Clarinda Regional Health Center and Combined Affiliate

Combined Financial Report

06.30.2009

McGladrey & Pullen
Certified Public Accountants

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Clarinda Regional Health Center
and Combined Affiliate

Board of Trustees
Year Ended June 30, 2009

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, 2009 and 2008, 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.

As explained in Note 10 to the financial statements, the Organization changed its method of accounting for other postemployment benefits during the year ended June 30, 2009.

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, 2009 and 2008, 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 reports, dated November 23, 2009 and October 27, 2008, for the years ended June 30, 2009 and 2008, respectively, 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 those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 4 through 10 and budget and budgetary accounting schedule on page 33 and other postemployment benefit plan schedule of funding progress on page 34 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, 2009 and 2008 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 23, 2009

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, 2009. 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, 2009 and 2008 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 $192,300 or 1.3% in 2009 and increased by $1,407,070 or 10.8% in 2008.
- The Organization's net assets increased by $949,684 or 9.0% in 2009 and increased by $1,588,168 or 17.7% in 2008.
- The Organization reported an operating gain of $936,215 in 2009 and an operating gain of $1,434,923 in 2008.

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

	2009	2008	2007
Assets			
Current assets	$ 9,145,580	$ 8,548,605	$ 7,137,913
Noncurrent cash and investments	451,489	407,274	416,403
Capital assets, net	4,968,500	5,479,344	5,467,385
Other assets	7,270	8,695	15,147
Total assets	$ 14,572,839	$ 14,443,918	$ 13,036,848
Liabilities			
Total current liabilities	$ 2,168,591	$ 2,405,445	$ 2,191,264
Long-term debt, less current maturities	946,855	1,465,106	1,860,385
Total liabilities	3,115,446	3,870,551	4,051,649
Net assets:			
Invested in capital assets, net of related debt	3,502,273	3,367,877	2,957,114
Restricted by bond agreement	500,000	500,000	500,000
Unrestricted	7,455,120	6,705,490	5,528,085
Total net assets	11,457,393	10,573,367	8,985,199
Total liabilities and net assets	$ 14,572,839	$ 14,443,918	$ 13,036,848

Asset categories changing significantly during 2009 included cash and cash equivalents, investments and accounts receivable, while certificates of deposit, accounts receivable and estimated third-party payor settlements significantly changed during 2008. Current assets increased by $660,354 or 7.7% in 2009 and increased by $1,410,692 or 20% in 2008. Net patient accounts receivable decreased by $234,962 or 10.7% in 2009 and decreased by $272,110 or 11% in 2008.

Liability categories changing significantly during 2009 included accrued expenses and estimated third-party payor settlements while accrued expenses and accounts payable significantly changed during 2008. Accrued expenses increased by $129,302 or 13.9% in 2009 and decreased by $212,805 or 18.6% in 2008. The estimated third-party payor settlements changed from a liability of $310,000 as of June 30, 2008 to a liability of $40,000 as of June 30, 2009.

The current ratio (current assets divided by current liabilities) for 2009 was 4.38 and 2008 was 3.55. 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

	2009	2008	2007
Operating revenue	$ 18,534,949	$ 17,704,701	$ 18,113,403
Operating expenses	17,664,392	16,269,778	16,775,192
Operating income	870,557	1,434,923	1,338,211
Nonoperating revenue	39,509	158,377	385,728
Nonoperating expense	26,040	5,132	-
	13,469	153,245	385,728
Increase in net assets	884,026	1,588,168	1,723,939
Net assets:			
Beginning	10,573,367	8,985,199	7,261,260
Ending	$ 11,457,393	$ 10,573,367	$ 8,985,199
Total revenue	$ 18,574,458	$ 17,863,078	$ 18,499,131
Total expenses	$ 16,274,910	$ 16,274,910	$ 16,775,192

Net patient service revenue increased $887,073 or 5.1% in 2009 and decreased $411,748 or 2.3% in 2008. 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

	2009	2008	2007
Total gross patient service revenue	$ 27,964,347	$ 26,352,383	$ 26,506,478
Contractual adjustments and provisions for bad debt	(9,617,590)	(8,825,420)	(8,567,767)
Net patient service revenue	$ 18,346,757	$ 17,526,963	$ 17,938,711
Contractual adjustments and provisions for bad debt as a percent of total gross patient service revenue	34.39%	33.49%	32.32%

Total operating expenses increased by $1,452,445 or 8.9% in 2009 and decreased by $505,414 or 3% in 2008. The operating expenses are broken by department on the schedules of operating expenses on pages 38 to 41 of the combined financial report.

The operating margin (total operating revenue less total operating expenses divided by total operating revenue) was a positive 5.0% in 2009 down from a positive operating margin of 8.1% in 2008. Operating income in 2009 was $936,215 compared to operating income of $1,434,923 in 2008.

