

Clarinda Regional Health Center

Financial Report
June 30, 2010

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Clarinda Regional Health Center

**Board of Trustees
Year Ended June 30, 2010**

Name	Title
Stanley Johnson	Chairman
Ron Richardson	Vice Chairman
Joy Tunnicliff	Secretary/Treasurer
Dale McAllister	Trustee
Mary Etta Hanson	Trustee
* * * * *	
Christopher Stipe	CEO
Melissa Walter	CFO



Independent Auditor's Report

Board of Trustees
Clarinda Regional Health Center
Clarinda, Iowa

We have audited the accompanying balance sheets of Clarinda Regional Health Center (the Organization), an enterprise fund of the City of Clarinda, Iowa as of June 30, 2010 and 2009, and the related 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 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 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Clarinda Regional Health Center as of June 30, 2010 and 2009, and the results of its operations and its 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 22, 2010 and November 23, 2009, for the years ended June 30, 2010 and 2009, respectively, on our consideration of 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 3 through 9 and budget and budgetary accounting schedule on page 31 and other postemployment benefit plan schedule of funding progress on page 32 are not required parts of the 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 basic financial statements of the Organization. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information as of and for the years ended June 30, 2010 and 2009 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying Clarinda Regional Health Center schedules 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 basic financial statements. This information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Davenport, Iowa
November 22, 2010

Clarinda Regional Health Center

Management's Discussion and Analysis Years Ended June 30, 2010 and 2009

This section of Clarinda Regional Health Center's (the Organization) annual audited financial report represents management's discussion and analysis of the Organization's financial performance during the fiscal year ended June 30, 2010. 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, 2010 and 2009 Independent Auditor's Report includes audited financial statements that include:

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

Financial Highlights

- The Organization's total assets increased by \$26,677,492 or 182.3% in 2010 and increased by \$192,300 or 1.3% in 2009.
- The Organization's net assets increased by \$556,587 or 4.8% in 2010 and increased by \$949,684 or 9.0% in 2009.
- The Organization reported operating income of \$312,227 in 2010 and operating income of \$936,215 in 2009.

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

These financial statements report information about Clarinda Regional Health Center 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

Clarinda Regional Health Center

**Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009**

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 is 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

	2010	2009	2008
Assets			
Current assets	\$ 8,625,018	\$ 9,208,959	\$ 8,548,605
Noncurrent cash and investments	26,380,837	451,489	407,274
Capital assets, net	5,880,715	4,968,500	5,479,344
Other assets	427,140	7,270	8,695
Total assets	\$ 41,313,710	\$ 14,636,218	\$ 14,443,918
Liabilities			
Total current liabilities	\$ 2,194,957	\$ 2,101,312	\$ 2,405,445
Long-term debt, less current maturities	27,039,115	1,011,855	1,465,106
Total liabilities	29,234,072	3,113,167	3,870,551
Net assets:			
Invested in capital assets, net of related debt	4,274,671	3,502,273	3,367,877
Restricted by bond agreement	649,000	500,000	500,000
Unrestricted	7,155,967	7,520,778	6,705,490
Total net assets	12,079,638	11,523,051	10,573,367
Total liabilities and net assets	\$ 41,313,710	\$ 14,636,218	\$ 14,443,918

Asset categories changing significantly during 2010 included increases in noncurrent assets limited as to use, capital assets and other assets due to the issuance of bonds which will be used to construct a new facility. Estimated third-party payor settlements also increased in 2010 while cash and cash equivalents decreased in 2010. Accounts receivable, investments, and cash and cash equivalents had significant changes in 2009. Current assets decreased by \$583,941 or 6.3% in 2010 and increased by \$660,354 or 7.7% in 2009. Net patient accounts receivable increased by \$60,648 or 3.1% in 2010 and decreased by \$234,962 or 10.7% in 2009.

Liability categories changing significantly during 2010 included accounts payable and long-term debt while accrued expenses and estimated third-party payor settlements significantly changed during 2009. Accounts payable increased by \$538,138 or 112.0% in 2010 and decreased by \$36,446 or 7.1% in 2009. The estimated third-party payor settlements changed from a liability of \$40,000 as of June 30, 2009 to a receivable of \$352,000 as of June 30, 2010.

