Clarinda Regional Health Center and Combined Affiliate

Combined Financial Report

06.30.2006

McGladrey & Pullen
Certified Public Accountants

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Contents

Clarinda Regional Health Center
and Combined Affiliate

Board of Trustees
Year Ended June 30, 2006

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, Clarinda Medical Foundation (collectively the Organization), an enterprise fund of the City of Clarinda, Iowa as of June 30, 2006 and 2005, and the related combined statements of revenue, 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 basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The basic financial statements of Clarinda Medical 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 audits provide 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, 2006 and 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 22, 2006, 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 10 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.

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Our audits were conducted for the purpose of forming an opinion on the 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 years ended June 30, 2006 and 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 accompanying Clarinda Regional Health Center schedule of insurance and comparative statistics, 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 22, 2006, except for Item (A) in Note 6,
as to which the date is December 27, 2006

This section of the Clarinda Regional Health Center and its 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, 2006. 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, 2006 and 2005 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 combined basic financial statements

Financial Highlights

- The Organization's total assets increased by $1,392,699 or 13.4% in 2006 and increased by $1,665,584 or 19.0% in 2005.
- The Organization's net assets increased by $366,818 or 5.3% in 2006 and increased by $1,660,044 or 31.7% in 2005.
- The Organization reported an operating gain of $263,133 in 2006 and an operating gain of $1,432,999 in 2005.

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

These financial statements report information about Clarinda Regional Health Services and its combined 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 statement of cash flows essentially reflects the movement of money in and out of the Organization that determines the Organization'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

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 Organization'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

	2006	2005	2004
Assets			
Current assets	$ 5,173,588	$ 4,735,839	$ 2,878,604
Noncurrent cash and investments	778,029	776,592	894,747
Capital assets, net	5,840,849	4,869,387	4,924,663
Other assets	23,592	41,541	59,761
Total assets	$ 11,816,058	$ 10,423,359	$ 8,757,775
Liabilities			
Total current liabilities	$ 2,213,179	$ 1,684,421	$ 1,675,344
Long-term debt, less current maturities	2,341,619	1,844,496	1,848,033
Total liabilities	4,554,798	3,528,917	3,523,377
Total net assets	7,261,260	6,894,442	5,234,398
Total liabilities and net assets	$ 11,816,058	$ 10,423,359	$ 8,757,775

Asset categories changing significantly during 2006 and 2005 included cash and cash equivalents and accounts receivable. Current assets increased by $437,749 or 9.2% in 2006 and increased by $1,857,235 or 64.5% in 2005. Net patient accounts receivable increased by $589,811 or 28.7% in 2006 and increased by $112,675 or 5.7% in 2005.

Liability categories changing significantly during 2006 and 2005 included accrued expenses, accounts payable, and estimated third-party payor settlements. Accrued expenses increased by $131,041 or 16.4% in 2006 and decreased by $270,685 or 25.4% in 2005. The estimated third-party payor settlements changed from a liability of $345,000 as of June 30, 2005 to an asset of $1,030,000 as of June 30, 2006.

The current ratio (current assets divided by current liabilities) for 2006 was 2.34 and 2005 was 2.81. It is a measure of liquidity, providing an indication of the Organization's ability to pay current liabilities; a high ratio number is preferred.

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

	2006	2005	2004
Operating revenue	$ 15,807,446	$ 14,404,743	$ 12,727,158
Operating expenses	15,544,313	12,971,744	12,314,733
Operating income	263,133	1,432,999	412,425
Nonoperating revenue	103,685	227,045	245,311
Increase in net assets	366,818	1,660,044	657,736
Net assets:			
Beginning	5,234,398	5,234,398	4,576,662
Ending	$ 5,601,216	$ 6,894,442	$ 5,234,398
Total revenue	$ 15,911,131	$ 14,631,788	$ 12,560,044

Net patient service revenue increased $1,361,638 or 9.5% in 2006 and increased $1,754,995 or 14.0% in 2005. To arrive at net patient service revenue, contractual adjustments and provisions for bad debt have been made to gross patient service revenue due to agreements with third-party payors and patients. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2006	2005	2004
Total patient service revenue	$ 23,020,632	$ 22,466,651	$ 20,186,374
Contractual adjustments and provisions for bad debt	(7,400,060)	(8,207,717)	(7,682,435)
Net patient service revenue	$ 15,620,572	$ 14,258,934	$ 12,503,939
Contractual adjustments and provisions for bad debt as a percent of revenue	32.15%	36.53%	38.06%

Total operating expenses increased $2,572,569 or 19.8% in 2006 and increased $657,011 or 5.3% in 2005. 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 a positive 1.7% in 2006 down from a positive operating margin of 9.9% in 2005. Operating income in 2006 was $263,133 compared to operating income of $1,432,999 in 2005.