Other operating revenue made up 1.3% of total operating revenue in 2009 and 1.0% of total operating revenue in 2008. Table 4 shows the detail for this line item.

Table 4: Other Revenue

	2009	2008	2007
Lifeline, net	$ 4,268	$ 14,178	$ 12,448
Dietary	7,211	5,604	6,957
Employee meals	65,506	53,827	49,974
Meals on wheels and congregate meals	51,793	24,273	53,500
Wellness program	6,584	4,622	5,125
Medical records transcripts	7,253	7,017	7,730
Rental income and other miscellaneous	45,577	68,217	38,958
Total other revenue	$ 188,192	$ 177,738	$ 174,692

Organization Statistical Data

Table 5 shows the Organization's statistical data.

Table 5: Statistical Data

	2009	2008	2007
Patient days:			
Acute	1,489	1,533	1,511
Swing bed	1,185	1,041	998
Total	2,674	2,574	2,509
Admissions:			
Acute	528	569	558
Swing bed	176	188	176
Total	704	757	734
Discharges:			
Acute	525	575	526
Swing bed	176	190	176
Total	701	765	702
Average length of stay, acute	2.8	2.7	2.6
Beds, acute and swing	25	25	25
Occupancy percentage, acute and swing, based on 25 beds	29.3%	28.2%	27.5%

The Organization's Cash Flows

The Organization experienced positive cash flows from operations of approximately $2,017,145 in 2009 compared to positive cash flows from operations of approximately $3,308,704 in 2008. 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 a decrease in income from operations.

Capital Assets

As of June 30, 2009 and 2008 the Organization had $4,968,500 and $5,479,344, respectively, invested in capital assets net of accumulated depreciation. In 2009 the Organization had $356,713 of capital asset additions offset by depreciation of $867,557.

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

	2009	2008	2007
Hospital revenue bonds, Series 1997A	$ 278,704	$ 357,090	$ 432,275
Hospital revenue bonds, Series 1997B	530,170	645,207	754,896
Obligations under capital lease	657,353	1,109,170	1,323,100
Total long-term debt	$ 1,466,227	$ 2,111,467	$ 2,510,271

Approximately $808,874 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 $657,353 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 $657,562 or 3.4%.
- The Organization's total operating expenses were under budget by $182,846 or 1.0%.

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 Chris Stipe, 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, 2009 and 2008

Assets	**2009**	2008
Current Assets:		
Cash and cash equivalents	$ **2,176,996**	$ 1,242,678
Certificates of deposit	**3,942,987**	3,834,132
Investments	**403,455**	549,037
Assets limited as to use, restricted by bond agreement	**199,488**	194,197
Receivables:		
Patient, net	**1,957,590**	2,192,552
Other	**24,434**	39,077
Inventories	**382,173**	405,592
Prepaid expenses	**121,836**	91,340
Total current assets	**9,208,959**	8,548,605
Assets Limited as to Use:		
Restricted by bond agreement	**300,512**	305,803
Board-designated for health insurance	**150,977**	101,471
	451,489	407,274
Capital Assets:		
Nondepreciable	**377,995**	377,995
Depreciable, net	**4,590,505**	5,101,349
	4,968,500	5,479,344
Other Assets:		
Employee and physician advances	**7,270**	7,145
Other assets	**-**	1,550
	7,270	8,695
	$ **14,636,218**	$ 14,443,918

See Notes to Combined Basic Financial Statements.

Liabilities and Net Assets	**2009**	2008
Current Liabilities:		
Current maturities of long-term debt	**$ 519,372**	$ 646,361
Accounts payable	**480,266**	516,712
Accrued expenses:		
Salaries, wages and payroll taxes	**426,236**	382,400
Paid leave	**510,438**	424,972
Health insurance claims	**125,000**	125,000
Estimated third-party payor settlements	**40,000**	310,000
Total current liabilities	**2,101,312**	2,405,445
Other Postemployment Benefits	**65,000**	-
Long-Term Debt, less current maturities	**946,855**	1,465,106
Total liabilities	**3,113,167**	3,870,551
Commitments and Contingencies (Notes 9 and 12)		
Net Assets:		
Invested in capital assets, net of related debt	**3,502,273**	3,367,877
Restricted by bond agreement	**500,000**	500,000
Unrestricted	**7,520,778**	6,705,490
	11,523,051	10,573,367
	$ 14,636,218	$ 14,443,918

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Revenue, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	2009	2008
Operating revenue:		
Net patient service revenue	$ 18,414,036	$ 17,526,963
Other revenue	244,402	177,738
Total revenue	18,658,438	17,704,701
Expenses:		
Salaries and wages	7,712,014	7,306,286
Employee benefits	2,250,954	1,672,881
Supplies	2,123,204	2,102,381
Medical professional fees	984,851	872,401
Other costs	3,123,797	2,755,104
Utilities	164,614	202,681
Insurance	171,865	172,059
Leases and rentals	240,378	233,650
Depreciation and amortization	869,107	854,987
Interest	81,439	97,348
Total expenses	17,722,223	16,269,778
Operating income	936,215	1,434,923
Nonoperating income (expense):		
Investment income (loss)	(19,538)	102,493
Contributions	39,509	55,884
Other	(6,502)	(5,132)
Net nonoperating income	13,469	153,245
Change in net assets	949,684	1,588,168
Net assets:		
Beginning	10,573,367	8,985,199
Ending	$ 11,523,051	$ 10,573,367

See Notes to Combined Basic Financial Statements.

