McGladrey & Pullen
Certified Public Accountants

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November 5, 2008

Board of Trustees
Clarinda Regional Health Center
Clarinda, Iowa

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the combined financial statements for Clarinda Regional Health Center and its combined affiliate, Clarinda Medical Foundation (collectively the Organization) as of and for the years ended June 30, 2008 and 2007. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that the electronic transmission is not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our report on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors or “experts,” in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, the Organization will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, the Organization also agrees to provide us with printer’s proofs or masters of such offering documents for our review and approval before printing and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the Organization seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve Clarinda Regional Health Center and its combined affiliate.

McGladrey & Pullen, LLP

Ryan J. Weber, Director

Attachment

Clarinda Regional Health Center and Combined Affiliate

Combined Financial Report

06.30.2008

McGladrey & Pullen
Certified Public Accountants

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Clarinda Regional Health Center
and Combined Affiliate

Board of Trustees
Year Ended June 30, 2008

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, 2008 and 2007, 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, 2008 and 2007, 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 October 27, 2008, 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, 2008 and 2007 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
October 27, 2008

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, 2008. 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, 2008 and 2007 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 $1,407,070 or 10.8% in 2008 and increased by $1,220,790 or 10.3% in 2007.
- The Organization's net assets increased by $1,588,168 or 17.7% in 2008 and increased by $1,723,939 or 23.7% in 2007.
- The Organization reported an operating gain of $1,434,923 in 2008 and an operating gain of $1,338,211 in 2007.

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

	2008	2007	2006
Assets			
Current assets	$ 8,548,605	$ 7,137,913	$ 5,173,588
Noncurrent cash and investments	407,274	416,403	778,029
Capital assets, net	5,479,344	5,467,385	5,840,849
Other assets	8,695	15,147	23,592
Total assets	$ 14,443,918	$ 13,036,848	$ 11,816,058
Liabilities			
Total current liabilities	$ 2,405,445	$ 2,191,264	$ 2,213,179
Long-term debt, less current maturities	1,465,106	1,860,385	2,341,619
Total liabilities	3,870,551	4,051,649	4,554,798
Net assets:			
Invested in capital assets, net of related debt	3,367,877	2,957,114	2,839,867
Restricted by bond agreement	500,000	500,000	857,837
Unrestricted	6,705,490	5,528,085	3,563,556
Total net assets	10,573,367	8,985,199	7,261,260
Total liabilities and net assets	$ 14,443,918	$ 13,036,848	$ 11,816,058

Asset categories changing significantly during 2008 included certificates of deposit, accounts receivable and estimated third-party payor settlements while, cash and cash equivalents, accounts receivable and estimated third-party payor settlements significantly changed during 2007. Current assets increased by $1,410,692 or 20% in 2008 and increased by $1,964,325 or 38% in 2007. Net patient accounts receivable decreased by $272,110 or 11% in 2008 and decreased by $183,492 or 6.9% in 2007.

Liability categories changing significantly during 2008 and 2007 included accrued expenses and accounts payable. Accrued expenses decreased by $212,805 or 18.6% in 2008 and increased by $217,401 or 23.4% in 2007. The estimated third-party payor settlements changed from an asset of $1,030,000 and $430,000 as of June 30, 2006 and 2007, respectively, to a liability of $310,000 as of June 30, 2008.

The current ratio (current assets divided by current liabilities) for 2008 was 3.55 and 2007 was 3.26. 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

	2008	2007	2006
Operating revenue	$ 17,704,701	$ 18,113,403	$ 15,807,446
Operating expenses	16,269,778	16,775,192	15,544,313
Operating income	1,434,923	1,338,211	263,133
Nonoperating revenue	158,377	385,728	103,685
Nonoperating expense	5,132	-	-
	153,245	385,728	103,685
Increase in net assets	1,588,168	1,723,939	366,818
Net assets:			
Beginning	8,985,199	7,261,260	6,894,442
Ending	$ 10,573,367	$ 8,985,199	$ 7,261,260
Total revenue	$ 17,863,078	$ 18,499,131	$ 15,911,131
Total expenses	$ 16,274,910	$ 16,775,192	$ 15,544,313

Net patient service revenue decreased $411,748 or 2.3% in 2008 and increased $2,318,139 or 14.8% in 2007. 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

	2008	2007	2006
Total gross patient service revenue	$ 26,352,383	$ 26,506,478	$ 23,020,632
Contractual adjustments and provisions for bad debt	(8,825,420)	(8,567,767)	(7,400,060)
Net patient service revenue	$ 17,526,963	$ 17,938,711	$ 15,620,572
Contractual adjustments and provisions for bad debt as a percent of total gross patient service revenue	33.49%	32.32%	32.15%

Total operating expenses decreased by $505,414 or 3% in 2008 and increased by $1,230,879 or 7.9% in 2007. 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 8.1% in 2008 up from a positive operating margin of 7.4% in 2007. Operating income in 2008 was $1,434,923 compared to operating income of $1,338,211 in 2007.