Other operating revenue made up 1.2% of total operating revenue in 2006 and 1.0% in 2005. Table 4 shows the detail for this line item.

Table 4: Other Revenue

	2006	2005	2004
Lifeline, net	$ 11,806	$ (4,084)	$ (461)
Dietary	3,169	5,732	4,642
Employee meals	47,175	48,012	40,980
Meals on wheels and congregate meals	46,946	68,194	78,784
Wellness program	5,410	5,293	5,037
Medical records transcripts	5,652	4,969	3,216
Rental income and other miscellaneous	66,716	17,693	91,021
Total other revenue	$ 186,874	$ 145,809	$ 223,219

Organization Statistical Data

Table 5 shows the Organization's statistical data.

Table 5: Statistical Data

	2006	2005	2004
Patient days:			
Acute	2,098	2,028	1,914
Swing bed	979	1,040	755
Total	3,077	3,068	2,669
Admissions:			
Acute	608	697	668
Swing bed	191	150	93
Total	799	847	761
Discharges:			
Acute	581	665	671
Swing bed	190	151	94
Total	771	816	765
Average length of stay, acute	3.4	2.9	2.9
Beds, acute and swing	25	25	25
Occupancy percentage, acute and swing, based on 25 beds	33.7%	33.6%	29.2%

The Organization's Cash Flows

The Organization experienced negative cash flow from operations of approximately $324,000 in 2006 compared to positive cash flow from operations of approximately $1,828,000 in 2005. The change in cash flows from operations is primarily due to the increase in patient accounts receivable and the loss from operations.

Capital Assets

As of June 30, 2006 and 2005 the Organization had $5,840,849 and $4,869,387, respectively, invested in capital assets net of accumulated depreciation. In 2006 the Organization had $1,671,255 of capital asset additions primarily related to acquisitions of equipment with capital lease obligations. This was offset by depreciation of $699,793.

Long-Term Debt

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

Table 6: Long-Term Debt

	2006	2005	2004
Hospital revenue bonds, Series 1997A	$ 505,014	$ 575,324	$ 643,157
Hospital revenue bonds, Series 1997B	866,407	968,245	1,066,447
Obligations under capital lease	1,629,561	646,732	399,246
Total long-term debt	$ 3,000,982	$ 2,190,301	$ 2,108,850

Approximately $1,371,000 of the outstanding long-term debt held by the Organization consists of 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. The Organization also has incurred capital lease obligations totaling approximately $1,630,000 which are due in monthly installments of principal and interest and mature on various dates and are secured by equipment.

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 $1,280,246 or 8.81%.
- The Organization's total operating expenses were over budget by $689,063 or 4.64%.

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 a decline in its operating margin in 2006 as compared to 2005. This decline was expected, and as such, was reflected in the annual operating budget. The majority of the decline resulted from significant changes made to the wage and benefit program which were necessary to remain competitive. These changes, as well as the acquisition of CFP (a physician practice clinic), had a major impact on the bottom line.

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 Health Center, 17th and Wells Streets, Clarinda, Iowa 51632.

Clarinda Regional Health Center
and Combined Affiliate

Combined Balance Sheets
June 30, 2006 and 2005

Assets	2006	2005
Current Assets:		
Cash and cash equivalents	$ 425,887	$ 1,709,659
Investments	412,454	335,420
Assets limited as to use, restricted by bond agreement	179,468	171,885
Receivables:		
Patient, net	2,648,154	2,058,343
Other	39,887	36,424
Inventories	394,404	378,234
Prepaid expenses	43,334	45,874
Estimated third-party payor settlements	1,030,000	-
Total current assets	5,173,588	4,735,839
Assets Limited as to Use:		
Restricted by bond agreement	678,369	677,734
Board-designated for health insurance	99,660	98,858
	778,029	776,592
Capital Assets:		
Nondepreciable	79,460	2,750
Depreciable, net	5,761,389	4,866,637
	5,840,849	4,869,387
Other Assets:		
Employee and physician advances	12,842	38,541
Other assets	10,750	3,000
	23,592	41,541
	$ 11,816,058	$ 10,423,359

See Notes to Combined Basic Financial Statements.

