Clarinda Regional Health Center and Combined Affiliate

Combined Financial Report

06.30.2007

McGladrey & Pullen
Certified Public Accountants

Contents

Clarinda Regional Health Center
and Combined Affiliate

Board of Trustees
Year Ended June 30, 2007

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 sheets 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, 2007 and 2006, 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, 2007 and 2006, and the results of their operations and their cash flows for the years 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 November 26, 2007, 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 30 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 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, 2007 and 2006 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
November 26, 2007

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, 2007. 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, 2007 and 2006 Independent Auditor's Report includes audited financial statements that include:

- Combined balance sheets
- Combined statements of revenue, expenses and changes in net assets
- Combined statements of cash flows
- Notes to combined basic financial statements

Financial Highlights

- The Organization's total assets increased by $1,220,790 or 10.3% in 2007 and increased by $1,392,699 or 13.4% in 2006.
- The Organization's net assets increased by $1,723,939 or 23.7% in 2007 and increased by $366,818 or 5.3% in 2006.
- The Organization reported an operating gain of $1,338,211 in 2007 and an operating gain of $263,133 in 2006.

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

These financial statements report information about Clarinda Regional Health Center 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

	2007	2006	2005
Assets			
Current assets	$ 7,137,913	$ 5,173,588	$ 4,735,839
Noncurrent cash and investments	416,403	778,029	776,592
Capital assets, net	5,467,385	5,840,849	4,869,387
Other assets	15,147	23,592	41,541
Total assets	$ 13,036,848	$ 11,816,058	$ 10,423,359
Liabilities			
Total current liabilities	$ 2,191,264	$ 2,213,179	$ 1,684,421
Long-term debt, less current maturities	1,860,385	2,341,619	1,844,496
Total liabilities	4,051,649	4,554,798	3,528,917
Total net assets	8,985,199	7,261,260	6,894,442
Total liabilities and net assets	$ 13,036,848	$ 11,816,058	$ 10,423,359

Asset categories changing significantly during 2007 and 2006 included cash and cash equivalents, accounts receivable, and estimated third-party payor settlements. Current assets increased by $1,964,325 or 38% in 2007 and increased by $437,749 or 9.2% in 2006. Net patient accounts receivable decreased by $183,492 or 6.9% in 2007 and increased by $589,811 or 28.7% in 2006.

Liability categories changing significantly during 2007 and 2006 included accrued expenses and accounts payable. Accrued expenses increased by $217,401 or 23.4% in 2007 and increased by $131,041 or 16.4% in 2006. 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 and an asset of $430,000 as of June 30, 2007.

The current ratio (current assets divided by current liabilities) for 2007 was 3.26 and 2006 was 2.34. 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

	2007	2006	2005
Operating revenue	$ 18,113,403	$ 15,807,446	$ 14,404,743
Operating expenses	16,775,192	15,544,313	12,971,744
Operating income	1,338,211	263,133	1,432,999
Nonoperating revenue	385,728	103,685	227,045
Increase in net assets	1,723,939	366,818	1,660,044
Net assets:			
Beginning	7,261,260	6,894,442	5,234,398
Ending	$ 8,985,199	$ 7,261,260	$ 6,894,442
Total revenue	$ 18,499,131	$ 15,911,131	$ 14,631,788

Net patient service revenue increased $2,318,139 or 14.8% in 2007 and increased $1,361,638 or 9.5% in 2006. 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

	2007	2006	2005
Total patient service revenue	$ 26,506,478	$ 23,020,632	$ 22,466,651
Contractual adjustments and provisions for bad debt	(8,567,767)	(7,400,060)	(8,207,717)
Net patient service revenue	$ 17,938,711	$ 15,620,572	$ 14,258,934
Contractual adjustments and provisions for bad debt as a percent of revenue	32.32%	32.15%	36.53%

Total operating expenses increase by $1,230,879 or 7.9% in 2007 and increased $2,572,569 or 19.8% in 2006. The operating expenses are broken by department on the schedules of operating expenses on pages 34 to 37 of the combined financial report.

