

# Clarinda Regional Health Center and Combined Affiliate

Combined Financial Report  
06.30.2005

**McGladrey & Pullen**  
Certified Public Accountants

## Contents

<b>Board of Trustees</b>	1
<b>Independent Auditor's Report on the Financial Statements</b>	2 – 3
<b>Management's Discussion and Analysis</b>	4 – 9
<b>Financial Statements</b>	
Combined balance sheets	10 – 11
Combined statements of revenue, expenses, and changes in net assets	12
Combined statements of cash flows	13 – 14
Notes to combined basic financial statements	15 – 28
<b>Supplementary Information</b>	
Required supplementary information, budget and budgetary accounting	29
Net patient service revenue	30 – 31
Adjustments to patient service revenue and other revenue	32
Operating expenses	33 – 36
Aging analysis of accounts receivable from patients and allowance for doubtful accounts	37
Inventories and prepaid expenses	38
Schedule of insurance	39
Comparative statistics	40
Summary schedule of prior audit findings	41
<b>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</b>	42 – 43
Schedule of findings	44 – 46

Clarinda Regional Health Center  
and Combined Affiliate

Board of Trustees  
Year Ended June 30, 2005

Name	Title
Joy Tunnicliff	Chair
Dallas Glenn	Vice Chairman
Judy Lane	Secretary/Treasurer
John Clark	Member
Randy Pullen	Member
*****	
Keith Heuser	CEO
Alan Palo	CFO

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

Board of Trustees  
Clarinda Regional Health Center  
Clarinda, Iowa

We have audited the accompanying combined balance sheet of Clarinda Regional Health Center and its combined affiliate (Organization), an enterprise fund of the City of Clarinda, Iowa as of June 30, 2005, and the related combined statements of revenue, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined basic financial statements based on our audit. The financial statements of Clarinda Regional Health Center and its combined affiliate as of and for the year ended June 30, 2004 were audited by other auditors whose report, dated October 15, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The basic financial statements of Clarinda Regional Health Center Foundation were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined basic financial statements referred to above present fairly, in all material respects, the financial position of Clarinda Regional Health Center and its combined affiliate, as of June 30, 2005, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 30, 2005, on our consideration of the Clarinda Regional Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements, and other matters. The purpose of 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 4 through 9 and required supplementary information on page 29 are not required parts of the combined basic financial statements, but are 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 measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the 2005 combined basic financial statements of the Organization. The supplementary information is presented for purposes of additional analysis and is not a required part of the combined basic financial statements. The supplementary information as of and for the year ended June 30, 2005 has been subjected to the auditing procedures applied in the audit of the combined basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined basic financial statements taken as a whole. The supplementary information as of and for the year ended June 30, 2004 relating to the Organization was audited by other auditors whose report, dated October 15, 2004, expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole.

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

*McGladrey & Pullen, LLP*

Davenport, Iowa  
September 30, 2005, except for Item (A) in Note 6  
as to which the date is January 25, 2006

## Clarinda Regional Health Center and Combined Affiliate

### Management's Discussion and Analysis Years Ended June 30, 2005 and 2004

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This section of the Clarinda Regional Health Center and combined affiliate annual audited financial report represents management's discussion and analysis of the Organization's financial performance during the fiscal year ended June 30, 2005. The analysis will focus on the Organization's financial performance as a whole. Please read it in conjunction with the audited financial report.

### Using This Annual Report

The June 30, 2005 and 2004 Independent Auditor's Report includes audited financial statements that include:

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

### Financial Highlights

- The Organization's total assets increased by \$1,665,584 or 19.0% in 2005 and increased by \$407,200 or 4.9% in 2004.
- The Organization's net assets increased by \$1,660,044 or 31.7% in 2005 and increased by \$657,736 or 14.4% in 2004.
- The Organization reported an operating gain of \$1,432,999 in 2005, operating gain of \$412,425 in 2004, and operating loss of \$654,863 in 2003.

### The Balance Sheet and Statement of Revenue, 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 Organization's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Organization creditors (liabilities). Revenue and expenses are reflected for the current and previous year on the statements of revenue, expenses, and changes in net assets. This statement shows the results of the Organization's operations. The last financial statement is the statement of cash flows. The cash flows 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 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  
and Combined Affiliate

Management's Discussion and Analysis  
Years Ended June 30, 2005 and 2004

There were no significant changes in Clarinda Regional Health Services and Affiliate's accounting policies for the fiscal year ended June 30, 2005 other than the adoption of GASB Statement No. 40 which affected footnote presentation only.

### Financial Analysis of the Organization

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

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

	2005	2004
<b>Assets</b>		
Current assets	\$ 4,735,839	\$ 2,878,604
Noncurrent cash and investments	776,592	894,747
Capital assets, net	4,869,387	4,924,663
Other assets	41,541	59,761
<b>Total assets</b>	<b>\$ 10,423,359</b>	<b>\$ 8,757,775</b>
<b>Liabilities</b>		
Total current liabilities	\$ 1,684,421	\$ 1,675,344
Long-term debt, less current maturities	1,844,496	1,848,033
<b>Total liabilities</b>	<b>3,528,917</b>	<b>3,523,377</b>
Total net assets	6,894,442	5,234,398
<b>Total liabilities and net assets</b>	<b>\$ 10,423,359</b>	<b>\$ 8,757,775</b>

Asset categories changing significantly during 2005 and 2004 included cash and cash equivalents and accounts receivable. Current assets increased by \$1,857,235 or 64.5% in 2005 and increased by \$599,600 or 27.4% in 2004. Accounts receivable increased by \$112,675 or 5.7% in 2005 and increased by \$312,500 or 19.0% in 2004.

Liability categories changing significantly during 2005 and 2004 included accrued expenses, accounts payable, salaries, wages, and payroll taxes, and estimated third-party payor settlements. Accrued expenses decreased by \$270,685 or 25.4% in 2005 and increased by \$208,800 or 24.3% in 2004.

The current ratio (current assets divided by current liabilities) for 2005 was 2.81 and 2004 was 1.66. 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 Combined Affiliate

Management's Discussion and Analysis  
Years Ended June 30, 2005 and 2004

Table 2 summarizes information from the statements of revenue, expenses, and changes in net assets.