Liabilities and Net Assets		2006		2005
Current Liabilities:				
Current maturities of long-term debt	$	659,363	$	345,805
Accounts payable		626,040		196,881
Accrued expenses:				
Salaries, wages and payroll taxes		366,423		392,738
Paid leave		394,339		292,527
Health insurance claims		155,000		100,000
Other		12,014		11,470
Estimated third-party payor settlements		-		345,000
Total current liabilities		2,213,179		1,684,421
Long-Term Debt, less current maturities		2,341,619		1,844,496
Total liabilities		4,554,798		3,528,917
Commitments and Contingencies (Note 9)				
Net Assets:				
Invested in capital assets, net of related debt		2,839,867		2,679,086
Restricted by bond agreement		857,837		849,619
Unrestricted		3,563,556		3,365,737
		7,261,260		6,894,442
	$	11,816,058	$	10,423,359

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Revenue, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

	2006	2005
Operating revenue:		
Net patient service revenue	$ 15,620,572	$ 14,258,934
Other revenue	186,874	145,809
Total revenue	15,807,446	14,404,743
Expenses:		
Salaries and wages	6,969,250	5,441,584
Employee benefits	1,670,044	1,436,364
Supplies	2,133,696	1,759,891
Medical professional fees	792,898	610,008
Other costs	2,568,935	2,583,052
Utilities	188,608	148,101
Insurance	150,025	176,409
Leases and rentals	262,202	234,164
Depreciation and amortization	701,349	470,292
Interest	107,306	111,879
Total expenses	15,544,313	12,971,744
Operating income	263,133	1,432,999
Nonoperating gains:		
Investment income	53,947	31,728
Contributions	49,738	195,317
Net nonoperating income	103,685	227,045
Change in net assets	366,818	1,660,044
Net assets:		
Beginning	6,894,442	5,234,398
Ending	$ 7,261,260	$ 6,894,442

See Notes to Combined Basic Financial Statements.

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Cash Flows
Years Ended June 30, 2006 and 2005

	2006	2005
Cash Flows from Operating Activities:		
Cash received from patients and third parties	$ 13,655,761	$ 14,525,068
Cash paid to employees	(8,563,797)	(7,147,438)
Cash paid to suppliers	(5,599,598)	(5,681,474)
Other receipts and payments, net	183,411	131,973
Net cash provided by (used in) operating activities	(324,223)	1,828,129
Cash Flows Provided by Noncapital Financing Activities, contributions	49,738	195,317
Cash Flows from Capital and Related Financing Activities:		
Interest paid on long-term debt	(107,306)	(111,879)
Acquisition of capital assets	(329,844)	(101,005)
Principal payments on long-term debt	(530,730)	(328,133)
Net cash (used in) capital and related financing activities	(967,880)	(541,017)
Cash Flows from Investing Activities:		
Net increase in investments and assets limited as to use	(86,054)	(242,877)
Investment income	53,947	31,728
Purchase of intangible assets	(9,300)	-
Net cash (used in) investing activities	(41,407)	(211,149)
Increase (decrease) in cash and cash equivalents	(1,283,772)	1,271,280
Cash and cash equivalents:		
Beginning	1,709,659	438,379
Ending	$ 425,887	$ 1,709,659

(Continued)

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Cash Flows (Continued)
Years Ended June 30, 2006 and 2005

	2006	2005
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	$ 263,133	$ 1,432,999
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Interest expense considered capital financing activity	107,306	111,879
Depreciation	699,793	470,292
Amortization	27,249	18,220
Loss on disposal of capital assets	-	95,573
(Increase) decrease in:		
Patient and other receivables, net	(593,274)	(112,675)
Inventories	(16,170)	(95,564)
Prepaid expenses	2,540	(36,657)
Increase (decrease) in:		
Accounts payable and accrued expenses	560,200	(420,911)
Estimated third-party payor settlements	(1,375,000)	364,973
Net cash provided by (used in) operating activities	$ (324,223)	$ 1,828,129
Noncash Capital and Related Financing Activities, capital lease obligation incurred for acquisition of capital assets	$ 1,341,411	$ 409,584

See Notes to Combined Basic Financial Statements.

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 basic 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.

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.

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. The Foundation's investments include unit investments trusts (UIT) which are fixed portfolios of securities, held for a predetermined time where the Foundation has purchased units which represent an undivided ownership in the securities contained in the portfolio. The UIT's are priced at the end of each day, similar to mutual funds, based on market price of the underlying securities. 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, 2006 and 2005 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 payers, 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.