The operating margin (total operating revenue less total operating expenses divided by total operating revenue) was a positive 7.4% in 2007 up from a positive operating margin of 1.7% in 2006. Operating income in 2007 was $1,338,211 compared to operating income of $263,133 in 2006.

Other operating revenue made up 1.0% of total operating revenue in 2007 and 1.2% of total operating revenue in 2006. Table 4 shows the detail for this line item.

Table 4: Other Revenue

	2007	2006	2005
Lifeline, net	$ 12,448	$ 11,806	$ (4,084)
Dietary	6,957	3,169	5,732
Employee meals	49,974	47,175	48,012
Meals on wheels and congregate meals	53,500	46,946	68,194
Wellness program	5,125	5,410	5,293
Medical records transcripts	7,730	5,652	4,969
Rental income and other miscellaneous	38,958	66,716	17,693
Total other revenue	$ 174,692	$ 186,874	$ 145,809

Organization Statistical Data

Table 5 shows the Organization's statistical data.

Table 5: Statistical Data

	2007	2006	2005
Patient days:			
Acute	1,511	2,098	2,028
Swing bed	998	979	1,040
Total	2,509	3,077	3,068
Admissions:			
Acute	558	608	697
Swing bed	176	191	150
Total	734	799	847
Discharges:			
Acute	526	581	665
Swing bed	176	190	151
Total	702	771	816
Average length of stay, acute	2.6	3.4	2.9
Beds, acute and swing	25	25	25
Occupancy percentage, acute and swing, based on 25 beds	27.5%	33.7%	33.6%

The Organization's Cash Flows

The Organization experienced positive cash flows from operations of approximately $2,964,000 in 2007 compared to negative cash flow from operations of approximately $324,000 in 2006. The change in cash flows from operations is primarily due to the decreases in patient accounts receivable and estimated third-party payor settlements along with an increase in income from operations.

Capital Assets

As of June 30, 2007 and 2006 the Organization had $5,467,385 and $5,840,849, respectively, invested in capital assets net of accumulated depreciation. In 2007 the Organization had $431,717 of capital asset additions offset by depreciation of $805,181.

Long-Term Debt

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

Table 6: Long-Term Debt

	2007	2006	2005
Hospital revenue bonds, Series 1997A	$ 432,275	$ 505,014	$ 575,324
Hospital revenue bonds, Series 1997B	754,896	866,407	968,245
Obligations under capital lease	1,323,100	1,629,561	646,732
Total long-term debt	$ 2,510,271	$ 3,000,982	$ 2,190,301

Approximately $1,187,000 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 $1,323,000 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 $1,034,903 or 6.1%.
- The Organization's total operating expenses exceeded budget by $603,885 or 1.7%.

Economic Factors

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

The Organization has experienced a significant increase in its operating margin in 2007 as compared to 2006. The majority of the increase resulted from higher than expected outpatient utilization, as well as higher Medicare usage percentages resulting in lower than expected contractual adjustments.

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, 2007 and 2006

Assets	2007	2006
Current Assets:		
Cash and cash equivalents	$ 1,243,938	$ 425,887
Certificates of deposits	1,685,202	62,021
Investments	592,317	350,433
Assets limited as to use, restricted by bond agreement	184,155	179,468
Receivables:		
Patient, net	2,464,662	2,648,154
Other	66,114	39,887
Inventories	428,930	394,404
Prepaid expenses	42,595	43,334
Estimated third-party payor settlements	430,000	1,030,000
Total current assets	7,137,913	5,173,588
Assets Limited as to Use:		
Restricted by bond agreement	315,845	678,369
Board-designated for health insurance	100,558	99,660
	416,403	778,029
Capital Assets:		
Nondepreciable	139,460	79,460
Depreciable, net	5,327,925	5,761,389
	5,467,385	5,840,849
Other Assets:		
Employee and physician advances	7,497	12,842
Other assets	7,650	10,750
	15,147	23,592
	$ 13,036,848	$ 11,816,058

See Notes to Combined Basic Financial Statements.