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

	2005	2004
Operating revenue	\$ 14,404,743	\$ 12,727,158
Operating expenses	12,971,744	12,314,733
<b>Operating income</b>	<u>1,432,999</u>	<u>412,425</u>
Nonoperating revenue	<u>227,045</u>	<u>245,311</u>
<b>Increase in net assets</b>	1,660,044	657,736
Net assets:		
Beginning	5,234,398	4,576,662
Ending	<u>\$ 6,894,442</u>	<u>\$ 5,234,398</u>
<b>Total revenue</b>	<u>\$ 14,631,788</u>	<u>\$ 12,560,044</u>

Net patient service revenue increased \$1,754,995 or 14.0% in 2005 and increased \$1,752,800 or 16.3% in 2004. 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**

	2005	2004
Total patient service revenue	\$ 22,466,651	\$ 20,186,374
Contractual adjustments and provisions for bad debt	(8,207,717)	(7,682,435)
<b>Net patient service revenue</b>	<u>\$ 14,258,934</u>	<u>\$ 12,503,939</u>
Contractual adjustments and provisions for bad debt as a percent of revenue	<u>36.53%</u>	<u>38.06%</u>

Total operating expenses increased \$657,011 or 5.3% in 2005 and increased \$561,000 or 4.8% in 2004. The operating expenses are broken by department on the schedules of operating expenses on pages 33 to 36 of the combined financial report.

The operating margin (total operating revenue less total operating expenses divided by total operating revenue) was 9.9% in 2005 up from 3.2% in 2004. Operating income in 2005 was \$1,432,999 and in 2004 was \$412,425.

Clarinda Regional Health Center  
and Combined Affiliate

Management's Discussion and Analysis  
Years Ended June 30, 2005 and 2004

Other operating revenue made up 1.0% of total operating revenue in 2005 and 1.8% in 2004. Table 4 shows the detail for this line item.

Table 4: Other Revenue

	2005	2004
Lifeline, net	\$ (4,084)	\$ (461)
Dietary	5,732	4,642
Employee meals	48,012	40,980
Meals on wheels and congregate meals	68,194	78,784
Wellness program	5,293	5,037
Medical records transcripts	4,969	3,216
Rental income, net	26,400	38,397
Miscellaneous	(8,707)	52,624
<b>Total other revenue</b>	<b>\$ 145,809</b>	<b>\$ 223,219</b>

Organization Statistical Data

Table 5 shows the Organization's statistical data.

Table 5: Statistical Data

	2005	2004
Patient days:		
Acute	2,028	1,914
Swing bed	1,040	755
<b>Total</b>	<b>3,068</b>	<b>2,669</b>
Admissions:		
Acute	697	668
Swing bed	150	93
<b>Total</b>	<b>847</b>	<b>761</b>
Discharges:		
Acute	665	671
Swing bed	151	94
<b>Total</b>	<b>816</b>	<b>765</b>
Average length of stay, acute	2.9	2.9
Beds, acute and swing	25	25
Occupancy percentage, acute and swing, based on 25 beds	33.6%	29.2%

Clarinda Regional Health Center  
and Combined Affiliate

Management's Discussion and Analysis  
Years Ended June 30, 2005 and 2004

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## The Organization's Cash Flows

The Organization experienced positive cash flow from operations of approximately \$1,828,000 in 2005 and \$667,900 in 2004. This was expended primarily for capital acquisitions, purchases of investments, and for debt reduction (see Tables 1 and 6 regarding decreases in debt).

## Capital Assets

As of June 30, 2005 and 2004 the Organization had \$4,869,387 and \$4,929,663, respectively, invested in capital assets net of accumulated depreciation. In 2005 the Organization had \$510,589 of capital asset additions primarily related to an additional capital lease. This was offset by depreciation of \$470,292.

## Long-Term Debt

Table 6 shows a summary of the Organization's long-term debt outstanding.

Table 6: Long-Term Debt

	2005	2004
Hospital revenue bonds, Series 1997A	\$ 575,324	\$ 643,157
Hospital revenue bonds, Series 1997B	968,245	1,066,447
Obligations under capital lease	646,732	399,246
<b>Total long-term debt</b>	<b>\$ 2,190,301</b>	<b>\$ 2,108,850</b>

The most significant outstanding long-term debt held by the Organization are the Series 1997A and Series 1997B 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.

## Budgetary Highlights

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

- The Organization's total revenue exceeded budget by \$434,743 or 3.1%.
- The Organization's total operating expenses were less than budget by \$632,256 or 4.6%.

**Clarinda Regional Health Center  
and Combined Affiliate**

**Management's Discussion and Analysis  
Years Ended June 30, 2005 and 2004**

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**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 Organization 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.

**Contacting the Organization**

This 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 Organization'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.

Clarinda Regional Health Center  
and Combined Affiliate

Combined Balance Sheets  
June 30, 2005 and 2004

Assets	2005	2004
Current Assets:		
Cash and cash equivalents	\$ 1,709,659	\$ 438,379
Investments	335,420	-
Assets limited as to use, restricted by bond agreement	171,885	146,273
Receivables:		
Patient, net	2,058,343	1,959,504
Other	36,424	22,588
Estimated third-party payor settlements	-	19,973
Inventories	378,234	282,670
Prepaid expenses	45,874	9,217
<b>Total current assets</b>	<b>4,735,839</b>	<b>2,878,604</b>
Assets Limited as to Use:		
Restricted by bond agreement	677,734	796,234
Board-designated for health insurance	98,858	98,513
	<b>776,592</b>	<b>894,747</b>
Capital Assets:		
Nondepreciable	2,750	91,835
Depreciable, net	4,866,637	4,832,828
	<b>4,869,387</b>	<b>4,924,663</b>
Other Assets:		
Employee and physician advances	38,541	56,761
Other assets	3,000	3,000
	<b>41,541</b>	<b>59,761</b>
	<b>\$ 10,423,359</b>	<b>\$ 8,757,775</b>

See Notes to Combined Basic Financial Statements.