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 agreements), 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 $93,000 and $175,000 for the years ended June 30, 2006 and 2005, 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 $702,000 and $828,000 for the years ended June 30, 2006 and 2005, 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.

Note 2. Net Patient Service Revenue

Approximately 70% 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 reimbursed for inpatient, outpatient, swing-bed and rural health clinic services based on a reasonable cost methodology at a tentative rate with final settlement determined after submission of annual cost reports and audit or review by the third-party Medicare fiscal intermediary. Home health services are reimbursed based on prospective payment rates which vary according to a patient classification system that is based on clinical, diagnostic and other factors.

The Organization's Medicare cost reports have been finalized by the Medicare fiscal intermediary through June 30, 2004.

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, outpatient, swing-bed, home health and rural health clinic services, with final settlements determined after submission of annual cost reports and audit or review by the third-party Medicaid fiscal intermediary. The Organization's cost reports have been finalized by the Medicaid intermediary through June 30, 2003.

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, 2006 and 2005 is as follows:

	2006	2005
Gross patient service revenue	$ 23,020,632	$ 22,466,651
Less:		
Provision for bad debts	704,393	478,211
Discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs	6,695,667	7,729,506
Net patient service revenue	$ 15,620,572	$ 14,258,934

Contractual adjustment expense for the year ended June 30, 2006 includes the effect of a change in the estimate of the amount due to third-party payors. The effect of this change in estimate is a decrease in contractual adjustment expense of approximately $170,000 for the year ended June 30, 2006. The change in estimate is the result of retroactive adjustments based on the final settlements of prior years' cost reports.

Note 3. Patient Receivables

Patient receivables reported as current assets by the Organization as of June 30, 2006 and 2005 consisted of the following:

	2006	2005
Patients	$ 4,481,154	$ 3,397,227
Less:		
Allowance for doubtful accounts	750,000	596,734
Estimated third-party contractual adjustments	1,083,000	742,150
	$ 2,648,154	$ 2,058,343

Note 4. Cash and Investments

The Health Center has no investments as of June 30, 2006. As of June 30, 2006, the Foundation has the following investments:

	Maturities	Fair Value
Investment:		
First Trust NASDAQ Target 15	N/A	$ 36,870
First Trust NYSE International	N/A	46,783
First Trust Dow Target	N/A	35,964
First Trust Value Line	N/A	41,070
Mutual funds	N/A	189,746
Certificates of deposit	Various	55,511
Accrued interest	N/A	6,510
		$ 412,454

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 mutual funds and unit investment trusts held by the Organization as of June 30, 2006 are not rated by a nationally recognized statistical rating organization.

Note 4. Cash and Investments (Continued)

Concentration of credit risk: The Foundation places no limit on the amount the Foundation may invest in any one issuer. The Foundation has investments of $412,454 as of June 30, 2006 of which approximately 39% consists of unit investment trusts offered by First Trust Portfolios. The remaining investments consist of mutual funds and certificates of deposit.

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, 2006, 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, 2006 and 2005 consist of the following:

	2006	2005
Cash	$ 532,025	$ 1,815,739
Certificates of deposit	913,380	849,652
Equity securities	160,687	155,184
Mutual funds	189,746	172,981
	$ 1,795,838	$ 2,993,556

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

	2006	2005
Cash and cash equivalents	$ 425,887	$ 1,709,659
Investments	412,454	335,420
Assets limited as to use, restricted by bond agreement	179,468	171,885
Noncurrent cash and investments:		
Restricted by bond agreement	678,369	677,734
Internally designated for health insurance	99,660	98,858
	$ 1,795,838	$ 2,993,556

Note 5. Capital Assets

Activity in capital assets and accumulated depreciation for the years ended June 30, 2006 and 2005 are as follows:

	June 30, 2005	Additions	Transfers and Disposals	June 30, 2006
Capital assets not being depreciated:				
Land	$ 2,750	$ 59,000	$ -	$ 61,750
Construction in progress	-	17,710	-	17,710
Total capital assets not being depreciated	2,750	76,710	-	79,460
Capital assets being depreciated:				
Land improvements	220,633	-	-	220,633
Building	6,426,819	30,215	-	6,457,034
Fixed equipment	779,148	-	-	779,148
Movable equipment	2,738,357	1,564,330	-	4,302,687
Total capital assets being depreciated	10,164,957	1,594,545	-	11,759,502
Less accumulated depreciation for:				
Land improvements	118,899	13,462	-	132,361
Building	2,775,396	186,701	-	2,962,097
Fixed equipment	487,727	79,299	-	567,026
Movable equipment	1,916,298	420,331	-	2,336,629
Total accumulated depreciation	5,298,320	699,793	-	5,998,113
Total capital assets being depreciated, net	4,866,637	894,752	-	5,761,389
Capital assets, net	$ 4,869,387	$ 971,462	$ -	$ 5,840,849