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities:		
Cash received from patients and third parties	$ 18,378,998	$ 18,539,073
Cash paid to employees	(9,768,666)	(9,113,222)
Cash paid to suppliers	(6,852,232)	(6,321,922)
Other receipts and payments, net	259,045	204,775
Net cash provided by operating activities	2,017,145	3,308,704
Cash Flows Provided by Noncapital Financing Activities, contributions	39,509	55,884
Cash Flows from Capital and Related Financing Activities:		
Interest paid on long-term debt	(81,439)	(97,348)
Acquisition of capital assets	(356,713)	(656,977)
Proceeds from the sale of capital assets	-	44,139
Principal payments on long-term debt	(645,240)	(664,549)
Net cash (used in) capital and related financing activities	(1,083,392)	(1,374,735)
Cash Flows from Investing Activities:		
Purchases of investments and assets limited as to use	(148,787)	(2,148,311)
Investment income	116,470	144,241
Other	(6,627)	12,957
Net cash (used in) investing activities	(38,944)	(1,991,113)
Increase (decrease) in cash and cash equivalents	934,318	(1,260)
Cash and cash equivalents:		
Beginning	1,242,678	1,243,938
Ending	$ 2,176,996	$ 1,242,678

(Continued)

Clarinda Regional Health Center
and Combined Affiliate

Combined Statements of Cash Flows (Continued)
Years Ended June 30, 2009 and 2008

		2009		2008
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating income	$	936,215	$	1,434,923
Adjustments to reconcile operating income to net cash provided by operating activities:				
Interest expense considered capital financing activity		81,439		97,348
Depreciation		867,557		851,887
Amortization		1,550		3,100
(Increase) decrease in:				
Patient and other receivables, net		249,605		299,147
Inventories		23,419		23,338
Prepaid expenses		(30,496)		(48,745)
Increase (decrease) in:				
Accounts payable and accrued expenses		92,856		(92,294)
Other postemployment benefits		65,000		-
Estimated third-party payor settlements		(270,000)		740,000
Net cash provided by operating activities	$	2,017,145	$	3,308,704
Noncash Capital and Related Financing Activities, capital lease obligation incurred for acquisition of capital assets	$	-	$	265,745
Noncash Investing Activities, net change in unrealized gains (losses)		(136,008)		(41,748)

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). The Organization has elected not to apply FASB guidance subsequent to November 30, 1989.

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

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

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

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

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

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

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

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

Investments, including assets limited as to use, are recorded at fair value in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Investments in equity securities with readily determinable fair values and all investments in debt securities, including those classified as assets limited as to use, are measured at fair value in the combined balance sheets. Securities traded on national or international exchange are valued at the last reported sales price at current exchange rates. The Foundation's investments include unit investments trusts (UIT) which are fixed portfolios of securities, held for a predetermined time where the Foundation has purchased units which represent an undivided ownership in the securities contained in the portfolio. The UIT's are priced at the end of each day, similar to mutual funds, based on market price of the underlying securities. Investment income, including realized gains and losses on investments, interest and dividends, and changes in unrealized gains and losses are included in nonoperating income.

Capital assets: Capital assets are carried at cost or, if donated, at fair value at date of donation. Depreciation is computed by the straight-line method over the assets' estimated useful lives ranging from 3 to 40 years. The amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets. Interest expense related to the construction of capital assets is capitalized. For the years ended June 30, 2009 and 2008, 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 $190,000 and $174,000 for the years ended June 30, 2009 and 2008, 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 $683,000 and $656,000 for the years ended June 30, 2009 and 2008, 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 78% 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, 2007.

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, 2007.