<b>Liabilities and Net Assets</b>	2005	2004
Current Liabilities:		
Current maturities of long-term debt	\$ 345,805	\$ 260,817
Accounts payable	196,881	347,107
Accrued expenses:		
Salaries, wages, and payroll taxes	392,738	683,573
Paid leave	292,527	271,182
Health insurance claims	100,000	110,521
Other	11,470	2,144
Estimated third-party payor settlements	345,000	-
<b>Total current liabilities</b>	<b>1,684,421</b>	<b>1,675,344</b>
Long-Term Debt, less current maturities	1,844,496	1,848,033
<b>Total liabilities</b>	<b>3,528,917</b>	<b>3,523,377</b>
Commitments and Contingencies (Note 9)		
Net Assets:		
Invested in capital assets, net of related debt	2,679,086	2,815,813
Restricted by bond agreement	849,619	942,507
Unrestricted	3,365,737	1,476,078
	<b>6,894,442</b>	<b>5,234,398</b>
	<b>\$ 10,423,359</b>	<b>\$ 8,757,775</b>

Clarinda Regional Health Center  
and Combined Affiliate

Combined Statements of Revenue, Expenses, and Changes in Net Assets  
Years Ended June 30, 2005 and 2004

	2005	2004
Operating revenue:		
Net patient service revenue	\$ 14,258,934	\$ 12,503,939
Other revenue	145,809	223,219
<b>Total revenue</b>	<b>14,404,743</b>	<b>12,727,158</b>
Expenses:		
Salaries and wages	5,441,584	5,412,385
Employee benefits	1,436,364	1,418,567
Supplies	1,759,891	1,891,141
Medical professional fees	610,008	183,758
Other costs	2,583,052	2,339,445
Utilities	148,101	138,191
Insurance	176,409	106,877
Leases and rentals	234,164	257,850
Depreciation	470,292	469,670
Interest	111,879	96,849
<b>Total expenses</b>	<b>12,971,744</b>	<b>12,314,733</b>
<b>Operating income</b>	<b>1,432,999</b>	<b>412,425</b>
Nonoperating gains:		
Investment income	31,728	36,346
Contributions	195,317	208,965
<b>Net nonoperating gains</b>	<b>227,045</b>	<b>245,311</b>
<b>Increase in net assets</b>	<b>1,660,044</b>	<b>657,736</b>
Net assets:		
Beginning	5,234,398	4,576,662
Ending	<b>\$ 6,894,442</b>	<b>\$ 5,234,398</b>

See Notes to Combined Basic Financial Statements.

Clarinda Regional Health Center  
and Combined Affiliate

Combined Statements of Cash Flows  
Years Ended June 30, 2005 and 2004

	2005	2004
Cash Flows from Operating Activities:		
Cash received from patients and third parties	\$ 14,525,068	\$ 12,157,875
Cash paid to employees	(7,147,438)	(6,787,136)
Cash paid to suppliers	(5,681,474)	(4,926,065)
Other receipts and payments, net	131,973	223,219
<b>Net cash provided by operating activities</b>	<b>1,828,129</b>	<b>667,893</b>
Cash Flows from Noncapital Financing Activities, restricted and unrestricted contributions		
	<b>195,317</b>	<b>208,965</b>
Cash Flows from Capital and Related Financing Activities:		
Interest paid on long-term debt	(111,879)	(96,849)
Acquisition of capital assets	(101,005)	(173,761)
Principal payments on long-term debt	(328,133)	(237,175)
<b>Net cash (used in) capital and related financing activities</b>	<b>(541,017)</b>	<b>(507,785)</b>
Cash Flows from Investing Activities:		
Net increase in investments and assets limited as to use	(242,877)	(3,504)
Investment income	31,728	36,346
<b>Net cash provided by (used in) investing activities</b>	<b>(211,149)</b>	<b>32,842</b>
<b>Increase in cash and cash equivalents</b>	<b>1,271,280</b>	<b>401,915</b>
Cash and cash equivalents:		
Beginning	438,379	36,464
Ending	<b>\$ 1,709,659</b>	<b>\$ 438,379</b>

(Continued)

Clarinda Regional Health Center  
and Combined Affiliate

Combined Statements of Cash Flows (Continued)  
Years Ended June 30, 2005 and 2004

	2005	2004
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities:		
Operating income	\$ 1,432,999	\$ 412,425
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest expense considered capital financing activity	111,879	96,849
Depreciation	470,292	469,670
Amortization	18,220	-
Loss on disposal of capital assets	95,573	-
(Increase) decrease in:		
Patient and other receivables, net	(112,675)	(268,943)
Inventories	(95,564)	(31,190)
Prepaid expenses	(36,657)	22,387
Increase (decrease) in:		
Accounts payable and accrued expenses	(420,911)	43,816
Estimated third-party payor settlements	364,973	(77,121)
<b>Net cash provided by operating activities</b>	<b>\$ 1,828,129</b>	<b>\$ 667,893</b>
Noncash Capital and Related Financing Activities,		
capital lease obligation incurred for acquisition of capital assets	\$ 409,584	\$ -

See Notes to Combined Basic Financial Statements.

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

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**Note 1. Nature of Business and Significant Accounting Policies**

**Nature of business:**

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

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

The Health Center and the Foundation are collectively referred to as the Clarinda Regional Health Center and combined affiliate (Organization). There are no other organizations or agencies whose financial statements should be combined and presented with these combined basic financial statements.

**Significant accounting policies:**

Principles of combination: The accompanying combined financial statements include the accounts of the Health Center and Foundation. All significant intercompany balances and transactions have been eliminated in combination.

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

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

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

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

Accounting standards: The Organization has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs).

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

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

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

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

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

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

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

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

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

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

Capital assets: Capital assets are carried at cost or, if donated, at fair value at date of donation. Depreciation is computed by the straight-line method over the assets' estimated useful lives ranging from 3 to 40 years. The amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets. Interest expense related to the construction of capital assets is capitalized. For the years ended June 30, 2005 and 2004 there was no interest capitalized on construction.

Employee and physician advances: Employee and physician advances are primarily related to the recruitment of physicians to meet the community's needs. The advances are being forgiven over a period of three to five years, provided that the physicians and employees have continued satisfactory service.

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue is reported net of provision for bad debts.

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

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

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

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

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

Net assets: Net asset classifications are defined as follows:

*Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and net of the outstanding balance of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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

The Organization's Board-designated assets limited as to use have been designated for employee health insurance claims.

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

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, they are not reported as revenue. The Organization maintains records to identify and monitor the level of charity care it provides. These records include the amounts of charges forgone for services and supplies furnished under its charity care policy and the estimated cost of those services and supplies. The amount of charges forgone, based on established rates, was approximately \$175,000 and \$77,000 for the years ended June 30, 2005 and 2004, respectively.

Although not accounted for as charity care, the Organization considers the contractual adjustment expense related to the Medicaid services as charity care. Contractual adjustment expense related to the Medicaid services performed was approximately \$828,000 and \$892,000 for the years ended June 30, 2005 and 2004, respectively.

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

Reclassifications: Certain items on the combined balance sheets and combined statements of revenue, expenses, and changes in net assets as of and for the year ended June 30, 2004 have been reclassified to be consistent with classifications adopted as of and for the year ended June 30, 2005. The reclassifications had no effect on total assets, total net assets, and the change in net assets.