Liabilities and Net Assets	2007	2006
Current Liabilities:		
Current maturities of long-term debt	$ 649,886	$ 659,363
Accounts payable	396,201	626,040
Accrued expenses:		
Salaries, wages and payroll taxes	498,022	366,423
Paid leave	443,405	394,339
Health insurance claims	200,050	155,000
Other	3,700	12,014
Total current liabilities	2,191,264	2,213,179
Long-Term Debt, less current maturities	1,860,385	2,341,619
Total liabilities	4,051,649	4,554,798
Commitments and Contingencies (Note 9)		
Net Assets:		
Invested in capital assets, net of related debt	2,957,114	2,839,867
Restricted by bond agreement	500,000	857,837
Unrestricted	5,528,085	3,563,556
	8,985,199	7,261,260
	$ 13,036,848	$ 11,816,058

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Revenue, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	2007	2006
Operating revenue:		
Net patient service revenue	$ 17,938,711	$ 15,620,572
Other revenue	174,692	186,874
Total revenue	18,113,403	15,807,446
Expenses:		
Salaries and wages	7,487,608	6,969,250
Employee benefits	2,013,291	1,670,044
Supplies	2,216,482	2,133,696
Medical professional fees	871,096	792,898
Other costs	2,663,055	2,568,935
Utilities	178,022	188,608
Insurance	154,690	150,025
Leases and rentals	276,320	262,202
Depreciation and amortization	808,281	701,349
Interest	106,347	107,306
Total expenses	16,775,192	15,544,313
Operating income	1,338,211	263,133
Nonoperating income:		
Investment income	147,643	53,947
Contributions	231,614	49,738
Other	6,471	-
Net nonoperating income	385,728	103,685
Change in net assets	1,723,939	366,818
Net assets:		
Beginning	7,261,260	6,894,442
Ending	$ 8,985,199	$ 7,261,260

See Notes to Combined Basic Financial Statements.

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities:		
Cash received from patients and third parties	$ 18,722,203	$ 13,655,761
Cash paid to employees	(9,320,234)	(8,563,797)
Cash paid to suppliers	(6,586,555)	(5,599,598)
Other receipts and payments, net	148,465	183,411
Net cash provided by (used in) operating activities	2,963,879	(324,223)
Cash Flows Provided by Noncapital Financing Activities, contributions	231,614	49,738
Cash Flows from Capital and Related Financing Activities:		
Interest paid on long-term debt	(106,347)	(107,306)
Acquisition of capital assets	(274,102)	(329,844)
Principal payments on long-term debt	(648,326)	(530,730)
Net cash (used in) capital and related financing activities	(1,028,775)	(967,880)
Cash Flows from Investing Activities:		
Purchases of investments and assets limited as to use	(1,508,126)	(86,054)
Investment income	147,643	53,947
Purchase of intangible assets	-	(9,300)
Other	11,816	-
Net cash (used in) investing activities	(1,348,667)	(41,407)
Increase (decrease) in cash and cash equivalents	818,051	(1,283,772)
Cash and cash equivalents:		
Beginning	425,887	1,709,659
Ending	$ 1,243,938	$ 425,887

(Continued)

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Cash Flows (Continued)
Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Operating income	$ 1,338,211	$ 263,133
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Interest expense considered capital financing activity	106,347	107,306
Depreciation	805,181	699,793
Amortization	3,100	27,249
(Increase) decrease in:		
Patient and other receivables, net	157,265	(593,274)
Inventories	(34,526)	(16,170)
Prepaid expenses	739	2,540
Increase (decrease) in:		
Accounts payable and accrued expenses	(12,438)	560,200
Estimated third-party payor settlements	600,000	(1,375,000)
Net cash provided by (used in) operating activities	$ 2,963,879	$ (324,223)
Noncash Capital and Related Financing Activities, capital lease obligation incurred for acquisition of capital assets	$ 157,615	$ 1,341,411

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.

<u>Capital assets</u>: 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, 2007 and 2006 there was no interest capitalized on construction.

<u>Employee and physician advances</u>: 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.

<u>Net patient service revenue</u>: 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.

<u>Contributions</u>: 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.