Other operating revenue made up 1.0% of total operating revenue in 2008 and 1.0% of total operating revenue in 2007. Table 4 shows the detail for this line item.

Table 4: Other Revenue

	2008	2007	2006
Lifeline, net	$ 14,178	$ 12,448	$ 11,806
Dietary	5,604	6,957	3,169
Employee meals	53,827	49,974	47,175
Meals on wheels and congregate meals	24,273	53,500	46,946
Wellness program	4,622	5,125	5,410
Medical records transcripts	7,017	7,730	5,652
Rental income and other miscellaneous	68,217	38,958	66,716
Total other revenue	$ 177,738	$ 174,692	$ 186,874

Organization Statistical Data

Table 5 shows the Organization's statistical data.

Table 5: Statistical Data

	2008	2007	2006
Patient days:			
Acute	1,533	1,511	2,098
Swing bed	1,041	998	979
Total	2,574	2,509	3,077
Admissions:			
Acute	569	558	608
Swing bed	188	176	191
Total	757	734	799
Discharges:			
Acute	575	526	581
Swing bed	190	176	190
Total	765	702	771
Average length of stay, acute	2.7	2.6	3.4
Beds, acute and swing	25	25	25
Occupancy percentage, acute and swing, based on 25 beds	28.2%	27.5%	33.7%

The Organization's Cash Flows

The Organization experienced positive cash flows from operations of approximately $3,309,000 in 2008 compared to positive cash flows from operations of approximately $2,964,000 in 2007. 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, 2008 and 2007 the Organization had $5,479,344 and $5,467,385, respectively, invested in capital assets net of accumulated depreciation. In 2008 the Organization had $922,722 of capital asset additions offset by depreciation of $851,887.

Additional information about the Organization's capital assets can be found in Note 5 of the financial statements.

Long-Term Debt

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

Table 6: Long-Term Debt

	2008	2007	2006
Hospital revenue bonds, Series 1997A	$ 357,090	$ 432,275	$ 505,014
Hospital revenue bonds, Series 1997B	645,207	754,896	866,407
Obligations under capital lease	1,109,170	1,323,100	1,629,561
Total long-term debt	$ 2,111,467	$ 2,510,271	$ 3,000,982

Approximately $1,002,000 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 $1,109,000 which are due in monthly installments of principal and interest and mature on various dates and are secured by equipment.

Additional information about the Organization's long-term debt can be found in Note 6 of the financial statements.

Budgetary Highlights

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

- The Organization's total revenue was under budget by $517,654 or 2.8%.
- The Organization's total operating expenses were under budget by $443,470 or 2.5%.

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.

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 combined 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, 2008 and 2007

Assets	**2008**	2007
Current Assets:		
Cash and cash equivalents	$ **1,242,678**	$ 1,243,938
Certificates of deposit	**3,834,132**	1,685,202
Investments	**549,037**	592,317
Assets limited as to use, restricted by bond agreement	**194,197**	184,155
Receivables:		
Patient, net	**2,192,552**	2,464,662
Other	**39,077**	66,114
Inventories	**405,592**	428,930
Prepaid expenses	**91,340**	42,595
Estimated third-party payor settlements	**-**	430,000
Total current assets	**8,548,605**	7,137,913
Assets Limited as to Use:		
Restricted by bond agreement	**305,803**	315,845
Board-designated for health insurance	**101,471**	100,558
	407,274	416,403
Capital Assets:		
Nondepreciable	**377,995**	139,460
Depreciable, net	**5,101,349**	5,327,925
	5,479,344	5,467,385
Other Assets:		
Employee and physician advances	**7,145**	7,497
Other assets	**1,550**	7,650
	8,695	15,147
	$ **14,443,918**	$ 13,036,848

See Notes to Combined Basic Financial Statements.

Liabilities and Net Assets		**2008**		2007
Current Liabilities:				
Current maturities of long-term debt	**$**	**646,361**	$	649,886
Accounts payable		**516,712**		396,201
Accrued expenses:				
Salaries, wages and payroll taxes		**382,400**		498,022
Paid leave		**424,972**		443,405
Health insurance claims		**125,000**		200,050
Other		**-**		3,700
Estimated third-party payor settlements		**310,000**		-
Total current liabilities		**2,405,445**		2,191,264
Long-Term Debt, less current maturities		**1,465,106**		1,860,385
Total liabilities		**3,870,551**		4,051,649
Commitments and Contingencies (Note 9)				
Net Assets:				
Invested in capital assets, net of related debt		**3,367,877**		2,957,114
Restricted by bond agreement		**500,000**		500,000
Unrestricted		**6,705,490**		5,528,085
		10,573,367		8,985,199
	$	**14,443,918**	$	13,036,848

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Revenue, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007