Note 5. Capital Assets (Continued)

	June 30, 2004	Additions	Transfers and Disposals	June 30, 2005
Capital assets not being depreciated:				
Land	$ 2,750	$ -	$ -	$ 2,750
Construction in progress	89,085	-	(89,085)	-
Total capital assets not being depreciated	91,835	-	(89,085)	2,750
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
Total capital assets being depreciated	11,895,465	599,674	(2,330,182)	10,164,957
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
Total accumulated depreciation	7,062,637	470,292	(2,234,609)	5,298,320
Total capital assets being depreciated, net	4,832,828	129,382	(95,573)	4,866,637
Capital assets, net	$ 4,924,663	$ 129,382	$ (184,658)	$ 4,869,387

Note 6. Long-Term Debt

Long-term debt activity as of and for the years ended June 30, 2006 and 2005 is as follows:

	June 30, 2005	Borrowings	Payments	June 30, 2006	Due Within One Year
1997 Hospital Revenue Bonds, Series A (A)	$ 575,324	$ -	$ (70,310)	$ 505,014	$ 72,847
1997 Hospital Revenue Bonds, Series B (A)	968,245	-	(101,838)	866,407	105,359
Capital lease obligations (B)	646,732	1,341,411	(358,582)	1,629,561	481,157
	$ 2,190,301	$ 1,341,411	$ (530,730)	$ 3,000,982	$ 659,363

	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 (A)	1,066,447	-	(98,202)	968,245	101,878
Capital lease obligations (B)	399,246	409,584	(162,098)	646,732	173,920
	$ 2,108,850	$ 409,584	$ (328,133)	$ 2,190,301	$ 345,805

(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, 2006, 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, 2006, 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 December 27, 2006.

(B) The Health Center leases certain equipment under capital lease arrangements. Leases require monthly payments of principal and interest at rates ranging from 4.52% to 8.00%. Leases are secured by equipment.

Note 6. Long-Term Debt (Continued)

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

	Hospital Revenue Bonds		Capital Lease Obligations		
	Principal	Interest	Principal	Interest	Total
Year ending June 30:					
2007	$ 178,206	$ 48,197	$ 481,157	$ 50,813	$ 758,373
2008	183,062	41,537	440,617	35,644	700,860
2009	194,196	34,502	376,073	25,397	630,168
2010	199,488	26,698	238,105	10,627	474,918
2011	207,094	19,536	93,609	1,079	321,318
2012 to 2015	409,375	16,276	-	-	425,651
	$ 1,371,421	$ 186,746	$ 1,629,561	$ 123,560	$ 3,311,288

The following is the leased equipment by major class as of June 30, 2006 and 2005:

	2006	2005
Moveable equipment	$ 1,708,658	$ 1,013,353
Less accumulated depreciation	505,799	342,188
	$ 1,202,859	$ 671,165

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, 2006, 2005 and 2004 were approximately $391,000, $387,000 and $305,300, 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 $184,000 and $185,000 for the years ended June 30, 2006 and 2005, respectively.

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, 2006. 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 insurance expense totaled approximately $109,000 and $76,000 for the years ended June 30, 2006 and 2005, respectively. 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, 2006 and 2005. The Organization has recorded a current liability for open claims and claims incurred but not reported.

	2006	2005
Balance, beginning	$ 100,000	$ 110,521
Claims expense	665,591	585,636
Claims payment	(610,591)	(596,157)
Balance, ending	$ 155,000	$ 100,000

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.

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

The Organization adopted Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* Statement No. 46, *Net Assets Restricted by Enabling Legislation,* and Statement No. 47, *Accounting for Termination Benefits,* during the year ended June 30, 2006. The adoption of these Statements had no effect on the net assets of the Organization.

The GASB has also issued several Statements not yet implemented by the Organization. The Statements are as follows:

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. 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 starting with the Organization's year ending June 30, 2008.

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 the 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.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, issued September 2006, will be effective for the Organization beginning with its year ending June 30, 2008. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenue. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition, this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenue.