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, 2009 and 2008 is as follows:

	2009	2008
Gross patient service revenue	$ 27,964,347	$ 26,352,383
Less:		
Provision for bad debts	722,789	976,520
Discounts, allowances and estimated contractual adjustments under third-party reimbursement programs	8,827,522	7,848,900
Net patient service revenue	$ 18,414,036	$ 17,526,963

Contractual adjustment expense for the years ended June 30, 2009 and 2008 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 $336,000 and $75,000 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008 consisted of the following:

	2009	2008
Patients	$ 3,477,594	$ 4,092,826
Less:		
Allowance for doubtful accounts	820,280	1,056,793
Allowance for contractual adjustments	699,724	843,481
	$ 1,957,590	$ 2,192,552

Note 4. Cash and Investments

The Health Center has no investments as of June 30, 2009. As of June 30, 2009, the Foundation has the following investments:

	Maturities	Fair Value
Investment:		
First Trust Target Triad	N/A	$ 26,002
First Trust Target Focus Four	N/A	27,639
Mutual funds	N/A	349,814
		$ 403,455

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, 2009 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 $403,455 as of June 30, 2009 of which approximately 13% 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, 2009, 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, 2009 and 2008 consist of the following:

	2009	2008
Cash	$ 2,327,973	$ 1,344,149
Certificates of deposit	4,442,987	4,334,132
Equity securities, unit investment trusts	53,641	164,575
Mutual funds	349,814	384,462
	$ 7,174,415	$ 6,227,318

Note 4. Cash and Investments (Continued)

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

	2009	2008
Cash and cash equivalents	$ 2,176,996	$ 1,242,678
Certificates of deposit	3,942,987	3,834,132
Investments	403,455	549,037
Assets limited as to use, restricted by bond agreement	199,488	194,197
Noncurrent cash and investments:		
Restricted by bond agreement	300,512	305,803
Internally designated for health insurance	150,977	101,471
	$ 7,174,415	$ 6,227,318

Note 5. Capital Assets

Activity in capital assets and accumulated depreciation for the years ended June 30, 2009 and 2008 are as follows:

	June 30, 2008	Additions	Transfers and Disposals	June 30, 2009
Capital assets not being depreciated:				
Land	$ 61,750	$ -	$ -	$ 61,750
Construction in progress	316,245	-	-	316,245
Total capital assets not being depreciated	377,995	-	-	377,995
Capital assets being depreciated:				
Land improvements	220,633	-	-	220,633
Building	6,464,451	17,437	-	6,481,888
Fixed equipment	779,148	-	-	779,148
Movable equipment	5,277,961	339,276	-	5,617,237
Total capital assets being depreciated	12,742,193	356,713	-	13,098,906
Less accumulated depreciation for:				
Land improvements	158,533	11,997	-	170,530
Building	3,326,190	169,986	-	3,496,176
Fixed equipment	717,132	39,687	-	756,819
Movable equipment	3,438,989	645,887	-	4,084,876
Total accumulated depreciation	7,640,844	867,557	-	8,508,401
Total capital assets being depreciated, net	5,101,349	(510,844)	-	4,590,505
Capital assets, net	$ 5,479,344	$ (510,844)	$ -	$ 4,968,500

Note 5. Capital Assets (Continued)

	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 6. Long-Term Debt

Long-term debt activity as of and for the years ended June 30, 2009 and 2008 is as follows:

	June 30, 2008	Borrowings	Payments	June 30, 2009	Due Within One Year
1997 Hospital Revenue Bonds, Series A (A)	$ 357,090	$ -	$ (78,386)	$ 278,704	$ 81,381
1997 Hospital Revenue Bonds, Series B (A)	645,207	-	(115,037)	530,170	118,107
Capital lease obligations (B)	1,109,170	-	(451,817)	657,353	319,884
	$ 2,111,467	$ -	$ (645,240)	$ 1,466,227	$ 519,372

	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

(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, 2009, 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, 2009, 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 $871,548. Principal and interest paid in the current year on both bond issues and total net revenues were $229,053 and $1,890,293, 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:					
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	44,714	1,089	207,521
2014	29,978	414	-	-	30,392
	$ 808,874	$ 62,674	$ 657,353	$ 49,206	$ 1,578,107

The following is the leased equipment as of June 30, 2009 and 2008:

	2009	2008
Moveable equipment	$ 2,072,064	$ 2,072,064
Less accumulated depreciation	1,463,524	1,111,476
	$ 608,540	$ 960,588

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.

For the year ended June 30, 2009, regular and protected plan members are required to contribute 4.10% and 5.63%, respectively, of their annual salary, and the Organization is required to contribute 6.35% and 8.45%, respectively, of annual covered payroll. Contribution requirements are established by State statute. The Organization's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were approximately $483,000, $452,000 and $428,000, 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 $289,000 and $215,000 for the years ended June 30, 2009 and 2008, 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, 2009. 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 $128,000 and $121,000 for the years ended June 30, 2009 and 2008, 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, 2009 and 2008. The Organization has recorded a current liability for open claims and claims incurred but not reported.

	2009	2008
Balance, beginning	$ 125,000	$ 200,050
Claims expense	948,023	615,137
Claims payment	(948,023)	(690,187)
Balance, ending	$ 125,000	$ 125,000

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.

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. The final impact of this program cannot be quantified at this time.

Current economic conditions:

The current economic environment presents organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Organization's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Organization's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts and contributions receivable that could negatively impact the Organization's ability to meet debt covenants or maintain sufficient liquidity.

