411
61,158	70,087	94,174	128,395
720,941	733,073	1,464,337	1,036,718
63,321	81,078	468,489	503,988
92,314	175,279	903,268	915,725
6,880	3,632	8,688	12,802
25,757	41,201	323,571	398,672
-	-	260,528	232,945
-	-	1,962,168	1,517,828
<u>3,139,048</u>	<u>3,513,118</u>	<u>12,741,381</u>	<u>11,137,374</u>
<u>\$ 4,867,671</u>	<u>\$ 5,776,099</u>	<u>\$ 15,395,822</u>	<u>\$ 13,648,028</u>

(This page intentionally left blank)

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES  
AND OTHER REVENUES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
Adjustments to Patient Service Revenues		
Medicare	\$ (5,014,179)	\$ (6,268,774)
Medicaid	(891,778)	(657,502)
Provision for Bad Debt	(697,638)	(514,830)
Other	(1,078,840)	(1,184,149)
Total Contractual Adjustments and Bad Debts	<u>\$ (7,682,435)</u>	<u>\$ (8,625,255)</u>
 <b>OTHER REVENUES</b>		
Lifeline (Net)	\$ (461)	\$ 3,097
Dietary	4,642	3,183
Employee Meals	40,980	40,933
Meals on Wheels and Congregate Meals	78,784	74,805
Wellness Program	5,037	5,349
Daycare	-	21,466
Medical Records Transcripts	3,216	3,767
Rental Income, Net	38,397	26,400
Miscellaneous	52,624	168,723
Total Other Revenues	<u>\$ 223,219</u>	<u>\$ 347,723</u>

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
<b>NURSING SERVICES</b>		
Nursing Administration	\$ 60,747	\$ 61,178
Routine Care	950,987	762,584
Obstetric	40,331	45,326
Nursery	(809)	858
Operating Room	405,087	269,997
Emergency Room	199,328	200,652
Home Health Agency	265,991	277,808
	<u>1,921,662</u>	<u>1,618,403</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Ambulance	282,332	241,386
Anesthesiology	255,081	234,736
Cardiac Rehabilitation	63,059	51,971
Central Service and Supply	205,773	304,674
Clinic	118,243	98,766
CT Scan	181,234	187,581
Electrocardiology	3,131	8,141
Electrocephalography	1,267	1,617
Inhalation Therapy	165,560	184,919
Laboratory	623,203	622,857
Nuclear Medicine	340,348	175,874
Occupational Therapy	65,885	64,878
Pharmacy	886,951	945,862
Physical Therapy	225,896	185,990
Radiology	384,870	410,985
Speech Therapy	20,880	25,213
Ultrasound	111,583	133,283
Clarinda Medical Associates	1,318,817	1,318,175
Villisca Rural Health Clinic	238,143	165,588
Wellness	5,688	7,100
	<u>5,497,944</u>	<u>5,369,596</u>

SALARIES		OTHER	
2004	2003	2004	2003
\$ 58,024	\$ 60,320	\$ 2,723	\$ 858
734,542	692,217	216,445	70,367
22,072	27,868	18,259	17,458
-	-	(809)	858
155,467	175,653	249,620	94,344
172,675	189,064	26,653	11,588
213,503	212,611	52,488	65,197
<u>1,356,283</u>	<u>1,357,733</u>	<u>565,379</u>	<u>260,670</u>
249,977	213,028	32,355	28,358
21,173	-	233,908	234,736
54,052	46,676	9,007	5,295
61,718	39,188	144,055	265,486
90,558	93,680	27,685	5,086
-	-	181,234	187,581
2,128	3,295	1,003	4,846
178	345	1,089	1,272
119,828	117,012	45,732	67,907
233,345	238,465	389,858	384,392
-	-	340,348	175,874
-	-	65,885	64,878
77,701	30,503	809,250	915,359
50,464	50,024	175,432	135,966
277,578	235,768	107,292	175,217
-	-	20,880	25,213
41,760	51,955	69,823	81,328
1,318,817	1,273,907	-	44,268
199,331	128,538	38,812	37,050
324	389	5,364	6,711
<u>2,798,932</u>	<u>2,522,773</u>	<u>2,699,012</u>	<u>2,846,823</u>

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
SCHEDULES OF OPERATING EXPENSES (CONTINUED)  
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
<b>GENERAL SERVICES</b>		
Dietary	\$ 440,834	\$ 423,264
Operation of Plant	303,699	249,594
Clarinda Medical Foundation	-	12,601
Housekeeping	217,591	182,172
	<u>962,124</u>	<u>867,631</u>
<b>ADMINISTRATIVE SERVICES</b>		
Medical Records	214,757	194,478
Social Services	36,122	32,671
Administration	1,307,819	1,188,011
Community Relations	98,515	168,198
Quality Improvement	15,556	412
Daycare	-	33,645
Clarinda Medical Association	90,801	27,032
Data Processing	589	30,982
	<u>1,764,159</u>	<u>1,675,429</u>
<b>EMPLOYEE BENEFITS</b>	1,418,567	1,410,540
<b>DEPRECIATION</b>	469,670	472,464
<b>MEDICAL PROFESSIONAL FEES</b>	183,758	197,965
<b>INTEREST</b>	<u>96,849</u>	<u>141,722</u>
	<u>\$ 12,314,733</u>	<u>\$ 11,753,750</u>