Clarinda Regional Health Center

**Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009**

The current ratio (current assets divided by current liabilities) for 2010 was 3.93 and 2009 was 4.38. 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

	2010	2009	2008
Operating revenue	\$ 18,282,391	\$ 18,658,438	\$ 17,704,701
Operating expenses	17,970,164	17,722,223	16,269,778
Operating income	312,227	936,215	1,434,923
Nonoperating revenue	244,360	39,509	158,377
Nonoperating expense	-	26,040	5,132
	244,360	13,469	153,245
Increase in net assets	556,587	949,684	1,588,168
Net assets:			
Beginning	11,523,051	10,573,367	8,985,199
Ending	\$ 12,079,638	\$ 11,523,051	\$ 10,573,367
Total revenue	\$ 18,526,751	\$ 18,697,947	\$ 17,863,078
Total expenses	\$ 17,970,164	\$ 17,748,263	\$ 16,274,910

Clarinda Regional Health Center

**Management's Discussion and Analysis
Years Ended June 30, 2010 and 2009**

Net patient service revenue decreased \$297,451 or 1.6% in 2010 and increased \$887,073 or 5.1% in 2009. 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

	2010	2009	2008
Total gross patient service revenue	\$ 28,248,225	\$ 27,964,347	\$ 26,352,383
Contractual adjustments and provisions for bad debt	(10,131,640)	(9,550,311)	(8,825,420)
Net patient service revenue	\$ 18,116,585	\$ 18,414,036	\$ 17,526,963
Contractual adjustments and provisions for bad debt as a percent of total gross patient service revenue	35.87%	34.15%	33.49%

Total operating expenses increased by \$247,941 or 1.4% in 2010 and increased by \$1,452,445 or 8.9% in 2009. The operating expenses are broken by department on the schedules of operating expenses on pages 36 to 39 of the financial report.

The operating margin (total operating revenue less total operating expenses divided by total operating revenue) was a positive 1.7% in 2010 down from a positive operating margin of 5.0% in 2009. Operating income in 2010 was \$312,227 compared to operating income of \$936,215 in 2009.

Other operating revenue made up 0.9% of total operating revenue in 2010 and 1.3% of total operating revenue in 2009. Table 4 shows the detail for this line item.

Table 4: Other Revenue

	2010	2009	2008
Lifeline, net	\$ 6,449	\$ 4,268	\$ 14,178
Dietary	12,510	7,211	5,604
Employee meals	72,665	65,506	53,827
Meals on wheels and congregate meals	58,111	51,793	24,273
Wellness program	13,439	6,584	4,622
Medical records transcripts	7,059	7,253	7,017
Other miscellaneous	(4,427)	101,787	68,217
Total other revenue	\$ 165,806	\$ 244,402	\$ 177,738

Clarinda Regional Health Center

Management's Discussion and Analysis Years Ended June 30, 2010 and 2009

Organization Statistical Data

Table 5 shows the Organization's statistical data.

Table 5: Statistical Data

	2010	2009	2008
Patient days:			
Acute	1,272	1,489	1,533
Swing bed	763	1,185	1,041
Total	2,035	2,674	2,574
Admissions:			
Acute	453	528	569
Swing bed	131	173	188
Total	584	701	757
Discharges:			
Acute	450	525	575
Swing bed	128	176	190
Total	578	701	765
Average length of stay, acute	2.8	2.8	2.7
Beds, acute and swing	25	25	25
Occupancy percentage, acute and swing, based on 25 beds	22.3%	29.3%	28.2%

The Organization's Cash Flows

The Organization experienced positive cash flows from operations of approximately \$682,200 in 2010 compared to positive cash flows from operations of approximately \$2,017,145 in 2009. The change in cash flows from operations is primarily due to an increase in patient accounts receivable and estimated third-party payor settlements along with a decrease in income from operations.

Capital Assets

As of June 30, 2010 and 2009 the Organization had \$5,880,715 and \$4,968,500, respectively, invested in capital assets net of accumulated depreciation. In 2010 the Organization had \$1,779,499 of capital asset additions offset by depreciation of \$807,284.

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

Clarinda Regional Health Center

Management's Discussion and Analysis Years Ended June 30, 2010 and 2009

Long-Term Debt

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

Table 6: Long-Term Debt

	2010	2009	2008
Hospital revenue bonds, Series 1997A	\$ -	\$ 278,704	\$ 357,090
Hospital revenue bonds, Series 1997B	-	530,170	645,207
Hospital revenue bonds, Series 2010A	18,900,000	-	-
Hospital revenue bonds, Series 2010B	6,355,000	-	-
Hospital revenue bonds, Series 2010C	1,745,000	-	-
Less unamortized bond discount	(203,850)	-	-
Obligations under capital lease	329,131	657,353	1,109,170
Total long-term debt	\$ 27,125,281	\$ 1,466,227	\$ 2,111,467