		2008		2007
Operating revenue:				
Net patient service revenue	$	17,526,963	$	17,938,711
Other revenue		177,738		174,692
Total revenue		17,704,701		18,113,403
Expenses:				
Salaries and wages		7,306,286		7,487,608
Employee benefits		1,672,881		2,013,291
Supplies		2,102,381		2,216,482
Medical professional fees		872,401		871,096
Other costs		2,755,104		2,663,055
Utilities		202,681		178,022
Insurance		172,059		154,690
Leases and rentals		233,650		276,320
Depreciation and amortization		854,987		808,281
Interest		97,348		106,347
Total expenses		16,269,778		16,775,192
Operating income		1,434,923		1,338,211
Nonoperating income (expense):				
Investment income		102,493		147,643
Contributions		55,884		231,614
Other		(5,132)		6,471
Net nonoperating income		153,245		385,728
Change in net assets		1,588,168		1,723,939
Net assets:				
Beginning		8,985,199		7,261,260
Ending	$	10,573,367	$	8,985,199

See Notes to Combined Basic Financial Statements.

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities:		
Cash received from patients and third parties	$ 18,539,073	$ 18,722,203
Cash paid to employees	(9,113,222)	(9,320,234)
Cash paid to suppliers	(6,321,922)	(6,586,555)
Other receipts and payments, net	204,775	148,465
Net cash provided by operating activities	3,308,704	2,963,879
Cash Flows Provided by Noncapital Financing Activities, contributions	55,884	231,614
Cash Flows from Capital and Related Financing Activities:		
Interest paid on long-term debt	(97,348)	(106,347)
Acquisition of capital assets	(656,977)	(274,102)
Proceeds from the sale of capital assets	44,139	-
Principal payments on long-term debt	(664,549)	(648,326)
Net cash (used in) capital and related financing activities	(1,374,735)	(1,028,775)
Cash Flows from Investing Activities:		
Purchases of investments and assets limited as to use	(2,106,563)	(1,508,126)
Investment income	102,493	147,643
Other	12,957	11,816
Net cash (used in) investing activities	(1,991,113)	(1,348,667)
Increase (decrease) in cash and cash equivalents	(1,260)	818,051
Cash and cash equivalents:		
Beginning	1,243,938	425,887
Ending	$ 1,242,678	$ 1,243,938

(Continued)

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Cash Flows (Continued)
Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	**$ 1,434,923**	$ 1,338,211
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest expense considered capital financing activity	**97,348**	106,347
Depreciation	**851,887**	805,181
Amortization	**3,100**	3,100
(Increase) decrease in:		
Patient and other receivables, net	**299,147**	157,265
Inventories	**23,338**	(34,526)
Prepaid expenses	**(48,745)**	739
Increase (decrease) in:		
Accounts payable and accrued expenses	**(92,294)**	(12,438)
Estimated third-party payor settlements	**740,000**	600,000
Net cash provided by operating activities	**$ 3,308,704**	$ 2,963,879
Noncash Capital and Related Financing Activities, capital lease obligation incurred for acquisition of capital assets	**$ 265,745**	$ 157,615

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.

Subsequent to year-end, the credit and liquidity crisis in the Untied States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, the Foundation's investments have likely incurred a significant decline in fair value since June 30, 2008.

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, 2008 and 2007 there was no interest capitalized on construction.

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

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

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

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

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

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.

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 $174,000 and $106,000 for the years ended June 30, 2008 and 2007, 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 $656,000 and $672,000 for the years ended June 30, 2008 and 2007, 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 79% 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, 2008 and 2007 is as follows:

	2008	2007
Gross patient service revenue	$ 26,352,383	$ 26,506,478
Less:		
Provision for bad debts	976,520	746,035
Discounts, allowances and estimated contractual adjustments under third-party reimbursement programs	7,848,900	7,821,732
Net patient service revenue	$ 17,526,963	$ 17,938,711

Contractual adjustment expense for the years ended June 30, 2008 and 2007 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 $75,000 and $20,000 for the years ended June 30, 2008 and 2007, 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, 2008 and 2007 consisted of the following:

	2008	2007
Patients	$ 4,092,826	$ 4,022,131
Less:		
Allowance for doubtful accounts	1,056,793	738,406
Estimated third-party contractual adjustments	843,481	819,063
	$ 2,192,552	$ 2,464,662

Note 4. Cash and Investments

The Health Center has no investments as of June 30, 2008. As of June 30, 2008, the Foundation has the following investments:

	Maturities	Fair Value
Investment:		
First Trust Target Triad	N/A	$ 46,452
First Trust Target Focus Four	N/A	4,173
First Trust Target Focus	N/A	56,496
First Trust NASDAQ Trgt	N/A	16,332
First Trust NYSE Intl	N/A	41,122
Mutual funds	N/A	384,462
		$ 549,037

Interest rate risk: In accordance with the Foundation's investment policy, the Foundation strives to preserve principal while providing growth of the portfolio. The Foundation's policy prohibits trades on margin, purchases of futures or options and purchases of real estate solely for investment purposes.