Note 10. Other Postemployment Benefits (OPEB)

Plan description and funding policy:

The Organization sponsors a post-retirement medical plan that provides post-termination medical insurance coverage for the participant and the participant's family through age 65. The employees eligible under this policy are all employees who terminate employment at or after age 55 with at least 3 years of service. Prior to the participants' age 65, the coverage shall be insured coverage providing a level of benefits reasonably comparable to the standard medical coverage the Organization provides to all full-time employees. The plan coverage terminates upon the participant reaching Medicare eligibility (age 65).

The Organization pays for all or a portion of active employees' coverage. The amount depends on whether single for family coverage is elected. Upon retirement, the retired participant continuing their coverage pays the premium including any increase in single premium after retirement. The required contribution is based on projected pay-as-you-go financing requirements. The Organization contributed $33,000 to the plan during the year ended June 30, 2009.

Annual OPEB cost and net OPEB obligation:

The Organization's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Organization's annual OPEB cost for the year, the amount actuarially contributed to the plan, and changes in the Organization's annual OPEB obligation:

Annual required contribution	$	98,000
Interest on net OPEB obligation		-
Annual OPEB cost (expense)		98,000
Contributions made		33,000
Increase in net OPEB obligation		65,000
Net OPEB obligation, July 1, 2008		-
Net OPEB obligation, June 30, 2009	$	65,000

The Organization's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for fiscal year 2009 is as follows. This is the transition year of GASB Statement No. 45.

		Annual OPEB Cost	Percent of Annual OPEB Cost Contributed		Net OPEB Obligation
Fiscal year ended, June 30, 2009	$	98,000	33.7%	$	65,000

Note 10. Other Postemployment Benefits (OPEB) (Continued)

Funded status and funding progress:

OPEB Obligations under GASB Statement No. 45 as of July 1, 2008 the most recent actuarial valuation date:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)
July 1, 2008	$ -	$ 615,000	$ 615,000	$ -

The covered payroll (annual payroll of active employees covered by the plan) was $7,136,867 and the ratio of UAAL to covered payroll was 8.61%.

Actuarial methods and assumptions:

The actuarial calculations are performed in accordance with the Projected Unit Credit Method as allowed under GASB Statement No. 45. The excess of the AAL over the actuarial value of plan assets is the Unfunded Actuarial Accrued Liability. The Unfunded Actuarial Accrued Liability is amortized over a maximum of 30 years in level dollar amounts on a closed and level percent of payroll basis. The sum of the normal cost and the amortization of the unfunded actuarial accrued liability is the annual required contribution, which with interest at the valuation date, determines the annual OPEB cost.

Economic cost assumptions:

The rate at which projected cash flows are to be discounted is 4.5% based on estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits.

Actuarial calculations reflect a long-term perspective that involves estimates of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Note 11. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements

The Organization adopted the following GASB Statements during the fiscal year ended June 30, 2009:

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* 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. As a result, the Organization has recorded a liability and added note disclosures pertaining to the plan as reflected in Note 10.

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* 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. The adoption of this Statement had no effect on the financial statements.

Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. 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 adoption of this Statement had no effect on the financial statements.

The GASB has issued the following Statements not yet implemented by the Organization:

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. 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.

Note 12. Subsequent Events

The Organization has plans to construct a new facility in Clarinda, Iowa to better meet the needs of the local residents they serve. The current estimated cost of the project is approximately $27,000,000, for which the Organization is pursuing financing options.

In October 2009 the Board authorized the purchase of 30 acres of land in Clarinda, Iowa for a price of approximately $180,000, of which $50,000 was paid in November 2009.

Required Supplementary Information, Budget and Budgetary Accounting
Year Ended June 30, 2009

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, 2009:

GAAP Expenses	Adjustments to Budgetary Basis	Budgetary Basis	Adopted Budget
$ 17,722,223	$ 808,531	$ 18,530,754	$ 18,713,600

Clarinda Regional Health Center
and Combined Affiliate

Required Supplementary Information, Other Postemployment Benefit Plan
Year Ended June 30, 2009

SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over-funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7/1/2008	**$ -**	**$ 615,000**	**$ 615,000**	**0.00%**	**$ 7,136,867**	**8.61%**

NOTE: Fiscal year 2009 is the transition year for GASB Statement No. 45

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2008. Additional information follows:

1. The cost method used to determine the ARC is the Projected Unit Credit Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions are as follows: health care cost trend rates of 5.0-11.0%; discount rate of 4.5%.
4. The amortization method is closed period, level percent of payroll basis.