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

**Note 2. Net Patient Service Revenue**

Approximately 74% of the Organization's net patient service revenue is earned under agreements with Medicare, Medicaid, and Blue Cross. These agreements provide for reimbursement to the Organization at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Organization's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party reimbursement programs follows:

Medicare: The Organization received Critical Access Hospital designation effective September 1, 2003. Under the Critical Access Hospital methodology, the Organization is paid for inpatient, outpatient, and swing-bed services. The Organization is reimbursed based on a reasonable cost methodology at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audit by the third-party Medicare fiscal intermediary.

The Organization's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through August 31, 2003, the date on which the Organization obtained Critical Access Hospital designation.

Medicaid: The Organization receives reimbursement for services provided 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, 2002.

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 the Organization's patient service revenue for the years ended June 30, 2005 and 2004 is as follows:

	2005	2004
Gross patient service revenue	\$ 22,466,651	\$ 20,186,374
Less:		
Provision for bad debts	478,211	697,638
Discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs	7,729,506	6,984,797
<b>Net patient service revenue</b>	<b>\$ 14,258,934</b>	<b>\$ 12,503,939</b>

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

**Note 3. Patient Receivables**

Patient receivables reported as current assets by the Organization as of June 30, 2005 and 2004 consisted of the following:

	2005	2004
Patients	\$ 3,397,227	\$ 3,719,177
Less:		
Allowance for doubtful accounts	596,734	714,737
Estimated third-party contractual adjustments	742,150	1,044,936
	<u>\$ 2,058,343</u>	<u>\$ 1,959,504</u>

**Note 4. Cash and Investments**

As of June 30, 2005, the Foundation has the following investments:

	Maturities	Fair Value
Investment:		
Target Equity Security	N/A	\$ 36,970
Target Equity Security	N/A	37,664
Target Equity Security	N/A	38,376
Target Equity Security	N/A	42,174
Mutual funds	N/A	172,981
		<u>\$ 328,165</u>

*Interest rate risk:* In accordance with the Foundation's investment policy, the Foundation strives to preserve principal while providing growth of the portfolio. The Health Center does not have a formal investment policy. The Foundation's policy prohibits trades on margin, purchases of futures or options, and purchases of real estate solely for investment purposes.

*Credit risk:* The Iowa Code authorizes the Health Center and Foundation to invest in obligations of the U.S. government, its agencies, and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions; prime banker's acceptances that mature within 270 days and that are eligible for purchase by a federal reserve bank; commercial paper or other short-term corporate debt that matures within 270 days and that is rated within the two highest classifications, as established by at least one of the standard rating services approved by the superintendent of banking; repurchase agreements whose underlying collateral consists of obligations of the U.S. government, its agencies, and instrumentalities; an open-end management investment company registered with federal securities and exchange commission under the Federal Investment Company Act of 1940; a joint investment trust organized pursuant to Chapter 28E prior to and existing in good standing on April 28, 1992, or is rated within the two highest classifications by at least one of the standard rating services approved by the superintendent of banking; and warrants or improvement certificates of a levee or drainage district. The Iowa Public Agency Investment Trust is not rated as of June 30, 2005. The mutual funds and equity securities held by the Organization as of June 30, 2005 are not rated by a nationally recognized statistical rating organization.

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

**Note 4. Cash and Investments (Continued)**

*Concentration of credit risk:* The Health Center has no investments as of June 30, 2005. The Foundation places no limit on the amount the Foundation may invest in any one issuer. The Foundation has investments of \$328,165 as of June 30, 2005 of which approximately 46% consists of equities securities in Target Corp. The remaining investments consist of mutual funds.

*Custodial credit risk:* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. It is the Health Center and Foundation's policy to avoid default risks with financial institutions with which the chief financial officer deposits monies by determining in advance of the deposit that each depository in which monies are to be placed is an approved depository for purposes of Chapter 453 of Iowa Code. As of June 30, 2005, the Organization's deposits and investments were not exposed to custodial credit risk.

The Organization's cash, investments, and assets limited as to use as of June 30, 2005 and 2004 consist of the following:

	2005	2004
Cash	\$ 1,815,739	\$ 629,747
Certificates of deposit	849,652	849,652
Equity securities	155,184	-
Mutual funds	172,981	-
	<u>\$ 2,993,556</u>	<u>\$ 1,479,399</u>

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

	2005	2004
Cash and cash equivalents	\$ 1,709,659	\$ 438,379
Investments	335,420	-
Noncurrent cash and investments:		
Restricted by bond agreement	849,619	942,507
Internally designated for health insurance	98,858	98,513
	<u>\$ 2,993,556</u>	<u>\$ 1,479,399</u>

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

**Note 5. Capital Assets**

Activity in capital assets and accumulated depreciation for the years ended June 30, 2005 and 2004 are as follows:

	June 30, 2004	Additions	Transfers and Disposals	June 30, 2005
Capital assets, not being depreciated:				
Land improvements	\$ 2,750	\$ -	\$ -	\$ 2,750
Construction in progress	89,085	-	(89,085)	-
<b>Total capital assets, not being depreciated</b>	<b>91,835</b>	<b>-</b>	<b>(89,085)</b>	<b>2,750</b>
Capital assets, being depreciated:				
Land improvements	268,232	7,901	(55,500)	220,633
Building	6,566,235	84,315	(223,731)	6,426,819
Fixed equipment	851,441	5,500	(77,793)	779,148
Movable equipment	4,209,557	501,958	(1,973,158)	2,738,357
<b>Total capital assets, being depreciated</b>	<b>11,895,465</b>	<b>599,674</b>	<b>(2,330,182)</b>	<b>10,164,957</b>
Less accumulated depreciation for:				
Land improvements	160,275	13,580	(54,956)	118,899
Building	2,763,375	184,516	(172,495)	2,775,396
Fixed equipment	480,529	80,554	(73,356)	487,727
Movable equipment	3,658,458	191,642	(1,933,802)	1,916,298
<b>Total accumulated depreciation</b>	<b>7,062,637</b>	<b>470,292</b>	<b>(2,234,609)</b>	<b>5,298,320</b>
Total capital assets, being depreciated, net	4,832,828	129,382	(95,573)	4,866,637
<b>Capital assets, net</b>	<b>\$ 4,924,663</b>	<b>\$ 129,382</b>	<b>\$ (184,658)</b>	<b>\$ 4,869,387</b>

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

Note 5. Capital Assets (Continued)