<u>Investment earnings</u>: 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.

<u>Operating income</u>: 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 $106,000 and $93,000 for the years ended June 30, 2007 and 2006, 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 $672,000 and $702,000 for the years ended June 30, 2007 and 2006, 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 76% 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 Medicaid cost reports have been finalized by the Medicaid fiscal intermediary through June 30, 2004.

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, 2007 and 2006 is as follows:

	2007	2006
Gross patient service revenue	$ 26,506,478	$ 23,020,632
Less:		
Provision for bad debts	746,035	704,393
Discounts, allowances, and estimated contractual adjustments under third-party reimbursement programs	7,821,732	6,695,667
Net patient service revenue	$ 17,938,711	$ 15,620,572

Contractual adjustment expense for the years ended June 30, 2007 and 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 $20,000 and $170,000 for the years ended June 30, 2007 and 2006, respectively. 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, 2007 and 2006 consisted of the following:

	2007	2006
Patients	$ 4,022,131	$ 4,481,154
Less:		
Allowance for doubtful accounts	738,406	750,000
Estimated third-party contractual adjustments	819,063	1,083,000
	$ 2,464,662	$ 2,648,154

Note 4. Cash and Investments

The Health Center has no investments as of June 30, 2007. As of June 30, 2007, the Foundation has the following investments:

	Maturities	Fair Value
Investment:		
First Trust NASDAQ Target 15	N/A	$ 42,938
First Trust NYSE International Target 25	N/A	60,141
First Trust Dow Target	N/A	47,414
First Trust Value Line Target 25	N/A	47,911
First Trust Triad Target	N/A	4,665
First Trust Focus Four Target	N/A	4,673
Mutual funds	N/A	384,575
		$ 592,317

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.

Note 4. Cash and Investments (Continued)

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.

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 $2,277,520 as of June 30, 2007 of which approximately 9% 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, 2007, 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, 2007 and 2006 consist of the following:

	2007	2006
Cash	$ 1,352,037	$ 532,025
Certificates of deposit	2,177,660	913,380
Equity securities	207,743	160,687
Mutual funds	384,575	189,746
	$ 4,122,015	$ 1,795,838

Note 4. Cash and Investments (Continued)

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

	2007	2006
Cash and cash equivalents	$ 1,243,938	$ 425,887
Certificates of deposit	1,685,202	62,021
Investments	592,317	350,433
Assets limited as to use, restricted by bond agreement	184,155	179,468
Noncurrent cash and investments:		
Restricted by bond agreement	315,845	678,369
Internally designated for health insurance	100,558	99,660
	$ 4,122,015	$ 1,795,838

Note 5. Capital Assets

Activity in capital assets and accumulated depreciation for the years ended June 30, 2007 and 2006 are as follows:

	June 30, 2006	Additions	Transfers and Disposals	June 30, 2007
Capital assets not being depreciated:				
Land	$ 61,750	$ -	$ -	$ 61,750
Construction in progress	17,710	60,000	-	77,710
Total capital assets not being depreciated	79,460	60,000	-	139,460
Capital assets being depreciated:				
Land improvements	220,633	-	-	220,633
Building	6,457,034	7,417	-	6,464,451
Fixed equipment	779,148	-	-	779,148
Movable equipment	4,302,687	364,300	-	4,666,987
Total capital assets being depreciated	11,759,502	371,717	-	12,131,219
Less accumulated depreciation for:				
Land improvements	132,361	13,122	-	145,483
Building	2,962,097	184,068	-	3,146,165
Fixed equipment	567,026	75,078	-	642,104
Movable equipment	2,336,629	532,913	-	2,869,542
Total accumulated depreciation	5,998,113	805,181	-	6,803,294
Total capital assets being depreciated, net	5,761,389	(433,464)	-	5,327,925
Capital assets, net	$ 5,840,849	$ (373,464)	$ -	$ 5,467,385

Note 5. Capital Assets (Continued)

	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 6. Long-Term Debt

Long-term debt activity as of and for the years ended June 30, 2007 and 2006 is as follows:

	June 30, 2006	Borrowings	Payments	June 30, 2007	Due Within One Year
1997 Hospital Revenue Bonds, Series A (A)	$ 505,014	$ -	$ (72,739)	$ 432,275	$ 73,546
1997 Hospital Revenue Bonds, Series B (A)	866,407	-	(111,511)	754,896	109,516
Capital lease obligations (B)	1,629,561	157,615	(464,076)	1,323,100	466,824
	$ 3,000,982	$ 157,615	$ (648,326)	$ 2,510,271	$ 649,886

	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

(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, 2007, 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, 2007, 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 not in compliance with certain covenants and appropriate waivers were obtained.