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

Clarinda Regional Health Center
and Combined Affiliate

Required Supplementary Information, Budget and Budgetary Accounting
Year Ended June 30, 2006

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, 2006:

GAAP Expenses	Adjustments to Budgetary Basis	Budgetary Basis	Adopted Budget
$ 15,544,313	$ 1,235,963	$ 14,308,350	$ 14,855,250

Clarinda Regional Health Center
and Combined Affiliate

Net Patient Service Revenue
Years Ended June 30, 2006 and 2005

	Total 2006	Total 2005
Routine services:		
Medical and surgical	$ 1,428,228	$ 1,373,966
Obstetric	-	8,250
Nursery	-	5,137
	1,428,228	1,387,353
Other nursing services:		
Operating room	1,720,515	1,279,750
Recovery room	28,518	114,895
Delivery room	-	5,404
Emergency room	1,221,105	1,073,259
Home health agency	318,100	270,501
	3,288,238	2,743,809
Other professional services:		
Ambulance	676,960	807,221
Anesthesiology	433,875	335,148
Blood service	48,952	86,637
Cardiac rehabilitation	422,573	413,599
Central service and supply	82	106,230
Clinic	423,993	666,608
CT scan	2,046,094	2,036,778
Electrocardiology	105,151	260,510
Inhalation therapy	908,484	1,106,121
Intravenous therapy	123,240	278,306
Laboratory	3,348,000	3,109,845
Nuclear medicine	265,076	453,709
Occupational therapy	178,224	194,901
Pharmacy	3,614,410	3,248,950
Physical therapy	674,661	508,519
Radiology	2,131,862	2,391,141
Speech therapy	6,222	13,063
Ultrasound	268,195	303,556
Villisca Rural Health Clinic	187,283	274,587
Clarinda Medical Associates	2,533,977	1,914,600
	18,397,314	18,510,029
Patient service revenue	23,113,780	22,641,191
Less charity care	93,148	174,540
	23,020,632	22,466,651
Less contractual adjustments and bad debts	7,400,060	8,207,717
Net patient service revenue	$ 15,620,572	$ 14,258,934

Inpatient		Outpatient	
2006	2005	2006	2005
$ 1,280,319	$ 1,249,037	$ 147,909	$ 124,929
-	8,250	-	-
-	5,060	-	77
1,280,319	1,262,347	147,909	125,006
440,433	254,007	1,280,082	1,025,743
1,752	9,793	26,766	105,102
-	4,272	-	1,132
37,796	322,387	1,183,309	750,872
-	-	318,100	270,501
479,981	590,459	2,808,257	2,153,350
-	-	676,960	807,221
61,485	51,887	372,390	283,261
33,499	47,875	15,453	38,762
43,301	50,099	379,272	363,500
40	45,593	42	60,637
135	349,187	423,858	317,421
267,442	359,199	1,778,652	1,677,579
12,159	35,222	92,992	225,288
701,185	869,438	207,299	236,683
764	200,977	122,476	77,329
338,517	439,552	3,009,483	2,670,293
6,428	1,190	258,648	452,519
60,424	65,470	117,800	129,431
1,138,551	1,057,567	2,475,859	2,191,383
84,169	71,820	590,492	436,699
139,952	182,664	1,991,910	2,208,477
2,125	7,752	4,097	5,311
21,318	25,178	246,877	278,378
-	-	187,283	274,587
-	-	2,533,977	1,914,600
2,911,494	3,860,670	15,485,820	14,649,359
$ 4,671,794	$ 5,713,476	$ 18,441,986	$ 16,927,715

Clarinda Regional Health Center
and Combined Affiliate

Adjustments to Patient Service Revenue and Other Revenue
Years Ended June 30, 2006 and 2005

	2006	2005
Adjustments to patient service revenue:		
Medicare	$ 4,390,116	$ 5,424,514
Medicaid	701,760	828,009
Other	1,603,791	1,476,983
Provision for bad debts	704,393	478,211
Total contractual adjustments and bad debts	$ 7,400,060	$ 8,207,717
Other revenue (expense):		
Lifeline, net	$ 11,806	$ (4,084)
Dietary	3,169	5,732
Employee meals	47,175	48,012
Meals on wheels and congregate meals	46,946	68,194
Wellness program	5,410	5,293
Medical records transcripts	5,652	4,969
Rental income and other miscellaneous	66,716	17,693
Total other revenue	$ 186,874	$ 145,809