	June 30, 2003	Additions	Transfers and Disposals	June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 2,750	\$ -	\$ -	\$ 2,750
Construction in progress	-	89,085	-	89,085
<b>Total capital assets, not being depreciated</b>	<b>2,750</b>	<b>89,085</b>	<b>-</b>	<b>91,835</b>
Capital assets, being depreciated:				
Land improvements	241,007	27,225	-	268,232
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
<b>Total capital assets, being depreciated</b>	<b>11,810,789</b>	<b>84,676</b>	<b>-</b>	<b>11,895,465</b>
Less accumulated depreciation for:				
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	3,480,346	178,112	-	3,658,458
<b>Total accumulated depreciation</b>	<b>6,592,967</b>	<b>469,670</b>	<b>-</b>	<b>7,062,637</b>
Total capital assets, being depreciated, net	5,217,822	(384,994)	-	4,832,828
<b>Capital assets, net</b>	<b>\$ 5,220,572</b>	<b>\$ (295,909)</b>	<b>\$ -</b>	<b>\$ 4,924,663</b>

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

**Note 6. Long-Term Debt**

Long-term debt activity as of and for the years ended June 30, 2005 and 2004 is as follows:

	June 30, 2004	Borrowings	Payments	June 30, 2005	Due Within One Year
1997 Hospital Revenue Bonds, Series A (A)	\$ 643,157	\$ -	\$ (67,833)	\$ 575,324	\$ 70,007
1997 Hospital Revenue Bonds, Series B (B)	1,066,447	-	(98,202)	968,245	101,878
Capital lease obligations (B)	399,246	409,584	(162,098)	646,732	173,920
	<u>\$ 2,108,850</u>	<u>\$ 409,584</u>	<u>\$ (328,133)</u>	<u>\$ 2,190,301</u>	<u>\$ 345,805</u>
	June 30, 2003	Borrowings	Payments	June 30, 2004	Due Within One Year
1997 Hospital Revenue Bonds, Series A	\$ 708,259	\$ -	\$ (65,102)	\$ 643,157	\$ 63,906
1997 Hospital Revenue Bonds, Series B	1,158,016	-	(91,569)	1,066,447	90,695
Capital lease obligations	479,750	-	(80,504)	399,246	106,216
	<u>\$ 2,346,025</u>	<u>\$ -</u>	<u>\$ (237,175)</u>	<u>\$ 2,108,850</u>	<u>\$ 260,817</u>

(A) Hospital Revenue Bonds, 1997 Series A require monthly payments of principal and interest. The interest rate is adjustable every five years beginning in October 2002. The interest rate as of June 30, 2005, 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. The interest rate is adjustable every five years beginning in October 2003. The interest rate as of June 30, 2005, was 3.70%. Principal and interest payments are due through September 2013.

The 1997 Series A and B Revenue Bond agreements require the Health Center to maintain a minimum of 40% of the outstanding bond balance, but not less than \$500,000, in Board-designated funds at all times. In connection with the Hospital Revenue Bonds, 1997 Series A and B, the Health Center is required to comply with specific covenants as outlined within the loan agreement. The Health Center was in compliance with the covenants or appropriate waivers were obtained on January 25, 2006.

(B) The Health Center leases certain equipment under capital lease arrangements. Leases require monthly payments of principal and interest at rates from 4.52% to 5.55%. Leases are secured by equipment.

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

**Note 6. Long-Term Debt (Continued)**

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

Year ending June 30:	Hospital Revenue Bonds		Capital Lease Obligations		Total
	Principal	Interest	Principal	Interest	
2006	\$ 172,000	\$ 54,000	\$ 174,000	\$ 28,000	\$ 428,000
2007	178,000	48,000	172,000	19,000	417,000
2008	183,000	42,000	174,000	10,000	409,000
2009	194,000	35,000	103,000	3,600	335,600
2010	199,000	27,000	23,000	-	249,000
2011 to 2014	618,000	22,000	-	-	640,000
	<u>\$ 1,544,000</u>	<u>\$ 228,000</u>	<u>\$ 646,000</u>	<u>\$ 60,600</u>	<u>\$ 2,478,600</u>

The following is the leased equipment by major class as of June 30, 2005 and 2004:

	2005	2004
Moveable equipment	\$ 1,013,353	\$ 670,713
Less accumulated depreciation	342,188	200,209
	<u>\$ 671,165</u>	<u>\$ 470,504</u>

**Note 7. Retirement System**

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

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 contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were approximately \$324,000, \$305,300, and \$275,000, respectively, equal to the required contributions for each year.

**Note 8. Related Organization**

Effective September 1, 2002 the Health Center entered into a contractual arrangement with Mercy Medical Center - Des Moines, under which Mercy Medical Center - Des Moines provides management consultation and other services to Clarinda Regional Health Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of Clarinda Regional Health Center. Expenses for the services received amounted to approximately \$185,000 and \$184,000 for the years ended June 30, 2005 and 2004, respectively.

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

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**Note 9. Self Insurance, Commitments, and Contingent Liabilities**

**Professional liability insurance:**

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

The Organization is involved in litigation arising in the normal course of business. It is the opinion of management, however, that the Organization's malpractice insurance coverage is adequate to provide for potential losses resulting from pending or threatened litigation. Additional claims may be asserted against the Organization arising from services provided to patients through June 30, 2005. The ultimate costs of the resolution of such potential claims is not considered to be material, and accordingly, no accrual has been made for these costs.

The Organization's medical malpractice and general liability insurance expense totaled approximately \$76,000 for each of the years ended June 30, 2005 and 2004. Settled claims have not exceeded available coverage in any of the past three years.

**Health plan self-insurance:**

The Organization is self-insured for its employee health and dental insurance plans. The self-insured claims are processed through a plan administrator. The Organization has stop-loss coverage for claims in excess of \$30,000 per individual per plan year with a \$1,000,000 lifetime maximum per individual.

Liabilities are reported when it is probable that a loss will occur, and the amount of the loss can be reasonably estimated. Claims liabilities are calculated considering recent claims, settlement trends, including frequency and amount of payouts, and other economic and social factors. The following is a summary of estimated claims liability for the years ended June 30, 2005 and 2004. The Organization has recorded a current liability for open claims and claims incurred but not reported.

	2005	2004
Balance, beginning	\$ 110,521	\$ 98,000
Claims expense	585,636	495,000
Claims payment	(596,157)	(482,479)
Balance, ending	<u>\$ 100,000</u>	<u>\$ 110,521</u>

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

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

**Laws and Regulations:**

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

**Capital lease obligation:**

The Organization has entered into a lease agreement for a new general ledger system which was implemented in July 2005. The agreement is considered to be a capital lease in accordance with auditing standards generally accepted in the United States of America. As a result, a capital lease obligation in the amount of approximately \$674,000 and a related capital asset will be recorded during the year ended June 30, 2006.