Clarinda Regional Health Center
and Combined Affiliate

Net Patient Service Revenue
Years Ended June 30, 2009 and 2008

	Total	
	2009	2008
Routine services, medical and surgical	$ **1,622,200**	$ 1,584,117
Other nursing services:		
Operating room	**1,494,912**	1,482,675
Recovery room	**140,194**	133,284
Emergency room	**1,426,868**	1,415,711
Home health agency	**27,498**	233,322
	3,089,472	3,264,992
Other professional services:		
Ambulance	**787,950**	896,689
Anesthesiology	**449,085**	464,550
Blood service	**50,045**	54,591
Cardiac rehabilitation	**510,315**	460,128
Clinic	**758,240**	734,331
CT scan	**2,710,108**	2,580,185
Electrocardiology	**137,828**	113,935
Hypnotherapy	**8,361**	9,107
Inhalation therapy	**2,044,320**	1,045,695
Intravenous therapy	**676,884**	419,075
Laboratory	**4,121,403**	3,898,917
Nuclear medicine	**263,469**	183,844
Occupational therapy	**297,162**	211,639
Pharmacy	**3,873,649**	3,938,905
Physical therapy	**951,408**	845,546
Radiology	**2,389,885**	2,392,768
Speech therapy	**6,997**	3,740
Ultrasound	**311,931**	261,630
Villisca Rural Health Clinic	**125,850**	131,614
Wound care	**71,990**	37,697
Clarinda Medical Associates	**2,895,316**	2,992,696
	23,442,196	21,677,282
Patient service revenue	**28,153,868**	26,526,391
Less charity care	**189,521**	174,008
	27,964,347	26,352,383
Less contractual adjustments and bad debts	**9,550,311**	8,825,420
Net patient service revenue	$ **18,414,036**	$ 17,526,963

Inpatient		Outpatient	
2009	2008	**2009**	2008
$ 1,493,958	$ 1,466,553	**$ 128,242**	$ 117,564
209,106	255,660	**1,285,806**	1,227,015
10,772	9,654	**129,422**	123,630
13,426	27,562	**1,413,442**	1,388,149
-	-	**27,498**	233,322
233,304	292,876	**2,856,168**	2,972,116
-	-	**787,950**	896,689
46,807	53,122	**402,278**	411,428
26,667	31,770	**23,378**	22,821
95,530	73,580	**414,785**	386,548
3,319	2,375	**754,921**	731,956
362,718	266,612	**2,347,390**	2,313,573
13,951	14,300	**123,877**	99,635
-	-	**8,361**	9,107
1,689,306	771,512	**355,014**	274,183
147,147	53,013	**529,737**	366,062
418,367	383,914	**3,703,036**	3,515,003
8,442	8,831	**255,027**	175,013
78,608	78,657	**218,554**	132,982
1,268,586	1,030,467	**2,605,063**	2,908,438
111,622	108,800	**839,786**	736,746
146,157	138,102	**2,243,728**	2,254,666
747	1,285	**6,250**	2,455
31,357	24,697	**280,574**	236,933
-	-	**125,850**	131,614
18,940	-	**53,050**	37,697
-	-	**2,895,316**	2,992,696
4,468,271	3,041,037	**18,973,925**	18,636,245
$ 6,195,533	$ 4,800,466	**$ 21,958,335**	$ 21,725,925

Clarinda Regional Health Center
and Combined Affiliate

Adjustments to Patient Service Revenue and Other Revenue
Years Ended June 30, 2009 and 2008

	2009	2008
Adjustments to patient service revenue:		
Contractual adjustments:		
Medicare	$ 5,288,612	$ 4,383,455
Medicaid	683,089	656,429
Other	2,855,821	2,809,016
Provision for bad debts	722,789	976,520
Total contractual adjustments and bad debts	$ 9,550,311	$ 8,825,420

	2009	2008
Other revenue:		
Lifeline, net	$ 4,268	$ 14,178
Dietary	7,211	5,604
Employee meals	65,506	53,827
Meals on wheels and congregate meals	51,793	24,273
Wellness program	6,584	4,622
Medical records transcripts	7,253	7,017
Rental income and other miscellaneous	101,787	68,217
Total other revenue	$ 244,402	$ 177,738

Clarinda Regional Health Center
and Combined Affiliate

Operating Expenses
Years Ended June 30, 2009 and 2008

	Total	
	2009	2008
Nursing services:		
Nursing administration	$ **75,583**	$ 72,693
Routine care	**1,390,241**	1,264,079
Operating room	**716,118**	649,134
Emergency room	**738,820**	688,178
Home health agency	**58,933**	165,754
	2,979,695	2,839,838
Other professional services:		
Ambulance	**190,981**	200,176
Anesthesiology	**11,465**	11,926
Cardiac rehabilitation	**86,892**	88,199
Central service and supply	**71,695**	69,668
Clinic	**268,958**	242,709
CT scan	**174,046**	87,714
Electrocardiology	**6,827**	5,812
Hypnotherapy	**4,102**	5,803
Inhalation therapy	**209,147**	184,627
Laboratory	**769,752**	743,441
Nuclear medicine	**125,911**	91,005
Occupational therapy	**3,961**	3,031
Pharmacy	**1,512,504**	1,448,522
Physical therapy	**86,372**	72,252
Radiology	**614,873**	647,299
Ultrasound	**68,986**	61,020
Clarinda Medical Associates	**1,769,047**	1,680,747
Villisca Rural Health Clinic	**176,189**	195,102
Wellness	**6,798**	5,773
Wound care	**52,080**	32,551
	$ **6,210,586**	$ 5,877,377