Clarinda Regional Health Center
and Combined Affiliate

Operating Expenses
Years Ended June 30, 2006 and 2005

	Total	
	2006	2005
Nursing services:		
Nursing administration	$ 70,336	$ 65,776
Routine care	1,238,526	918,370
Obstetric	-	13,509
Operating room	539,237	492,240
Emergency room	683,262	337,907
Home health agency	276,330	275,622
	2,807,691	2,103,424
Other professional services:		
Ambulance	153,101	318,585
Anesthesiology	3,444	10,641
Cardiac rehabilitation	84,410	86,934
Central service and supply	83,594	93,117
Clinic	186,499	140,646
CT scan	25,213	134,915
Electrocardiology	6,823	4,896
Inhalation therapy	187,316	201,567
Laboratory	842,510	721,875
Nuclear medicine	109,105	150,232
Occupational therapy	1,402	1,480
Pharmacy	1,462,745	1,048,297
Physical therapy	69,427	57,458
Radiology	554,894	576,559
Speech therapy	-	107
Ultrasound	103,505	100,775
Clarinda Medical Associates	1,525,580	828,419
Villisca Rural Health Clinic	197,020	210,929
Wellness	4,362	5,371
	$ 5,600,950	$ 4,692,803

Salaries				Other			
2006		2005		2006		2005	
$	69,661	$	63,497	$	675	$	2,279
	1,000,140		773,730		238,386		144,640
	-		2,343		-		11,166
	379,441		313,244		159,796		178,996
	639,824		287,350		43,438		50,557
	224,852		209,835		51,478		65,787
	2,313,918		1,649,999		493,773		453,425
	88,933		268,869		64,168		49,716
	-		6,290		3,444		4,351
	67,909		61,390		16,501		25,544
	66,043		58,287		17,551		34,830
	166,033		108,620		20,466		32,026
	-		-		25,213		134,915
	4,356		2,625		2,467		2,271
	134,709		121,699		52,607		79,868
	280,292		255,783		562,218		466,092
	-		-		109,105		150,232
	-		-		1,402		1,480
	115,157		96,788		1,347,588		951,509
	56,344		52,947		13,083		4,511
	290,212		292,938		264,682		283,621
	-		-		-		107
	55,241		45,513		48,264		55,262
	1,525,580		828,419		-		-
	168,950		170,438		28,070		40,491
	36		703		4,326		4,668
$	3,019,795	$	2,371,309	$	2,581,155	$	2,321,494

(Continued)

Clarinda Regional Health Center
and Combined Affiliate

Operating Expenses (Continued)
Years Ended June 30, 2006 and 2005

	Total	
	2006	2005
General services:		
Dietary	$ 440,739	$ 452,493
Operation of plant	394,155	368,708
Clarinda Medical Foundation	46,943	41,131
Housekeeping	248,334	223,308
	1,130,171	1,085,640
Administrative services:		
Medical records	326,993	237,921
Social services	41,677	36,655
Administration	1,472,071	1,502,762
Community relations	125,840	93,336
Quality improvement	90,840	64,714
Clarinda Medical Association	240,602	162,911
Data processing	435,881	363,035
	2,733,904	2,461,334
Employee benefits	1,670,044	1,436,364
Medical professional fees	792,898	610,008
Depreciation and amortization	701,349	470,292
Interest	107,306	111,879
	$ 15,544,313	$ 12,971,744

Salaries		Other	
2006	2005	2006	2005
$ 269,775	$ 268,617	$ 170,964	$ 183,876
138,558	132,823	255,597	235,885
33,965	33,670	12,978	7,461
145,767	113,631	102,567	109,677
588,065	548,741	542,106	536,899
267,402	191,689	59,591	46,232
35,995	35,106	5,682	1,549
573,534	469,897	898,537	1,032,865
39,513	38,660	86,327	54,676
91,840	55,073	(1,000)	9,641
-	-	240,602	162,911
39,188	81,110	396,693	281,925
1,047,472	871,535	1,686,432	1,589,799
-	-	1,670,044	1,436,364
-	-	792,898	610,008
-	-	701,349	470,292
-	-	107,306	111,879
$ 6,969,250	$ 5,441,584	$ 8,575,063	$ 7,530,160

Clarinda Regional Health Center
and Combined Affiliate

Aging Analysis of Accounts Receivable from Patients and Allowance for Doubtful Accounts
Years Ended June 30, 2006 and 2005