(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 8.30%. 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:					
2008	$ 183,062	$ 41,537	$ 466,824	$ 48,053	$ 739,476
2009	194,196	34,502	404,595	31,973	665,266
2010	199,488	26,698	269,145	18,209	513,540
2011	207,094	19,536	163,683	5,011	395,324
2012	214,893	11,729	18,853	459	245,934
2013 to 2014	188,438	4,547	-	-	192,985
	$ 1,187,171	$ 138,549	$ 1,323,100	$ 103,705	$ 2,752,525

The following is the leased equipment by major class as of June 30, 2007 and 2006:

	2007	2006
Moveable equipment	$ 1,866,273	$ 1,708,658
Less accumulated depreciation	857,982	505,799
	$ 1,008,291	$ 1,202,859

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, 2007, 2006 and 2005 were approximately $428,000, $391,000 and $387,000, 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 $208,000 and $184,000 for the years ended June 30, 2007 and 2006, 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, 2007. 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 $102,000 and $109,000 for the years ended June 30, 2007 and 2006, 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, 2007 and 2006. The Organization has recorded a current liability for open claims and claims incurred but not reported.

	2007	2006
Balance, beginning	$ 155,000	$ 100,000
Claims expense	891,031	665,591
Claims payment	(845,981)	(610,591)
Balance, ending	$ 200,050	$ 155,000

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 GASB has 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.

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* issued November 2006, will be effective for the Organization beginning with its year ending June 30, 2009. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This standard requires the Organization to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are rendered.

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

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* issued July 2007, will be effective for the Organization beginning with its year ending June 30, 2010. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period.

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, 2007

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, 2007:

GAAP Expenses	Adjustments to Budgetary Basis	Budgetary Basis	Adopted Budget
$ 16,775,192	$ 895,793	$ 17,670,985	$ 17,067,100

Clarinda Regional Health Center
and Combined Affiliate

Net Patient Service Revenue
Years Ended June 30, 2007 and 2006

	Total 2007	Total 2006
Routine services, medical and surgical	$ 1,630,109	$ 1,428,228
Other nursing services:		
Operating room	1,398,196	1,720,515
Recovery room	151,344	28,518
Emergency room	1,293,305	1,221,105
Home health agency	437,884	318,100
	3,280,729	3,288,238
Other professional services:		
Ambulance	822,606	676,960
Anesthesiology	501,675	433,875
Blood service	65,975	48,952
Cardiac rehabilitation	505,996	422,573
Central service and supply	-	82
Clinic	659,389	423,993
CT scan	2,486,552	2,046,094
Electrocardiology	117,953	105,151
Hypnotherapy	3,330	-
Inhalation therapy	928,450	908,484
Intravenous therapy	194,333	123,240
Laboratory	3,715,585	3,348,000
Nuclear medicine	225,200	265,076
Occupational therapy	233,983	178,224
Pharmacy	4,380,510	3,614,410
Physical therapy	775,778	674,661
Radiology	2,616,615	2,131,862
Speech therapy	16,977	6,222
Ultrasound	320,999	268,195
Villisca Rural Health Clinic	132,040	187,283
Clarinda Medical Associates	2,998,073	2,533,977
	21,702,019	18,397,314
Patient service revenue	26,612,857	23,113,780
Less charity care	106,379	93,148
	26,506,478	23,020,632
Less contractual adjustments and bad debts	8,567,767	7,400,060
Net patient service revenue	$ 17,938,711	$ 15,620,572