**Note 10. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements**

The Organization adopted Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005. This Statement established and modified disclosure requirements related to investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. As an element of interest rate risk, this Statement required certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also established and modified disclosure requirements for deposit risks.

The GASB also issued several statements not yet implemented by the Organization. The Statements which might impact the Organization are as follows:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, issued November 2003, will be effective for the Organization beginning with its year ending June 30, 2006. This Statement requires governments to report the effects of capital asset impairment in their financial statements when it occurs and requires all governments to account for insurance recoveries in the same manner.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, was issued April 2004. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance. The provisions of this Statement will be effective for the Organization beginning with its year ending June 30, 2008.

Clarinda Regional Health Center  
and Combined Affiliate

Notes to Combined Basic Financial Statements

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**Note 10. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements (Continued)**

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued June 2004, will be effective for the Organization beginning with its year ending June 30, 2009. This Statement establishes standards for measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34, issued December 2004, will be effective for the Organization with its year ending June 30, 2006. The purpose of Statement No. 46 is to help governments to determine when net assets have been restricted to a particular use by the passage of enabling legislation and to specify how those net assets should be reported in financial statements when there are changes in the circumstances surrounding such legislation.

GASB Statement No. 47, *Accounting for Termination Benefits*, issued June 2005, will be effective for the Organization beginning with its year ending June 30, 2006. This Statement establishes accounting standards for termination benefits. In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (early retirement incentives) when the offer is accepted and the amount can be estimated. A liability for involuntary termination benefits (severance benefits) should be when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated.

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

Clarinda Regional Health Center  
and Combined Affiliate

Required Supplementary Information, Budget and Budgetary Accounting  
Year Ended June 30, 2005

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

The following is a comparison of actual expenses to budget for the year ended June 30, 2005:

GAAP	Adjustments	Budgetary	Adopted
Expenses	to Budgetary	Basis	Budget
	Basis		
\$ 12,971,744	\$ 437,576	\$ 13,409,320	\$ 13,604,000

Clarinda Regional Health Center  
and Combined Affiliate

Net Patient Service Revenue  
Years Ended June 30, 2005 and 2004

	Total	
	2005	2004
Routine services:		
Medical and surgical	\$ 1,373,966	\$ 1,168,900
Obstetric	8,250	49,317
Nursery	5,137	36,681
	<u>1,387,353</u>	<u>1,254,898</u>
Other nursing services:		
Operating room	1,279,750	1,623,614
Recovery room	114,895	127,458
Delivery room	5,404	38,195
Emergency room	1,073,259	997,547
Home health agency	270,501	341,352
	<u>2,743,809</u>	<u>3,128,166</u>
Other professional services:		
Ambulance	807,221	776,348
Anesthesiology	335,148	470,342
Blood service	86,637	124,177
Cardiac rehabilitation	413,599	443,691
Central service and supply	106,230	154,354
Clinic	666,608	442,685
CT scan	2,036,778	1,519,540
Electrocardiology	260,510	281,744
Electrocephalography	-	7,361
Inhalation therapy	1,106,121	760,572
Intravenous therapy	278,306	254,207
Laboratory	3,109,845	2,708,249
Nuclear medicine	453,709	1,481,565
Occupational therapy	194,901	155,332
Pharmacy	3,248,950	2,185,278
Physical therapy	508,519	531,810
Radiology	2,391,141	995,582
Speech therapy	13,063	15,568
Ultrasound	303,556	349,328
Villisca Rural Health Clinic	274,587	260,528
Clarinda Medical Associates	1,914,600	1,962,168
	<u>18,510,029</u>	<u>15,880,429</u>
<b>    Patient service revenue</b>	<b>22,641,191</b>	<b>20,263,493</b>
Less charity care	174,540	77,119
	<u>22,466,651</u>	<u>20,186,374</u>
Less contractual adjustments and bad debts	8,207,717	7,682,435
<b>    Net patient service revenue</b>	<b>\$ 14,258,934</b>	<b>\$ 12,503,939</b>

Inpatient		Outpatient	
2005	2004	2005	2004
\$ 1,249,037	\$ 1,060,716	\$ 124,929	\$ 108,184
8,250	49,317	-	-
5,060	36,681	77	-
<b>1,262,347</b>	<b>1,146,714</b>	<b>125,006</b>	<b>108,184</b>
254,007	278,091	1,025,743	1,345,523
9,793	13,416	105,102	114,042
4,272	35,444	1,132	2,751
322,387	254,958	750,872	742,589
-	-	270,501	341,352
<b>590,459</b>	<b>581,909</b>	<b>2,153,350</b>	<b>2,546,257</b>
-	-	807,221	776,348
51,887	87,883	283,261	382,459
47,875	78,858	38,762	45,319
50,099	47,170	363,500	396,521
45,593	59,659	60,637	94,695
349,187	174,989	317,421	267,696
359,199	315,674	1,677,579	1,203,866
35,222	48,252	225,288	233,492
-	960	-	6,401
869,438	581,626	236,683	178,946
200,977	185,219	77,329	68,988
439,552	517,453	2,670,293	2,190,796
1,190	70,934	452,519	1,410,631
65,470	61,158	129,431	94,174
1,057,567	720,941	2,191,383	1,464,337
71,820	63,321	436,699	468,489
182,664	92,314	2,208,477	903,268
7,752	6,880	5,311	8,688
25,178	25,757	278,378	323,571
-	-	274,587	260,528
-	-	1,914,600	1,962,168
<b>3,860,670</b>	<b>3,139,048</b>	<b>14,649,359</b>	<b>12,741,381</b>
<b>\$ 5,713,476</b>	<b>\$ 4,867,671</b>	<b>\$ 16,927,715</b>	<b>\$ 15,395,822</b>

Clarinda Regional Health Center  
and Combined Affiliate

Adjustments to Patient Service Revenue and Other Revenue  
Years Ended June 30, 2005 and 2004

	2005	2004
Adjustments to patient service revenue:		
Medicare	\$ 5,424,514	\$ 5,014,179
Medicaid	828,009	891,778
Other	1,476,983	1,078,840
Provision for bad debts	478,211	697,638
Total contractual adjustments and bad debts	<u>\$ 8,207,717</u>	<u>\$ 7,682,435</u>
Other revenue (expense):		
Lifeline, net	\$ (4,084)	\$ (461)
Dietary	5,732	4,642
Employee meals	48,012	40,980
Meals on wheels and congregate meals	68,194	78,784
Wellness program	5,293	5,037
Medical records transcripts	4,969	3,216
Rental income, net	26,400	38,397
Miscellaneous	(8,707)	52,624
Total other revenue	<u>\$ 145,809</u>	<u>\$ 223,219</u>