Aging Analysis of Accounts Receivable (by Date of Discharge)	2006 Amount	2006 Percent	2005 Amount	2005 Percent
1-30 days, includes patients in Hospital June 30	$ 1,837,883	42%	$ 2,070,226	62%
30-60 days	720,897	16	426,369	13
61-90 days	402,348	9	216,489	6
91-120 days	197,447	4	176,975	5
121 days and over	1,302,731	29	461,198	14
	4,461,306	100%	3,351,257	100%
Home health and other	19,848		45,970	
Total accounts receivable	4,481,154		3,397,227	
Less allowance for contractual adjustments	1,083,000		742,150	
Less allowance for doubtful accounts	750,000		596,734	
	$ 2,648,154		$ 2,058,343	
Net patient service revenue per calendar day, excludes bad debt	$ 42,796		$ 40,855	
Days of net patient service, revenue in accounts receivable at year-end	62		50	

Allowance for Doubtful Accounts	2006 Amount	2006 Percent of Net Patient Service Revenue	2005 Amount	2005 Percent of Net Patient Service Revenue
Beginning balance	$ 596,734		$ 714,737	
Add:				
Provision for bad debts	704,393	4.51%	478,211	3.35%
Recoveries previously written off	132,896	0.88	176,832	1.24
	1,434,023		1,369,780	
Deduct accounts written off	684,023	(4.54)	773,046	(5.42)
Balance ending	$ 750,000		$ 596,734	

Clarinda Regional Health Center
and Combined Affiliate

Inventories and Prepaid Expenses
June 30, 2006 and 2005

	2006	2005
Inventories:		
General	$ 135,377	$ 148,060
Pharmacy	238,364	214,592
Dietary	10,664	8,373
Office supplies	9,999	7,209
	$ 394,404	$ 378,234
Prepaid expenses:		
Insurance	$ 18,399	$ 26,720
Maintenance and other	24,935	19,154
	$ 43,334	$ 45,874

Clarinda Regional Health Center
and Combined Affiliate

Schedule of Insurance
Year Ended June 30, 2006
(Unaudited)

Coverage Type	Coverage Period		Coverage Amount
Property, including rental dwellings	6/1/06 thru 5/31/07	$	18,215,000
General liability	6/1/06 thru 5/31/07		1,000,000/3,000,000
Professional	6/1/06 thru 5/31/07		1,000,000/3,000,000
Automobile	6/1/06 thru 5/31/07		1,000,000
Directors and officers liability	6/1/06 thru 6/30/07		3,000,000/3,000,000
Umbrella, excess liability	6/1/06 thru 5/31/07		3,000,000
Workers' compensation	4/1/06 thru 3/31/07		500,000/500,000

Clarinda Regional Health Center
and Combined Affiliate

Comparative Statistics
Years Ended June 30, 2006 and 2005
(Unaudited)

	2006	2005
Acute:		
Admissions	608	697
Discharges	581	665
Patient days	2,098	2,028
Average length of stay	3.4	2.9
Swing bed:		
Admissions	191	150
Discharges	190	151
Patient days	979	1,040

Clarinda Regional Health Center
and Combined Affiliate

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2006

Current Number	Comment	Status
Reportable conditions in internal control:		
05-I-A	The Health Center does not have adequate segregation of duties needed for an effective system of internal accounting control over the payroll cycle.	Corrected.
05-I-B	The Health Center does not have adequate segregation of duties needed for an effective system of internal accounting control over the accounts payable cycle.	Corrected.
05-I-C	The Health Center does not have adequate segregation of duties needed for an effective system of internal accounting control over the purchasing cycle.	Uncorrected, see 06-I-A for current year finding.
05-I-D	The Health Center has several balance sheet accounts that are not properly reconciled on a monthly basis.	Corrected.
Other findings related to required statutory reporting:		
04-II-1, 05-II-A	A resolution of official depository banks has not been adopted and approved by the Board of Trustees.	Uncorrected, see 06-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, 2006, and have issued our report thereon dated September 22, 2006, except for Item (A) in Note 6 as to which the date is December 27, 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 those 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 financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 financial statements. The reportable condition is described in the accompanying schedule of findings and responses as item 06-I-A.

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 believe the reportable condition described above is not a material weakness.

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 22, 2006.

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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 misstatements, 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, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the combined 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 22, 2006

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

(A) Reportable Conditions in Internal Control

06-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 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. Beginning in March 2006, a department head and member of senior staff are required to approve and sign each purchase order.

(B) Compliance Findings

None reported.

II. Other Findings Related to Required Statutory Reporting

06-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.

06-IV-B – Certified Budget: Disbursements during the year ended June 30, 2006 exceeded the amount budgeted by approximately $689,000.

06-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.

06-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.

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

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

06-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 have not adopted a formal investment policy.

06-II-H – Certification of Self-Insurance Plans: No instances of noncompliance were noted in relation to the certification of self-insurance plans provision of the Code of Iowa.