According to the Health Center's investment policy, the safety and preservation of principal in the overall portfolio and obtaining a reasonable return are the objectives of the policy. The policy prohibits investments in reverse repurchase agreements and futures and options contracts.

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, 2008 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 $549,037 as of June 30, 2008 of which approximately 30% consists of unit investment trusts offered by First Trust Portfolios. The remaining investments consist of mutual funds.

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. It is the Health Center and Foundation's policy to avoid default risks with financial institutions with which the chief financial officer deposits monies by determining in advance of the deposit that each depository in which monies are to be placed is an approved depository for purposes of Chapter 453 of Iowa Code. As of June 30, 2008, 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, 2008 and 2007 consist of the following:

	2008	2007
Cash	$ 1,344,149	$ 1,352,037
Certificates of deposit	4,334,132	2,177,660
Equity securities	164,575	207,743
Mutual funds	384,462	384,575
	$ 6,227,318	$ 4,122,015

Note 4. Cash and Investments (Continued)

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

	2008	2007
Cash and cash equivalents	$ 1,242,678	$ 1,243,938
Certificates of deposit	3,834,132	1,685,202
Investments	549,037	592,317
Assets limited as to use, restricted by bond agreement	194,197	184,155
Noncurrent cash and investments:		
Restricted by bond agreement	305,803	315,845
Internally designated for health insurance	101,471	100,558
	$ 6,227,318	$ 4,122,015

Note 5. Capital Assets

Activity in capital assets and accumulated depreciation for the years ended June 30, 2008 and 2007 are as follows:

	June 30, 2007	Additions	Transfers and Disposals	June 30, 2008
Capital assets not being depreciated:				
Land	$ 61,750	$ -	$ -	$ 61,750
Construction in progress	77,710	238,535	-	316,245
Total capital assets not being depreciated	139,460	238,535	-	377,995
Capital assets being depreciated:				
Land improvements	220,633	-	-	220,633
Building	6,464,451	-	-	6,464,451
Fixed equipment	779,148	-	-	779,148
Movable equipment	4,666,987	684,187	(73,213)	5,277,961
Total capital assets being depreciated	12,131,219	684,187	(73,213)	12,742,193
Less accumulated depreciation for:				
Land improvements	145,483	13,050	-	158,533
Building	3,146,165	180,025	-	3,326,190
Fixed equipment	642,104	75,028	-	717,132
Movable equipment	2,869,542	583,784	(14,337)	3,438,989
Total accumulated depreciation	6,803,294	851,887	(14,337)	7,640,844
Total capital assets being depreciated, net	5,327,925	(167,700)	(58,876)	5,101,349
Capital assets, net	$ 5,467,385	$ 70,835	$ (58,876)	$ 5,479,344

Note 5. Capital Assets (Continued)

	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 6. Long-Term Debt

Long-term debt activity as of and for the years ended June 30, 2008 and 2007 is as follows:

	June 30, 2007	Borrowings	Payments	June 30, 2008	Due Within One Year
1997 Hospital Revenue Bonds, Series A (A)	$ 432,275	$ -	$ (75,185)	$ 357,090	$ 80,429
1997 Hospital Revenue Bonds, Series B (A)	754,896	-	(109,689)	645,207	113,767
Capital lease obligations (B)	1,323,100	265,745	(479,675)	1,109,170	452,165
	$ 2,510,271	$ 265,745	$ (664,549)	$ 2,111,467	$ 646,361

	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

(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, 2008, was 4.44%. 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, 2008, was 3.51%. 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 restricted 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 a covenant stipulating that the Health Center will not grant a mortgage lien or encumbrance on any of its physical properties so long as the Bonds are outstanding, but appropriate waivers were obtained.

Clarinda Regional Health Center has pledged future revenues, net of operating expenses, (net revenues) to repay $1,000,000 and $1,500,000 for revenue bonds, Series A and B, respectively, issued February, 1997. Proceeds from the bonds were used for capital improvements, equipment and costs of additions to and renovation and remodeling of the Health Center. The bonds are payable solely from the Health Center's net revenues and are payable through September 2012 and September 2013. Annual principal and interest payments on the bonds are expected to require less than 20% of net revenues. The total principal and interest remaining to be paid on both bonds is $1,099,473. Principal and interest paid in the current year on both bond issues and total net revenues were $228,348 and $2,572,614, respectively.