Salaries		Other	
2009	2008	**2009**	2008
$ 73,806	$ 70,044	**$ 1,777**	$ 2,649
1,031,678	1,003,185	**358,563**	260,894
514,580	465,180	**201,538**	183,954
692,306	635,139	**46,514**	53,039
50,689	132,592	**8,244**	33,162
2,363,059	2,306,140	**616,636**	533,698
126,172	115,960	**64,809**	84,216
-	-	**11,465**	11,926
60,582	57,087	**26,310**	31,112
69,851	66,935	**1,844**	2,733
238,120	206,070	**30,838**	36,639
-	-	**174,046**	87,714
3,319	3,207	**3,508**	2,605
3,630	5,536	**472**	267
110,933	102,510	**98,214**	82,117
282,522	285,609	**487,230**	457,832
-	-	**125,911**	91,005
-	-	**3,961**	3,031
162,145	134,670	**1,350,359**	1,313,852
66,456	53,479	**19,916**	18,773
354,385	356,305	**260,488**	290,994
54,699	53,780	**14,287**	7,240
1,769,047	1,680,747	**-**	-
151,966	167,964	**24,223**	27,138
-	-	**6,798**	5,773
52,080	29,365	**-**	3,186
$ 3,505,907	$ 3,319,224	**$ 2,704,679**	$ 2,558,153

(Continued)

Clarinda Regional Health Center
And Combined Affiliate

Operating Expenses (Continued)
Years Ended June 30, 2009 and 2008

	Total	
	2009	2008
General services:		
Dietary	**$ 556,841**	$ 459,122
Operation of plant	**424,991**	465,739
Clarinda Medical Foundation	**103,064**	102,254
Housekeeping	**292,922**	258,023
	1,377,818	1,285,138
Administrative services:		
Medical records	**351,890**	345,450
Social services	**52,955**	50,294
Administration	**1,849,032**	1,650,156
Community relations	**132,371**	121,834
Quality improvement	**102,840**	102,897
Infection control	**53,163**	57,937
Clarinda Medical Association	**174,940**	169,468
Data processing	**250,582**	271,772
	2,967,773	2,769,808
Employee benefits	**2,250,954**	1,672,881
Medical professional fees	**984,851**	872,401
Depreciation and amortization	**869,107**	854,987
Interest	**81,439**	97,348
	$ 17,722,223	$ 16,269,778

Salaries		Other	
2009	2008	**2009**	2008
$ 326,297	$ 278,961	**$ 230,544**	$ 180,161
154,433	141,047	**270,558**	324,692
45,125	35,000	**57,939**	67,254
173,427	146,391	**119,495**	111,632
699,282	601,399	**678,536**	683,739
210,615	220,833	**141,275**	124,617
46,685	49,233	**6,270**	1,061
656,052	590,250	**1,192,980**	1,059,906
45,366	43,593	**87,005**	78,241
100,151	94,744	**2,689**	8,153
46,302	48,720	**6,861**	9,217
-	-	**174,940**	169,468
38,595	32,150	**211,987**	239,622
1,143,766	1,079,523	**1,824,007**	1,690,285
-	-	**2,250,954**	1,672,881
-	-	**984,851**	872,401
-	-	**869,107**	854,987
-	-	**81,439**	97,348
$ 7,712,014	$ 7,306,286	**$ 10,010,209**	$ 8,963,492

Clarinda Regional Health Center
and Combined Affiliate

Aging Analysis of Accounts Receivable from Patients and Allowance for Doubtful Accounts
Years Ended June 30, 2009 and 2008

Aging Analysis of Accounts Receivable (by Date of Discharge)	**2009 Amount**	**2009 Percent**	2008 Amount	2008 Percent
1-30 days, includes patients in Hospital June 30	**$ 1,619,459**	**47%**	$ 1,723,500	42%
30-60 days	**483,558**	**14**	730,203	18
61-90 days	**295,790**	**9**	284,095	7
91-120 days	**182,275**	**5**	246,227	6
121 days and over	**891,939**	**26**	1,106,406	27
	3,473,021	**100%**	4,090,431	100%
Home health and other	**4,573**		2,395	
Total accounts receivable	**3,477,594**		4,092,826	
Less allowance for contractual adjustments	**699,724**		843,481	
Less allowance for doubtful accounts	**820,280**		1,056,793	
	$ 1,957,590		$ 2,192,552	
Net patient service revenue per calendar day, excludes bad debt	**$ 50,449**		$ 48,019	
Days of net patient service revenue in accounts receivable at year-end	**39**		46	