SALARIES		OTHER	
2004	2003	2004	2003
\$ 263,728	\$ 257,544	\$ 177,106	\$ 165,720
118,589	108,765	185,110	140,829
-	-	-	12,601
115,218	117,727	102,373	64,445
<u>497,535</u>	<u>484,036</u>	<u>464,589</u>	<u>383,595</u>
181,686	155,208	33,071	39,270
34,075	31,718	2,047	953
536,791	491,837	771,028	696,174
(2,473)	58,577	100,988	109,621
9,556	(141)	6,000	553
-	26,796	-	6,849
-	-	90,801	27,032
-	-	589	30,982
<u>759,635</u>	<u>763,995</u>	<u>1,004,524</u>	<u>911,434</u>
-	-	1,418,567	1,410,540
-	-	469,670	472,464
-	-	183,758	197,965
-	-	96,849	141,722
<u>\$ 5,412,385</u>	<u>\$ 5,128,537</u>	<u>\$ 6,902,348</u>	<u>\$ 6,625,213</u>

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
SCHEDULES OF AGE ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS  
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2004 AND 2003**

**Analysis of Aging**

Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 1,690,002	46	\$ 1,505,968	52
31-60 Days	619,063	17	383,566	13
61-90 Days	429,230	12	161,077	6
91-120 Days	283,817	8	129,126	4
121 Days and Over	638,614	17	698,426	25
	<u>3,660,726</u>	100 %	<u>2,878,163</u>	100 %
Home Health and Other	<u>58,451</u>		<u>108,198</u>	
Total Accounts Receivable	<u>3,719,177</u>		<u>2,986,361</u>	
LESS: ALLOWANCES				
Contractual	(1,044,936)		(696,453)	
Doubtful Accounts	(714,737)		(642,877)	
Net Accounts Receivable	<u>\$ 1,959,504</u>		<u>\$ 1,647,031</u>	
Net Patient Service Revenue per Calendar Day (excludes bad debt)	<u>\$ 36,169</u>		<u>\$ 30,866</u>	
Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>54</u>		<u>53</u>	

**Analysis of Allowance for Doubtful Accounts**

	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 642,877		\$ 627,964	
Add:				
Provision for Bad Debts	697,638	5.58 %	514,830	4.79 %
Recoveries Previously Written Off	83,751	0.67	80,497	0.75
	<u>1,424,266</u>		<u>1,223,291</u>	
Deduct:				
Accounts Written Off	(709,529)	(5.67)	(580,414)	(5.40)
Ending Balance	<u>\$ 714,737</u>		<u>\$ 642,877</u>	

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
SCHEDULE OF INVENTORIES AND PREPAID EXPENSES  
JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>INVENTORIES</b>		
General	\$ 112,431	\$ 164,881
Pharmacy	156,318	67,387
Dietary	9,472	6,957
Office Supplies	<u>4,449</u>	<u>12,255</u>
	<u>\$ 282,670</u>	<u>\$ 251,480</u>
<b>PREPAID EXPENSES</b>		
Insurance	\$ 8,049	\$ 21,751
Maintenance and Other	<u>1,168</u>	<u>9,853</u>
	<u>\$ 9,217</u>	<u>\$ 31,604</u>

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
SCHEDULE OF INSURANCE  
YEAR ENDED JUNE 30, 2004**

The following is a schedule of insurance in force for Clarinda Regional Health Center for the coverage period July 1, 2003 – June 30, 2004.

<u>Coverage Type</u>	<u>Coverage Amount</u>
Property (Including Rental Dwellings)	\$ 13,999,780
General Liability	1,000,000
Professional	1,000,000/3,000,000
Automobile	1,000,000
Directors and Officers Liability	1,000,000
Umbrella – Excess Liability	3,000,000
Workers' Compensation	500,000/500,000

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
COMPARATIVE STATISTICS  
YEARS ENDED JUNE 30, 2004 AND 2003  
(UNAUDITED)**

	<u>2004</u>	<u>2003</u>
<b>ACUTE</b>		
Admissions	668	675
Discharges	671	674
Patient Days	1,914	2,477
Average Length of Stay	2.9	3.7
<b>SWING BED</b>		
Admissions	93	94
Discharges	94	92
Patient Days	755	729

(This page intentionally left blank)

**REPORT ON CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Clarinda Regional Health Center  
Clarinda, Iowa

We have audited the financial statements of Clarinda Regional Health Center and Affiliate as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated October 15, 2004. We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Clarinda Regional Health Center and Affiliate's internal control over financial reporting in order to determine audit procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Clarinda Regional Health Center and Affiliate's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 04-I-1 and 04-I-2.