Inpatient		Outpatient	
2007	2006	2007	2006
$ 1,446,506	$ 1,280,319	$ 183,603	$ 147,909
226,612	440,433	1,171,584	1,280,082
11,484	1,752	139,860	26,766
25,020	37,796	1,268,285	1,183,309
-	-	437,884	318,100
263,116	479,981	3,017,613	2,808,257
-	-	822,606	676,960
55,106	61,485	446,569	372,390
40,053	33,499	25,922	15,453
68,899	43,301	437,097	379,272
-	40	-	42
-	135	659,389	423,858
293,980	267,442	2,192,572	1,778,652
12,976	12,159	104,977	92,992
-	-	3,330	-
703,501	701,185	224,949	207,299
16,214	764	178,119	122,476
385,030	338,517	3,330,555	3,009,483
2,100	6,428	223,100	258,648
75,577	60,424	158,406	117,800
1,090,258	1,138,551	3,290,252	2,475,859
100,392	84,169	675,386	590,492
137,918	139,952	2,478,697	1,991,910
1,837	2,125	15,140	4,097
20,767	21,318	300,232	246,877
-	-	132,040	187,283
-	-	2,998,073	2,533,977
3,004,608	2,911,494	18,697,411	15,485,820
$ 4,714,230	$ 4,671,794	$ 21,898,627	$ 18,441,986

Clarinda Regional Health Center
and Combined Affiliate

Adjustments to Patient Service Revenue and Other Revenue
Years Ended June 30, 2007 and 2006

	2007	2006
Adjustments to patient service revenue:		
Medicare	$ 4,707,456	$ 4,390,116
Medicaid	671,657	701,760
Other	2,442,619	1,603,791
Provision for bad debts	746,035	704,393
Total contractual adjustments and bad debts	$ 8,567,767	$ 7,400,060
Other revenue:		
Lifeline, net	$ 12,448	$ 11,806
Dietary	6,957	3,169
Employee meals	49,974	47,175
Meals on wheels and congregate meals	53,500	46,946
Wellness program	5,125	5,410
Medical records transcripts	7,730	5,652
Rental income and other miscellaneous	38,958	66,716
Total other revenue	$ 174,692	$ 186,874

Clarinda Regional Health Center
and Combined Affiliate

Operating Expenses
Years Ended June 30, 2007 and 2006

	Total	
	2007	2006
Nursing services:		
Nursing administration	$ 68,316	$ 70,336
Routine care	1,262,072	1,238,526
Operating room	864,175	539,237
Emergency room	640,098	683,262
Home health agency	307,003	276,330
	3,141,664	2,807,691
Other professional services:		
Ambulance	185,448	153,101
Anesthesiology	12,093	3,444
Cardiac rehabilitation	87,227	84,410
Central service and supply	63,546	83,594
Clinic	209,095	186,499
CT scan	99,154	25,213
Electrocardiology	2,610	6,823
Hypnotherapy	4,596	-
Inhalation therapy	167,567	187,316
Laboratory	849,593	842,510
Nuclear medicine	94,823	109,105
Occupational therapy	2,789	1,402
Pharmacy	1,471,578	1,462,745
Physical therapy	70,996	69,427
Radiology	697,021	554,894
Ultrasound	66,773	103,505
Clarinda Medical Associates	1,636,579	1,525,580
Villisca Rural Health Clinic	193,367	197,020
Wellness	5,711	4,362
	$ 5,920,566	$ 5,600,950

Salaries		Other	
2007	2006	2007	2006
$ 66,856	$ 69,661	$ 1,460	$ 675
983,817	1,000,140	278,255	238,386
688,769	379,441	175,406	159,796
595,629	639,824	44,469	43,438
230,375	224,852	76,628	51,478
2,565,446	2,313,918	576,218	493,773
112,074	88,933	73,374	64,168
-	-	12,093	3,444
62,361	67,909	24,866	16,501
63,167	66,043	379	17,551
170,611	166,033	38,484	20,466
-	-	99,154	25,213
585	4,356	2,025	2,467
3,305	-	1,291	-
108,899	134,709	58,668	52,607
297,561	280,292	552,032	562,218
-	-	94,823	109,105
-	-	2,789	1,402
128,947	115,157	1,342,631	1,347,588
57,573	56,344	13,423	13,083
335,179	290,212	361,842	264,682
48,668	55,241	18,105	48,264
1,636,579	1,525,580	-	-
167,556	168,950	25,811	28,070
-	36	5,711	4,326
$ 3,193,065	$ 3,019,795	$ 2,727,501	$ 2,581,155