(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:					
2009	$ 194,196	$ 34,502	$ 452,165	$ 46,747	$ 727,610
2010	199,488	26,698	319,884	29,815	575,885
2011	207,094	19,536	216,166	13,233	456,029
2012	214,893	11,729	76,589	5,069	308,280
2013	157,421	4,297	44,366	1,089	207,173
2014	29,205	414	-	-	29,619
	$ 1,002,297	$ 97,176	$ 1,109,170	$ 95,953	$ 2,304,596

The following is the leased equipment by major class as of June 30, 2008 and 2007:

	2008	2007
Moveable equipment	$ 2,072,064	$ 1,866,273
Less accumulated depreciation	1,111,476	857,982
	$ 960,588	$ 1,008,291

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, 2008, 2007 and 2006 were approximately $ 452,000, $428,000 and $391,000, 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 $215,000 and $208,000 for the years ended June 30, 2008 and 2007, 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, 2008. 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 $121,000 and $102,000 for the years ended June 30, 2008 and 2007, 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 $40,000 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, 2008 and 2007. The Organization has recorded a current liability for open claims and claims incurred but not reported.

	2008	2007
Balance, beginning	$ 200,050	$ 155,000
Claims expense	615,137	891,031
Claims payment	(690,187)	(845,981)
Balance, ending	$ 125,000	$ 200,050

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.

Regulatory Investigations:

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. During fiscal year 2007, the RAC's identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. CMS is in the process of rolling out this program nationally. As such, the Organization may be subject to such an audit at some time in the future.

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

The Organization implemented the following GASB Statements during the fiscal year ended June 30, 2008:

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 adoption of this Statement had no effect on the financial statements.

Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenue*. 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. This Statement modified the disclosure for long-term debt.

Statement No. 50, *Pension Disclosures*, an amendment of GASB Statement Nos. 25 and 27: This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This Statement modified the disclosures for the retirement system.

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

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

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. 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 Statement 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.

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 Statement 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.

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, issued November 2007, will be effective for the Organization beginning with its year ending June 30, 2009. This Statement establishes consistent standards for the reporting of land and other real estate held as investments. Endowments were previously required to report their land and other real estate held for investment purposes at historical cost. However, such investments are reported at fair value by similar entities, such as pension plans. The Statement requires endowments to report land and other real estate investments at fair value. The changes in the fair value are to be reported as investment income.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for the Organization beginning with its year ending June 30, 2010. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements.

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, 2008

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, 2008:

GAAP Expenses	Adjustments to Budgetary Basis	Budgetary Basis	Adopted Budget
$ 16,269,778	$ 1,136,652	$ 17,406,430	$ 17,849,900

Clarinda Regional Health Center
and Combined Affiliate

Net Patient Service Revenue
Years Ended June 30, 2008 and 2007

	Total	
	2008	2007
Routine services, medical and surgical	**$ 1,584,117**	$ 1,630,109
Other nursing services:		
Operating room	**1,482,675**	1,398,196
Recovery room	**133,284**	151,344
Emergency room	**1,415,711**	1,293,305
Home health agency	**233,322**	437,884
	3,264,992	3,280,729
Other professional services:		
Ambulance	**896,689**	822,606
Anesthesiology	**464,550**	501,675
Blood service	**54,591**	65,975
Cardiac rehabilitation	**460,128**	505,996
Clinic	**734,331**	659,389
CT scan	**2,580,185**	2,486,552
Electrocardiology	**113,935**	117,953
Hypnotherapy	**9,107**	3,330
Inhalation therapy	**1,045,695**	928,450
Intravenous therapy	**419,075**	194,333
Laboratory	**3,898,917**	3,715,585
Nuclear medicine	**183,844**	225,200
Occupational therapy	**211,639**	233,983
Pharmacy	**3,938,905**	4,380,510
Physical therapy	**845,546**	775,778
Radiology	**2,392,768**	2,616,615
Speech therapy	**3,740**	16,977
Ultrasound	**261,630**	320,999
Villisca Rural Health Clinic	**131,614**	132,040
Wound care	**37,697**	-
Clarinda Medical Associates	**2,992,696**	2,998,073
	21,677,282	21,702,019
Patient service revenue	**26,526,391**	26,612,857
Less charity care	**174,008**	106,379
	26,352,383	26,506,478
Less contractual adjustments and bad debts	**8,825,420**	8,567,767
Net patient service revenue	**$ 17,526,963**	$ 17,938,711

Inpatient		Outpatient	
2008	2007	**2008**	2007
$ 1,466,553	$ 1,446,506	**$ 117,564**	$ 183,603
255,660	226,612	**1,227,015**	1,171,584
9,654	11,484	**123,630**	139,860
27,562	25,020	**1,388,149**	1,268,285
-	-	**233,322**	437,884
292,876	263,116	**2,972,116**	3,017,613
-	-	**896,689**	822,606
53,122	55,106	**411,428**	446,569
31,770	40,053	**22,821**	25,922
73,580	68,899	**386,548**	437,097
2,375	-	**731,956**	659,389
266,612	293,980	**2,313,573**	2,192,572
14,300	12,976	**99,635**	104,977
-	-	**9,107**	3,330
771,512	703,501	**274,183**	224,949
53,013	16,214	**366,062**	178,119
383,914	385,030	**3,515,003**	3,330,555
8,831	2,100	**175,013**	223,100
78,657	75,577	**132,982**	158,406
1,030,467	1,090,258	**2,908,438**	3,290,252
108,800	100,392	**736,746**	675,386
138,102	137,918	**2,254,666**	2,478,697
1,285	1,837	**2,455**	15,140
24,697	20,767	**236,933**	300,232
-	-	**131,614**	132,040
-	-	**37,697**	-
-	-	**2,992,696**	2,998,073
3,041,037	3,004,608	**18,636,245**	18,697,411
$ 4,800,466	$ 4,714,230	**$ 21,725,925**	$ 21,898,627