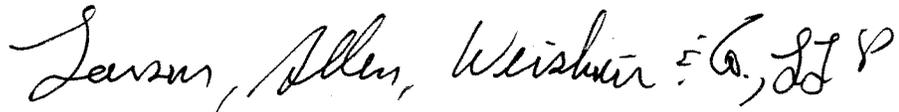
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider reportable conditions 04-I-1 and 04-I-2 described below to be material weaknesses.

We have also noted other matters involving the internal control over financial reporting, which we have reported to the management of Clarinda Regional Health Center and Affiliate in a separate letter dated October 15, 2004.

Compliance

As part of obtaining reasonable assurance about whether Clarinda Regional Health Center and Affiliate's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 certain instances of non-compliance that are required to be reported under *Government Auditing Standards*. These instances of non-compliance are described in the accompanying schedule of findings.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Clarinda Regional Health Center and Affiliate and other parties to whom Clarinda Regional Health Center and Affiliate may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specific parties.

A handwritten signature in cursive script that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in black ink and is positioned above the printed name of the firm.

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
October 15, 2004

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

**Part I: Findings Related to Financial Statements:**

Material Weakness

04-I-1 Internal Control Over Financial Reporting

The Organization's accounting personnel lack adequate training and experience and do not appear to be adequately supervised, resulting in a lack of internal control over the financial reporting process.

Recommendation

The Hospital should establish policies and procedures to ensure that accounting personnel receive adequate training and supervision in order maintain accurate accounting records.

Response

The policies and procedures regarding the supervision of accounting personnel will be modified to ensure there is adequate internal control over financial reporting.

Conclusion

Response is accepted.

04-I-2 Segregation of Duties

One individual at the Health Center processes accounts payable and payroll, prints the checks, has access to the signature stamp and reconciles the operating checking account.

Recommendation

The procedures related to the processing of accounts payable and payroll should be segregated so that one individual is not performing incompatible duties.

Response

Payroll and disbursement procedures will be modified in order to adequately segregate responsibilities.

Conclusion

Response is accepted.

**CLARINDA REGIONAL HEALTH CENTER  
AND AFFILIATE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

**Part II: Other Findings Related to Required Statutory Reporting:**

04-II-1 Official Depository Banks

A resolution of official depository banks has not been adopted and approved by the Board of Trustees.

Recommendation

The Organization should adopt a depository resolution naming the approved depositories for Organization funds.

Response

A depository resolution will be adopted.

Conclusion

Response accepted.

04-II-2 Certified Budget

Organization expenditures during the year ended June 30, 2004 did exceed budgeted amounts.

04-II-3 Questionable Expenditures

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

04-II-4 Travel Expense

No expenditures of Organization money for travel expenses of spouses of Organization officials and/or employees were identified.

04-II-5 Business Transactions

No business transactions between the Organization and Organization officials and/or employees were identified.

04-II-6 Board Minutes

Board minutes were examined and appeared to give an accurate account of business transacted by the Board.

04-II-7 Deposits and Investments

We reviewed the Organization's investment procedures and noted all investments to be in compliance with the state statutes regarding investments.

## INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS

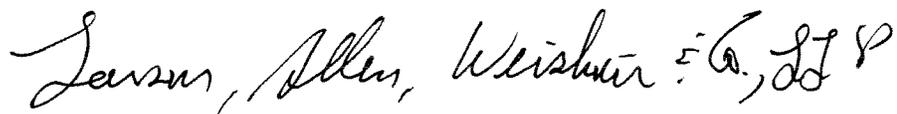
Board of Trustees  
Clarinda Regional Health Center  
Clarinda, Iowa

We have audited, in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the primary government financial statements of Clarinda Regional Health Center as of June 30, 2004 and 2003, and have issued our report thereon dated October 15, 2004.

In connection with our audit, nothing came to our attention that caused us to believe that Clarinda Regional Health Center was not in compliance with any of the terms covenants, provisions or conditions of Section Seventeen "Covenants Regarding the Operation of the Hospital", and Section Fifteen "Patient Rates and Charges" of the loan agreement dated February 1, 1997 relating to the \$2,500,000 issued of Hospital Revenue Bonds, Series 1997, with the City of Clarinda, Iowa, insofar as they relate to accounting matters, except as outlined below. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

Clarinda Regional Health Center did not adopt a budget for the year ended June 30, 2004, to submit to the lender.

This report is intended solely for the information and use of the Board of Trustees, management of Clarinda Regional Health Center, and the City of Clarinda, Iowa, and should not be used for any other purpose.



**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
October 15, 2004