Clarinda Regional Health Center  
and Combined Affiliate

Operating Expenses  
Years Ended June 30, 2005 and 2004

	Total	
	2005	2004
Nursing services:		
Nursing administration	\$ 65,776	\$ 60,747
Routine care	918,370	950,987
Obstetric	13,509	40,331
Nursery	-	(809)
Operating room	492,240	405,087
Emergency room	337,907	199,328
Home health agency	275,622	265,991
	<u>2,103,424</u>	<u>1,921,662</u>
Other professional services:		
Ambulance	318,585	282,332
Anesthesiology	10,641	255,081
Cardiac rehabilitation	86,934	63,059
Central service and supply	93,117	205,773
Clinic	140,646	118,243
CT scan	134,915	181,234
Electrocardiology	4,896	3,131
Electrocephalography	-	1,267
Inhalation therapy	201,567	165,560
Laboratory	721,875	623,203
Nuclear medicine	150,232	340,348
Occupational therapy	1,480	65,885
Pharmacy	1,048,297	886,951
Physical therapy	57,458	225,896
Radiology	576,559	384,870
Speech therapy	107	20,880
Ultrasound	100,775	111,583
Clarinda Medical Associates	828,419	1,318,817
Villisca Rural Health Clinic	210,929	238,143
Wellness	5,371	5,688
	<u>\$ 4,692,803</u>	<u>\$ 5,497,944</u>

Salaries		Other	
2005	2004	2005	2004
\$ 63,497	\$ 58,024	\$ 2,279	\$ 2,723
773,730	734,542	144,640	216,445
2,343	22,072	11,166	18,259
-	-	-	(809)
313,244	155,467	178,996	249,620
287,350	172,675	50,557	26,653
209,835	213,503	65,787	52,488
<b>1,649,999</b>	<b>1,356,283</b>	<b>453,425</b>	<b>565,379</b>
268,869	249,977	49,716	32,355
6,290	21,173	4,351	233,908
61,390	54,052	25,544	9,007
58,287	61,718	34,830	144,055
108,620	90,558	32,026	27,685
-	-	134,915	181,234
2,625	2,128	2,271	1,003
-	178	-	1,089
121,699	119,828	79,868	45,732
255,783	233,345	466,092	389,858
-	-	150,232	340,348
-	-	1,480	65,885
96,788	77,701	951,509	809,250
52,947	50,464	4,511	175,432
292,938	277,578	283,621	107,292
-	-	107	20,880
45,513	41,760	55,262	69,823
828,419	1,318,817	-	-
170,438	199,331	40,491	38,812
703	324	4,668	5,364
<b>\$ 2,371,309</b>	<b>\$ 2,798,932</b>	<b>\$ 2,321,494</b>	<b>\$ 2,699,012</b>

(Continued)

Clarinda Regional Health Center  
and Combined Affiliate

Operating Expenses (Continued)  
Years Ended June 30, 2005 and 2004

	Total	
	2005	2004
General services:		
Dietary	\$ 452,493	\$ 440,834
Operation of plant	368,708	303,699
Clarinda Medical Foundation	41,131	-
Housekeeping	223,308	217,591
	<u>1,085,640</u>	<u>962,124</u>
Administrative services:		
Medical records	237,921	214,757
Social services	36,655	36,122
Administration	1,502,762	1,307,819
Community relations	93,336	98,515
Quality improvement	64,714	15,556
Clarinda Medical Association	162,911	90,801
Data processing	363,035	589
	<u>2,461,334</u>	<u>1,764,159</u>
Employee benefits	1,436,364	1,418,567
Medical professional fees	610,008	183,758
Depreciation	470,292	469,670
Interest	111,879	96,849
	<u>\$ 12,971,744</u>	<u>\$ 12,314,733</u>

Salaries		Other	
2005	2004	2005	2004
\$ 268,617	\$ 263,728	\$ 183,876	\$ 177,106
132,823	118,589	235,885	185,110
33,670	-	7,461	-
113,631	115,218	109,677	102,373
548,741	497,535	536,899	464,589
191,689	181,686	46,232	33,071
35,106	34,075	1,549	2,047
469,897	536,791	1,032,865	771,028
38,660	(2,473)	54,676	100,988
55,073	9,556	9,641	6,000
-	-	162,911	90,801
81,110	-	281,925	589
871,535	759,635	1,589,799	1,004,524
-	-	1,436,364	1,418,567
-	-	610,008	183,758
-	-	470,292	469,670
-	-	111,879	96,849
\$ 5,441,584	\$ 5,412,385	\$ 7,530,160	\$ 6,902,348



Clarinda Regional Health Center  
and Combined Affiliate

Inventories and Prepaid Expenses  
June 30, 2005 and 2004

	2005	2004
Inventories:		
General	\$ 148,060	\$ 112,431
Pharmacy	214,592	156,318
Dietary	8,373	9,472
Office supplies	7,209	4,449
	<u>\$ 378,234</u>	<u>\$ 282,670</u>
Prepaid expenses:		
Insurance	\$ 26,720	\$ 8,049
Maintenance and other	19,154	1,168
	<u>\$ 45,874</u>	<u>\$ 9,217</u>

Clarinda Regional Health Center  
and Combined Affiliate

Schedule of Insurance  
Year Ended June 30, 2005

Coverage Type	Coverage Period		Coverage Amount
Property, including rental dwellings	6/1/05 thru 5/31/06	\$	18,215,000
General liability	6/1/05 thru 5/31/06		1,000,000/3,000,000
Professional	6/1/05 thru 5/31/06		1,000,000/3,000,000
Automobile	6/1/05 thru 5/31/06		1,000,000
Directors and officers liability	6/1/05 thru 6/30/06		3,000,000/3,000,000
Umbrella, excess liability	6/1/05 thru 5/31/06		3,000,000
Workers' compensation	4/1/05 thru 3/31/06		500,000/500,000

Clarinda Regional Health Center  
and Combined Affiliate

Comparative Statistics  
Years Ended June 30, 2005 and 2004

	2005	2004
	(Unaudited)	
Acute:		
Admissions	697	668
Discharges	665	671
Patient days	2,028	1,914
Average length of stay	3	3
Swing bed:		
Admissions	150	93
Discharges	151	94
Patient days	1,040	755

Clarinda Regional Health Center  
and Combined Affiliate

Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2005

Current Number	Comment	Status
<b>Reportable conditions in internal control:</b>		
04-I-1	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.	Corrective action taken.
04-I-2	The Health Center does not have adequate segregation of duties needed for an effective system of internal accounting control over the accounts payable and payroll cycles.	Uncorrected, see 05-I-A and 05-I-B for current year findings.
<b>Other findings related to required statutory reporting:</b>		
04-II-1	A resolution of official depository banks has not been adopted and approved by the Board of Trustees.	Uncorrected, see 05-II-A for current year finding.