Allowance for Doubtful Accounts	**2009 Amount**	**2009 Percent of Net Patient Service Revenue**	2008 Amount	2008 Percent of Net Patient Service Revenue
Beginning balance	**$ 1,056,793**		$ 738,406	
Add:				
Provision for bad debts	**896,014**	**4.87%**	1,133,571	6.47%
Recoveries previously written off	**(173,225)**	**(0.94)**	(157,051)	(0.90)
	1,779,582		1,714,926	
Deduct accounts written off	**959,302**	**(5.21)**	658,133	(3.75)
Balance ending	**$ 820,280**		$ 1,056,793	

Clarinda Regional Health Center
and Combined Affiliate

Inventories and Prepaid Expenses
June 30, 2009 and 2008

		2009		2008
Inventories:				
General	$	**139,288**	$	168,758
Pharmacy		**224,123**		215,576
Dietary		**13,448**		10,449
Office supplies		**5,314**		10,809
	$	**382,173**	$	405,592
Prepaid expenses:				
Insurance	$	**72,683**	$	72,155
Maintenance and other		**49,153**		19,185
	$	**121,836**	$	91,340

Clarinda Regional Health Center
and Combined Affiliate

Schedule of Insurance
Year Ended June 30, 2009
(Unaudited)

Coverage Type	Coverage Period		Coverage Amount
Property, including rental dwellings	6/1/09 thru 5/31/10	$	18,289,000
General liability	6/1/09 thru 5/31/10		1,000,000/3,000,000
Professional	6/1/09 thru 5/31/10		1,000,000/3,000,000
Automobile	6/1/09 thru 5/31/10		1,000,000
Directors and officers liability	7/1/08 thru 7/1/09		1,000,000/3,000,000
Umbrella, excess liability	6/1/09 thru 5/31/10		3,000,000
Workers' compensation	4/1/09 thru 3/31/10		500,000/500,000

Clarinda Regional Health Center
and Combined Affiliate

Comparative Statistics
Years Ended June 30, 2009 and 2008
(Unaudited)

	2009	2008
Acute:		
Admissions	**528**	569
Discharges	**525**	575
Patient days	**1,489**	1,533
Average length of stay	**2.8**	2.7
Swing bed:		
Admissions	**173**	188
Discharges	**176**	190
Patient days	**1,185**	1,041

Clarinda Regional Health Center
and Combined Affiliate

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2009

Current Number	Comment	Status
Reportable conditions in internal control:		
08-I-A	The Health Center does not have an adequate system over the cutoff of accounts payable.	Corrected.
Other findings related to required statutory reporting:		
08-II-G	The mileage rate for travel purposes was not approved by the Board of Trustees.	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, 2009, and have issued our report thereon dated November 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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 our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clarinda Regional Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 deficiencies described in the accompanying schedule of findings as item 09-I-A to be significant deficiencies 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 the 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 the 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 none of the significant deficiencies described above 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.*

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center. 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 23, 2009.

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 23, 2009

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

09-I-A

Criteria: The Health Center does not have an adequate system over monitoring the outstanding checks associated with the main operating account.

Condition: During the audit, we identified checks dating back to August 2005, on the outstanding checks listing of the Health Center's operating account which understated cash.

Context: Pervasive to the financial statements as a whole.

Effect: Potential misstatement of the financial statements.

Recommendations: We recommend the Health Center implement procedures to ensure all outstanding checks are reviewed to ensure the Health Center's account timely clearing of and ensure appropriate escheat laws are adhered to if checks are not cashed.

Response and corrective action plan: Management will implement a control to review the outstanding checks on a quarterly basis. After an investigation, the check will be voided or re-issued.

(B) Compliance Findings

None reported.

II. Other Findings Related to Required Statutory Reporting

09-II-A – Certified Budget: Disbursements during the year ended June 30, 2009 did not exceed the amount budgeted.

09-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.

09-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.

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

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

09-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.

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, 2009, 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a control deficiency, or a combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We have separately communicated, to you and the Board of Trustees, identified deficiencies that we determined to be significant deficiencies in our letter dated November 23, 2009.

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

CURRENT YEAR CONTROL DEFICIENCIES

None

Prior Year Control Deficiencies

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.

Resolved: The Organization now reconciles capital lease obligations, accrued interest expense and the accrual for health insurance claims.

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.

Resolved: The Organization has hired an information technology employee who has addressed the above matters.

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.

Current Year Management Recommendations

Capital Assets

We understand that the Organization is in the process of evaluating the feasibility of constructing a new facility. We want to take this opportunity to remind you that if and when it becomes probable that a new facility will be built, management should review the listing of capital assets and accelerate depreciation on any assets that will not be used when the new facility is opened. Accounting standards require that the depreciation should be accelerated so that assets are fully depreciated when they are no longer being used.

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
November 23, 2009