(Continued)

Clarinda Regional Health Center
and Combined Affiliate

Operating Expenses (Continued)
Years Ended June 30, 2007 and 2006

	Total	
	2007	2006
General services:		
Dietary	$ 460,797	$ 440,739
Operation of plant	406,355	394,155
Clarinda Medical Foundation	80,776	46,943
Housekeeping	253,826	248,334
	1,201,754	1,130,171
Administrative services:		
Medical records	307,523	326,993
Social services	45,902	41,677
Administration	1,664,384	1,472,071
Community relations	127,349	125,840
Quality improvement	93,818	90,840
Infection control	47,886	-
Clarinda Medical Association	162,833	240,602
Data processing	262,498	435,881
	2,712,193	2,733,904
Employee benefits	2,013,291	1,670,044
Medical professional fees	871,096	792,898
Depreciation and amortization	808,281	701,349
Interest	106,347	107,306
	$ 16,775,192	$ 15,544,313

Salaries		Other	
2007	2006	2007	2006
$ 298,198	$ 269,775	$ 162,599	$ 170,964
131,810	138,558	274,545	255,597
31,750	33,965	49,026	12,978
137,371	145,767	116,455	102,567
599,129	588,065	602,625	542,106
273,482	267,402	34,041	59,591
40,867	35,995	5,035	5,682
608,294	573,534	1,056,090	898,537
44,218	39,513	83,131	86,327
89,890	91,840	3,928	(1,000)
41,779	-	6,107	-
-	-	162,833	240,602
31,438	39,188	231,060	396,693
1,129,968	1,047,472	1,582,225	1,686,432
-	-	2,013,291	1,670,044
-	-	871,096	792,898
-	-	808,281	701,349
-	-	106,347	107,306
$ 7,487,608	$ 6,969,250	$ 9,287,584	$ 8,575,063

Clarinda Regional Health Center
and Combined Affiliate

Aging Analysis of Accounts Receivable from Patients and Allowance for Doubtful Accounts
Years Ended June 30, 2007 and 2006

Aging Analysis of Accounts Receivable (by Date of Discharge)	2007 Amount	2007 Percent	2006 Amount	2006 Percent
1-30 days, includes patients in Hospital June 30	$ 1,918,322	48%	$ 1,837,883	42%
30-60 days	682,093	17	720,897	16
61-90 days	303,262	8	402,348	9
91-120 days	222,105	5	197,447	4
121 days and over	867,972	22	1,302,731	29
	3,993,754	100%	4,461,306	100%
Home health and other	28,377		19,848	
Total accounts receivable	4,022,131		4,481,154	
Less allowance for contractual adjustments	819,063		1,083,000	
Less allowance for doubtful accounts	738,406		750,000	
	$ 2,464,662		$ 2,648,154	
Net patient service revenue per calendar day, excludes bad debt	$ 49,147		$ 42,796	
Days of net patient service, revenue in accounts receivable at year-end	50		62	

Allowance for Doubtful Accounts	2007 Amount	2007 Percent of Net Patient Service Revenue	2006 Amount	2006 Percent of Net Patient Service Revenue
Beginning balance	$ 750,000		$ 596,734	
Add:				
Provision for bad debts	899,996	5.02%	837,289	5.36%
Recoveries previously written off	(153,961)	(0.87)	(132,896)	(0.85)
	1,496,035		1,301,127	
Deduct accounts written off	757,629	(4.28)	551,127	(3.53)
Balance ending	$ 738,406		$ 750,000	