# McGladrey & Pullen

Certified Public Accountants

## **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**

Board of Trustees  
Clarinda Regional Health Center  
Clarinda, Iowa

We have audited the combined basic financial statements of Clarinda Regional Health Center as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005, except for Item (A) in Note 6 as to which the date is January 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. However, the financial statements of the Clarinda Medical Foundation were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not extend to these financial statements.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Clarinda Regional Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined basic financial statements and not to provide assurance 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's ability to record, process, summarize, and report financial data consistent with the assertions of management in the combined basic financial statements. Reportable conditions are described in the accompanying schedule of findings as Items 05-I-A, 05-I-B, 05-I-C, and 05-I-D.

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 combined basic 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 believe none of the reportable conditions described above are material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to management of the Organization in a separate letter, dated September 30, 2005.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clarinda Regional Health Center's combined basic 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*. However, we noted certain immaterial instances of noncompliance that are described in Part II of the accompanying schedule of findings.

Comments involving statutory and other legal matters about the Organization's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the basic financial statements of the Organization. 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 interpretation of those statutes.

This report is intended solely for the information and use of the Board of Trustees, management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
September 30, 2005

Clarinda Regional Health Center  
and Combined Affiliate

Schedule of Findings  
Year Ended June 30, 2005

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I. Findings Related to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

(A) Reportable Conditions in Internal Control

05-I-A

Finding: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. The Health Center has an improper segregation of duties over the payroll cycle.

Condition: One individual within the payroll department has the responsibility of updating the payroll master records for new employees, processing payroll transactions, printing payroll checks, and signing payroll checks with the signature stamp.

Criteria: Transaction errors could occur and not be detected in a timely manner.

Recommendation: We recommend access to printed checks be removed from the individual responsible for the record keeping function. In addition, an individual independent of the payroll department should review the edit report generated by the system. Alternatively, access to make wages and personnel changes should be removed from the payroll department.

Response and Corrective Action Plan: The Health Center will reassign duties so that an individual not responsible for the record keeping function will print payroll checks and distribute payroll. Additionally, access to make wage and personnel changes will be reassigned to an individual who does not have access to payroll checks, and a third individual will be assigned the responsibility of reviewing edit reports detailing changes made to the payroll master file.

05-I-B

Finding: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. The Health Center has an improper segregation of duties over the cash disbursement cycle.

Condition: One individual has the capability to add new vendors to the system, has access to the blank check stock and the signature stamp, has the ability to post invoices for payment, and is responsible for check disbursement.

Criteria: Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation: We recommend restricting the number of individuals who can enter and alter vendor information. An edit report showing all vendors that have recently been added to the system or changes made to current vendor information should be produced and reviewed by management. An individual independent of the accounts payable process should print and mail the checks with only copies returned to accounts payable for filing purposes.

Clarinda Regional Health Center  
and Combined Affiliate

Schedule of Findings  
Year Ended June 30, 2005

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Response and Corrective Action Plan: The Health Center will reassign duties so that the Chief Financial Officer will review all changes to the vendor file. The financial accountant will compare the edit report for every check run to the checks. Additionally, the Chief Financial Officer will continue to review all checks written and account for check sequence.

05-I-C

Finding: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. The Health Center has an improper segregation of duties over the purchasing cycle.

Condition: One individual has the capability to complete and approve purchase orders, receive purchased goods directly, and reconcile purchase orders to the bills of lading.

Criteria: Misappropriation of assets could occur and not be detected in a timely manner.

Recommendation: We recommend that management require all purchase orders be approved by an individual other than the individual submitting the purchase order. We also suggest that accounts payable personnel review the purchase order, invoice, and bill of lading to compare quantities and verify that the purchase order is approved by an individual other than the purchase order preparer.

Response and Corrective Action Plan: Prior to generating payment, the accounts payable personnel will compare the purchase orders to invoices and bills of lading and verify that the quantities agree and the purchase order is properly approved.

05-I-D

Finding: A good internal control environment includes the timely and accurate preparation of account reconciliations. The Health Center has several balance sheet accounts that are not properly reconciled on a monthly basis.

Condition: Several accounts are not reconciled on a monthly basis, including the following: accrual for health insurance claims, payroll tax accrued expenses, miscellaneous accounts receivable, salaries accrual, and capital lease liabilities.

Criteria: Misappropriation of assets could occur and not be detected in a timely manner and financial reporting on a monthly basis may be inaccurate or not in accordance with accounting principles generally accepted in the United States of America.

Recommendation: We recommend that all balance sheet accounts be reviewed and reconciled on a monthly basis with any unexplained variances investigated timely.

Response and Corrective Action Plan: The Health Center will assign duties so that each individual is assigned specific balance sheet accounts which are to be reconciled by a specific date. Additionally, the Chief Financial Officer will periodically review and formally approve all reconciliations for completeness and any unexplained variances.

Clarinda Regional Health Center  
and Combined Affiliate

Schedule of Findings  
Year Ended June 30, 2005

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(B) Compliance Findings

None reported.

**II. Other Findings Related to Required Statutory Reporting**

**05-II-A – Official Depositories:** A resolution naming official depositories has not been adopted by the Board. The Board has not passed a resolution approving the maximum amount which may be held on deposit.

**05-IV-B – Certified Budget:** Disbursements during the year ended June 30, 2005 did not exceed the amount budgeted.

**05-II-C – Questionable Expenditures:** No expenditures that may not meet the requirements of public purpose as defined in Attorney General's opinion dated April 25, 1979 were noted.

**05-II-D – Travel Expense:** No expenditures of the Health Center money for travel expenses of spouses of Health Center's officials and/or employees were noted.

**05-II-E – Business Transactions:** No business transactions between the Health Center and Health Center officials were noted.

**05-II-F – Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.

**05-II-G – Deposits and Investments:** 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 has not adopted a formal investment policy.