Approximately \$27,000,000 of the outstanding long-term debt held by the Organization consists of the Series 2010A, Series 2010B and Series 2010C Hospital Revenue Bonds. The Series A bonds are due in semi-annual installments of interest only through June 2012. Upon completion of the new facility construction project, USDA Direct Loan Bonds will refund the Series 2010A notes with the purchase of revenue bonds for permanent financing. Semi-annual principal and interest payments will be made through June 2052. The Series B bonds are due in semi-annual installments of interest only through June 2012. Semi-annual payments of principal and interest will begin in June 2012 and continue through June 2030. The Series C bonds are due in semi-annual installments of interest only through June 2030. Semi-annual payments of principal and interest will begin in December 2030 and continue through June 2033. The Organization also has incurred capital lease obligations totaling approximately \$329,131 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 \$132,109 or 0.7%.
- The Organization's total operating expenses were over budget by \$88,164 or 0.5%.

Clarinda Regional Health Center

Management's Discussion and Analysis Years Ended June 30, 2010 and 2009

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'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 Christopher Stipe, CEO at Clarinda Regional Health Center, 17th and Wells Streets, Clarinda, Iowa 51632.

Clarinda Regional Health Center

Balance Sheets
June 30, 2010 and 2009

Assets	2010	2009
Current Assets:		
Cash and cash equivalents	\$ 1,021,848	\$ 2,176,996
Certificates of deposit	4,508,716	3,942,987
Investments	81,290	403,455
Assets limited as to use, restricted by bond agreement	-	199,488
Receivables:		
Patient, net	2,018,238	1,957,590
Other	46,745	24,434
Inventories	454,391	382,173
Prepaid expenses	141,790	121,836
Estimated third-party payor settlements	352,000	-
Total current assets	8,625,018	9,208,959
Assets Limited as to Use:		
Restricted by bond agreements	26,168,237	300,512
Board-designated for health insurance	212,600	150,977
	26,380,837	451,489
Capital Assets:		
Nondepreciable	1,648,899	377,995
Depreciable, net	4,231,816	4,590,505
	5,880,715	4,968,500
Other Assets:		
Employee and physician advances	5,845	7,270
Bond issuance costs, net of accumulated amortization	421,295	-
	427,140	7,270
	\$ 41,313,710	\$ 14,636,218

See Notes to Basic Financial Statements.

Liabilities and Net Assets	2010	2009
Current Liabilities:		
Current maturities of long-term debt	\$ 216,166	\$ 519,372
Accounts payable:		
Trade	647,772	480,266
Construction	370,632	-
Accrued expenses:		
Salaries, wages and payroll taxes	327,953	426,236
Paid leave	532,434	510,438
Health insurance claims	100,000	125,000
Estimated third-party payor settlements	-	40,000
Total current liabilities	2,194,957	2,101,312
Other Postemployment Benefits	130,000	65,000
Long-Term Debt, less current maturities	26,909,115	946,855
Total liabilities	29,234,072	3,113,167
Commitments and Contingencies (Notes 5 and 9)		
Net Assets:		
Invested in capital assets, net of related debt	4,274,671	3,502,273
Restricted by bond agreements	649,000	500,000
Unrestricted	7,155,967	7,520,778
	12,079,638	11,523,051
	\$ 41,313,710	\$ 14,636,218

Clarinda Regional Health Center

**Statements of Revenue, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009**

	2010	2009
Operating revenue:		
Net patient service revenue	\$ 18,116,585	\$ 18,414,036
Other revenue	165,806	244,402
Total revenue	18,282,391	18,658,438
Expenses:		
Salaries and wages	8,013,941	7,712,014
Employee benefits	2,248,366	2,250,954
Supplies	1,960,990	2,123,204
Medical professional fees	1,023,236	984,851
Other costs	3,250,388	3,123,797
Utilities	169,248	164,614
Insurance	235,546	171,865
Leases and rentals	246,876	240,378
Depreciation and amortization	807,284	869,107
Interest	14,289	81,439
Total expenses	17,970,164	17,722,223
Operating income	312,227	936,215
Nonoperating income (expense):		
Investment income (loss)	182,153	(19,538)
Contributions	35,289	39,509
Other	26,918	(6,502)
Net nonoperating income	244,360	13,469
Change in net assets	556,587	949,684
Net assets:		
Beginning	11,523,051	10,573,367
Ending	\$ 12,079,638	\$ 11,523,051

See Notes to Basic Financial Statements.