Clarinda Regional Health Center
and Combined Affiliate

Adjustments to Patient Service Revenue and Other Revenue
Years Ended June 30, 2008 and 2007

		2008		2007
Adjustments to patient service revenue:				
Medicare	$	4,383,455	$	4,707,456
Medicaid		656,429		671,657
Other		2,809,016		2,442,619
Provision for bad debts		976,520		746,035
Total contractual adjustments and bad debts	$	8,825,420	$	8,567,767
Other revenue:				
Lifeline, net	$	14,178	$	12,448
Dietary		5,604		6,957
Employee meals		53,827		49,974
Meals on wheels and congregate meals		24,273		53,500
Wellness program		4,622		5,125
Medical records transcripts		7,017		7,730
Rental income and other miscellaneous		68,217		38,958
Total other revenue	$	177,738	$	174,692

Clarinda Regional Health Center
and Combined Affiliate

Operating Expenses
Years Ended June 30, 2008 and 2007

	Total	
	2008	2007
Nursing services:		
Nursing administration	$ **72,693**	$ 68,316
Routine care	**1,264,079**	1,262,072
Operating room	**649,134**	864,175
Emergency room	**688,178**	640,098
Home health agency	**165,754**	307,003
	2,839,838	3,141,664
Other professional services:		
Ambulance	**200,176**	185,448
Anesthesiology	**11,926**	12,093
Cardiac rehabilitation	**88,199**	87,227
Central service and supply	**69,668**	63,546
Clinic	**242,709**	209,095
CT scan	**87,714**	99,154
Electrocardiology	**5,812**	2,610
Hypnotherapy	**5,803**	4,596
Inhalation therapy	**184,627**	167,567
Laboratory	**743,441**	849,593
Nuclear medicine	**91,005**	94,823
Occupational therapy	**3,031**	2,789
Pharmacy	**1,448,522**	1,471,578
Physical therapy	**72,252**	70,996
Radiology	**647,299**	697,021
Ultrasound	**61,020**	66,773
Clarinda Medical Associates	**1,680,747**	1,636,579
Villisca Rural Health Clinic	**195,102**	193,367
Wellness	**5,773**	5,711
Wound care	**32,551**	-
	$ **5,877,377**	$ 5,920,566

Salaries		Other	
2008	2007	**2008**	2007
$ 70,044	$ 66,856	**$ 2,649**	$ 1,460
1,003,185	983,817	**260,894**	278,255
465,180	688,769	**183,954**	175,406
635,139	595,629	**53,039**	44,469
132,592	230,375	**33,162**	76,628
2,306,140	2,565,446	**533,698**	576,218
115,960	112,074	**84,216**	73,374
-	-	**11,926**	12,093
57,087	62,361	**31,112**	24,866
66,935	63,167	**2,733**	379
206,070	170,611	**36,639**	38,484
-	-	**87,714**	99,154
3,207	585	**2,605**	2,025
5,536	3,305	**267**	1,291
102,510	108,899	**82,117**	58,668
285,609	297,561	**457,832**	552,032
-	-	**91,005**	94,823
-	-	**3,031**	2,789
134,670	128,947	**1,313,852**	1,342,631
53,479	57,573	**18,773**	13,423
356,305	335,179	**290,994**	361,842
53,780	48,668	**7,240**	18,105
1,680,747	1,636,579	**-**	-
167,964	167,556	**27,138**	25,811
-	-	**5,773**	5,711
29,365	-	**3,186**	-
3,319,224	$ 3,193,065	**2,558,153**	$ 2,727,501

(Continued)

Clarinda Regional Health Center
And Combined Affiliate

Operating Expenses (Continued)
Years Ended June 30, 2008 And 2007

	Total	
	2008	2007
General services:		
Dietary	$ **459,122**	$ 460,797
Operation of plant	**465,739**	406,355
Clarinda Medical Foundation	**102,254**	80,776
Housekeeping	**258,023**	253,826
	1,285,138	1,201,754
Administrative services:		
Medical records	**345,450**	307,523
Social services	**50,294**	45,902
Administration	**1,650,156**	1,664,384
Community relations	**121,834**	127,349
Quality improvement	**102,897**	93,818
Infection control	**57,937**	47,886
Clarinda Medical Association	**169,468**	162,833
Data processing	**271,772**	262,498
	2,769,808	2,712,193
Employee benefits	**1,672,881**	2,013,291
Medical professional fees	**872,401**	871,096
Depreciation and amortization	**854,987**	808,281
Interest	**97,348**	106,347
	$ **16,269,778**	$ 16,775,192