Clarinda Regional Health Center
and Combined Affiliate

Inventories and Prepaid Expenses
June 30, 2007 and 2006

	2007	2006
Inventories:		
General	$ 133,510	$ 135,377
Pharmacy	274,002	238,364
Dietary	10,618	10,664
Office supplies	10,800	9,999
	$ 428,930	$ 394,404
Prepaid expenses:		
Insurance	$ 20,535	$ 18,399
Maintenance and other	22,060	24,935
	$ 42,595	$ 43,334

Clarinda Regional Health Center
and Combined Affiliate

Schedule of Insurance
Year Ended June 30, 2007
(Unaudited)

Coverage Type	Coverage Period		Coverage Amount
Property, including rental dwellings	6/1/07 thru 5/31/08	$	18,289,000
General liability	6/1/07 thru 5/31/08		1,000,000/3,000,000
Professional	6/1/07 thru 5/31/08		1,000,000/3,000,000
Automobile	6/1/07 thru 5/31/08		1,000,000
Directors and officers liability	6/1/07 thru 5/31/08		1,000,000/3,000,000
Umbrella, excess liability	6/1/07 thru 5/31/08		3,000,000
Workers' compensation	4/1/07 thru 3/31/08		500,000/500,000

Clarinda Regional Health Center
and Combined Affiliate

Comparative Statistics
Years Ended June 30, 2007 and 2006
(Unaudited)

	2007	2006
Acute:		
Admissions	558	608
Discharges	526	581
Patient days	1,511	2,098
Average length of stay	2.6	3.4
Swing bed:		
Admissions	176	191
Discharges	176	190
Patient days	998	979

Clarinda Regional Health Center
and Combined Affiliate

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007

Current Number	Comment	Status
Reportable conditions in internal control:		
06-I-A	The Health Center does not have adequate segregation of duties needed for an effective system of internal accounting control over the purchasing cycle.	Corrected.
Other findings related to required statutory reporting:		
06-II-A	A resolution of official depository banks has not been adopted and approved by the Board of Trustees.	Uncorrected, see 07-II-A for current year finding.
06-II-B	Disbursements during the year ended June 30, 2006 exceeded amount budgeted by $689,000.	Uncorrected, see 07-II-B 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, 2007, and have issued our report thereon dated November 26, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of Clarinda Regional Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clarinda Regional Health Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as 07-I-A to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described is not a material weakness.

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, 2007 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.

We noted certain matters that we reported to management of Clarinda Regional Health Center in a separate letter dated November 26, 2007.

This report is intended solely for the information and use of the Board of Trustees, management and others within the entity, and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

Davenport, Iowa
November 26, 2007

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) Significant Deficiencies in Internal Control

07-I-A

Criteria: 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 revenue and receivables cycle.

Condition: The same individuals have access to cash and the billing module, and have the capability to write off and post to receivable balances.

Context: Pervasive to the financial statements as a whole.

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

Recommendation: We recommend that remittance advices be separated from checks prior to being given to the billing department and the listing of checks prepared by the admission staff be forwarded to accounting, then reconciled to the day's posting of cash receipts

Response and Corrective Action Plan: Subsequent to year-end, the client implemented the recommendation noted above.

(B) Compliance Findings

None reported.

II. Other Findings Related to Required Statutory Reporting

07-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.

Recommendation: The Board should pass a resolution approving the depositories to be used by the Health Center and the maximum amounts to be held on deposit.

Response and Corrective Action Plan: The Board will approve a resolution.

Conclusion: Response accepted.

07-II-B – Certified Budget: Disbursements during the year ended June 30, 2007 exceeded the amount budgeted by approximately $603,885.

Recommendation: The budget should have been amended before expenditures were allowed to exceed budget.

Response and Corrective Action Plan: The Health Center will look for ways to prevent exceeding the budgetary function.

Conclusion: Response accepted.

07-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.

07-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.

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

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

07-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, other than the Health Center has not adopted a formal investment policy.

Recommendation: The Health Center should adopt an investment policy in accordance with the Code of Iowa.

Response and Corrective Action: The Health Center is working on a formal investment policy.

Conclusion: Response accepted.

07-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.