Salaries		Other	
2008	2007	**2008**	2007
$ 278,961	$ 298,198	**$ 180,161**	$ 162,599
141,047	131,810	**324,692**	274,545
35,000	31,750	**67,254**	49,026
146,391	137,371	**111,632**	116,455
601,399	599,129	**683,739**	602,625
220,833	273,482	**124,617**	34,041
49,233	40,867	**1,061**	5,035
590,250	608,294	**1,059,906**	1,056,090
43,593	44,218	**78,241**	83,131
94,744	89,890	**8,153**	3,928
48,720	41,779	**9,217**	6,107
-	-	**169,468**	162,833
32,150	31,438	**239,622**	231,060
1,079,523	1,129,968	**1,690,285**	1,582,225
-	-	**1,672,881**	2,013,291
-	-	**872,401**	871,096
-	-	**854,987**	808,281
-	-	**97,348**	106,347
$ 7,306,286	$ 7,487,608	**$ 8,963,492**	$ 9,287,584

Clarinda Regional Health Center
and Combined Affiliate

Aging Analysis of Accounts Receivable from Patients and Allowance for Doubtful Accounts
Years Ended June 30, 2008 and 2007

Aging Analysis of Accounts Receivable (by Date of Discharge)	**2008 Amount**	**2008 Percent**	2007 Amount	2007 Percent
1-30 days, includes patients in Hospital June 30	$ 1,723,500	42%	$ 1,918,322	48%
30-60 days	730,203	18	682,093	17
61-90 days	284,095	7	303,262	8
91-120 days	246,227	6	222,105	5
121 days and over	1,106,406	27	867,972	22
	4,090,431	100%	3,993,754	100%
Home health and other	2,395		28,377	
Total accounts receivable	4,092,826		4,022,131	
Less allowance for contractual adjustments	843,481		819,063	
Less allowance for doubtful accounts	1,056,793		738,406	
	$ 2,192,552		$ 2,464,662	
Net patient service revenue per calendar day, excludes bad debt	$ 48,019		$ 49,147	
Days of net patient service, revenue in accounts receivable at year-end	46		50	

Allowance for Doubtful Accounts	**2008 Amount**	**2008 Percent of Net Patient Service Revenue**	2007 Amount	2007 Percent of Net Patient Service Revenue
Beginning balance	$ 738,406		$ 750,000	
Add:				
Provision for bad debts	1,133,571	6.47%	899,996	5.02%
Recoveries previously written off	(157,051)	(0.90)	(153,961)	(0.87)
	1,714,926		1,496,035	
Deduct accounts written off	658,133	(3.75)	757,629	(4.28)
Balance ending	$ 1,056,793		$ 738,406	

Clarinda Regional Health Center
and Combined Affiliate

Inventories and Prepaid Expenses
June 30, 2008 and 2007

		2008		2007
Inventories:				
General	**$**	**168,758**	$	133,510
Pharmacy		**215,576**		274,002
Dietary		**10,449**		10,618
Office supplies		**10,809**		10,800
	$	**405,592**	$	428,930
Prepaid expenses:				
Insurance	**$**	**72,155**	$	20,535
Maintenance and other		**19,185**		22,060
	$	**91,340**	$	42,595

Clarinda Regional Health Center
and Combined Affiliate

Schedule of Insurance
Year Ended June 30, 2008
(Unaudited)

Coverage Type	Coverage Period		Coverage Amount
Property, including rental dwellings	6/1/08 thru 5/31/09	$	18,289,000
General liability	6/1/08 thru 5/31/09		1,000,000/3,000,000
Professional	6/1/08 thru 5/31/09		1,000,000/3,000,000
Automobile	6/1/08 thru 5/31/09		1,000,000
Directors and officers liability	6/1/08 thru 5/31/09		1,000,000/3,000,000
Umbrella, excess liability	6/1/08 thru 5/31/09		3,000,000
Workers' compensation	4/1/08 thru 3/31/09		500,000/500,000

Clarinda Regional Health Center
and Combined Affiliate

Comparative Statistics
Years Ended June 30, 2008 and 2007
(Unaudited)

	2008	2007
Acute:		
Admissions	**569**	558
Discharges	**575**	526
Patient days	**1,533**	1,511
Average length of stay	**2.7**	2.6
Swing bed:		
Admissions	**188**	176
Discharges	**190**	176
Patient days	**1,041**	998

Clarinda Regional Health Center
and Combined Affiliate

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Current Number	Comment	Status
Reportable conditions in internal control:		
07-I-A	The Health Center does not have adequate segregation of duties needed for an effective system of internal accounting control over the revenue and receivable cycle.	Corrected.
Other findings related to required statutory reporting:		
07-II-A	A resolution of official depository banks has not been adopted and approved by the Board of Trustees.	Corrected.
07-II-B	Disbursements during the year ended June 30, 2007 exceeded amount budgeted by $603,885.	Corrected.
07-II-G	A formal investment policy has not been adopted by the Health Center.	Corrected.

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, 2008, and have issued our report thereon dated October 27, 2008. 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 as 08-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, 2008 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.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Organization's response, and accordingly, we express no opinion on it.

We noted certain matters that we reported to management of Clarinda Regional Health Center in a separate letter dated October 27, 2008.

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
October 27, 2008

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

08-I-A

Criteria: The Health Center does not have an adequate system over the cutoff of accounts payable.

Condition: During the audit, we identified amounts of accounts payable that were not recorded in the Health Center's financial statements due to the timing of the receipt of the invoice by the Health Center.

Context: Pervasive to the financial statements as a whole.

Effect: Potential misstatement of the financial statements.

Recommendation: We recommend the Health Center implement procedures to ensure all transactions are properly accounted for and recorded in the financial statements as of year-end.

Response and Corrective Action Plan: In addition to existing procedures, management will review minutes from meetings of the Board of Trustees and identify any commitments and contingent liabilities.

(B) Compliance Findings

None reported.

II. Other Findings Related to Required Statutory Reporting

08-II-A – Certified Budget: Disbursements during the year ended June 30, 2008 did not exceed the amount budgeted.

08-II-B – 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.

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

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

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

08-II-F – 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's investment policy were noted.

08-II-G – Mileage Rate for Travel Purposes: While the mileage rate used by the Health Center is not in excess of the amount allowable under Federal Internal Revenue Service rules, this rate was not approved by the Board as required by under Chapter 70A.9 of the Code of Iowa.

Recommendation: The Health Center should on a yearly basis have the Board of Trustees approve a reimbursement rate paid for mileage expenses not to exceed the Federal Internal Revenue Service rate.

Response and Corrective Action Plan: Management will submit changes to the Board for approval.

Conclusion: Response accepted.

McGladrey & Pullen
Certified Public Accountants

Board of Trustees
Clarinda Regional Health Center
Clarinda, Iowa

In planning and performing our audit of the combined basic financial statements of Clarinda Regional Health Center and combined affiliate (Organization) for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control 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 financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to authorize, initiate, 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.

A material weakness is a significant deficiency, or a 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.

We have separately communicated, to you and the Board of Trustees, identified deficiencies that we determined to be significant deficiencies in our letter dated October 27, 2008.

Following are descriptions of other identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

Current Year Recommendations

None

Prior Year Recommendations

Balance Sheet Reconciliations

A good internal control environment includes the timely and accurate preparation of account reconciliations. The Hospital has a few balance sheet accounts that are not consistently reconciled on a monthly basis. Although management has made great strides from the prior year, there are still a few accounts that are not reconciled on a monthly basis, including the following: accrual for health insurance claims, accrued interest expense and capital lease obligations. We recommend for accrued health insurance claims a lag report from the third-party administrator be obtained on a quarterly basis and the accrual adjusted, or a detailed calculation based on past experience with health insurance charges be prepared and reconciled monthly. For interest accrual, the amortization schedules used to adjust debt and lease balances should be used to calculate the interest portion of the next payment and accrue for the portion related to the current period.

In process: The Organization now reconciles capital lease obligations and accrued interest expense; however, the reconciliation of the accrual for health insurance claims was not prepared.

Internal Control Environment

- The Organization currently does not employ an information technology employee. We encourage you to continue your search for an individual to fill the vacancy in your information technology department. We have noted several issues that we suggest this employee address, including the following items:
  - The back-up tape restoration process has not been tested recently to ensure that the system is properly backing-up data which could then be restored in the case of a system collapse.
  - Software licensing is not current in all cases.
  - E-mail is not currently encrypted which could compromise information security.
  - Protected health information is sent through insecure means.
  - Clinics have not been subjected to an IT audit to identify risks and areas for improvement.
  - Network usage is not monitored.

In process: The Organization has hired an information technology employee who is beginning to address these issues.

Loan Covenants

The Health Center currently has several bond financial covenants that are difficult to adhere to and the Health Center has not met the covenants for several years. Due to improving financial performance, the Health Center may be able to negotiate more favorable covenants that would be attainable and thus reduce the Health Center's exposure. The Health Center currently does not formally calculate and monitor compliance with these covenants. We suggest that management periodically review and document its compliance or instances of noncompliance.

In process: Management has not re-negotiated financial covenants, but the lender now receives internal financial information on a regular basis and reviews covenant compliance.

This communication is intended solely for the information and use of the Board of Trustees and management of Clarinda Regional Health Center and combined affiliate and is not intended and should not be used by anyone other than those specified parties. We would be happy to discuss the above items with you in more detail. If you have any questions concerning these items, please contact us.

McGladrey & Pullen, LLP

Davenport, Iowa
October 27, 2008