Clarinda Regional Health Center

**Statements of Cash Flows
Years Ended June 30, 2010 and 2009**

	2010	2009
Cash Flows from Operating Activities:		
Cash received from patients and third parties	\$ 17,663,937	\$ 18,378,998
Cash paid to employees	(10,273,594)	(9,768,666)
Cash paid to suppliers	(6,835,950)	(6,852,232)
Other receipts and payments, net	127,807	259,045
Net cash provided by operating activities	682,200	2,017,145
Cash Flows Provided by Noncapital Financing Activities, contributions		
	35,289	39,509
Cash Flows from Capital and Related Financing Activities:		
Interest paid on long-term debt	(51,776)	(81,439)
Acquisition of capital assets	(1,534,910)	(356,713)
Proceeds from the sale of capital assets	15,688	-
Principal payments on long-term debt	(1,137,096)	(645,240)
Proceeds from long-term debt	26,796,150	-
Payment of bond issuance costs	(197,765)	-
Net cash provided by (used in) capital and related financing activities	23,890,291	(1,083,392)
Cash Flows from Investing Activities:		
Purchases of investments and assets limited as to use	(25,878,262)	(148,787)
Investment income	86,991	116,470
Other	28,343	(6,627)
Net cash (used in) investing activities	(25,762,928)	(38,944)
Increase (decrease) in cash and cash equivalents	(1,155,148)	934,318
Cash and cash equivalents:		
Beginning	2,176,996	1,242,678
Ending	\$ 1,021,848	\$ 2,176,996

(Continued)

Clarinda Regional Health Center

Statements of Cash Flows (Continued)
Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities:		
Operating income	\$ 312,227	\$ 936,215
Adjustments to reconcile operating income to net cash provided by operating activities:		
Interest expense considered capital financing activity	14,289	81,439
Depreciation	807,284	867,557
Amortization	-	1,550
(Gain) on sale of capital assets	(15,688)	-
(Increase) decrease in:		
Patient and other receivables, net	(82,959)	249,605
Inventories	(72,218)	23,419
Prepaid expenses	(19,954)	(30,496)
Increase (decrease) in:		
Accounts payable and accrued expenses	66,219	92,856
Other postemployment benefits	65,000	65,000
Estimated third-party payor settlements	(392,000)	(270,000)
Net cash provided by operating activities	\$ 682,200	\$ 2,017,145
Noncash Capital and Related Financing Activities:		
Increase in accounts payable related to construction in progress	\$ 207,102	\$ -
Increase in accounts payable related to cost of issuing bonds	163,530	-
Capitalized interest included in capital asset additions	37,487	-
Noncash Investing Activities, net change in unrealized gains (losses)		
	95,162	(136,008)

See Notes to Basic Financial Statements.

Clarinda Regional Health Center

Notes to 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 and support the charitable health care mission of Clarinda Regional Health Center. The Foundation is a 501(c)(3) not-for-profit organization. The Health Center and the Foundation are collectively referred to as the Organization.

Significant accounting policies:

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 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. Based on these criteria, Clarinda Medical Foundation is included within the reporting entity. All material inter-organization transactions and balances have been eliminated. The financial activities of Clarinda Medical Foundation are blended with the Health Center in the financial statement presentation. Because the assets, liabilities, net assets, revenues and expenses are not significant to the reporting entity, they are presented on a combined basis with the Health Center. Separate financial statements of Clarinda Medical Foundation are not available.

The financial statements are those of Clarinda Regional Health Center, an enterprise fund of the City of Clarinda, Iowa. The financial statements present only Clarinda Regional Health Center and are not intended to present fairly the financial position of the City of Clarinda, Iowa, as of June 30, 2010 and 2009, and the results of its operations and the cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

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 balance sheets.

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.

Clarinda Regional Health Center

Notes to Basic Financial Statements

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

Accounting estimates: The preparation of 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 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 estimated 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 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, and assets held by trustee under the bond agreements.

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 balance sheets. Securities traded on national or international exchange are valued at the last reported sales price at current exchange rates. Investment income, including realized gains and losses on investments, interest and dividends, and changes in unrealized gains and losses are included in nonoperating income.

Capital assets: Capital assets are carried at cost or, if donated, at fair value at date of donation. Depreciation is computed by the straight-line method over the assets' estimated useful lives ranging from 3 to 40 years. The amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets. Interest expense related to the construction of capital assets is capitalized. For the years ended June 30, 2010 and 2009 there was \$37,487 and none, respectively of interest capitalized on construction.

Clarinda Regional Health Center

Notes to Basic Financial Statements

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

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.

Unamortized bond issuance costs: Costs related to the issuance of long-term debt are deferred and amortized using the effective interest method over the period during which the debt is outstanding.

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

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

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

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

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 reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

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.

Clarinda Regional Health Center

Notes to Basic Financial Statements

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

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 \$195,000 and \$190,000 for the years ended June 30, 2010 and 2009, 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 \$930,000 and \$683,000 for the years ended June 30, 2010 and 2009, 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 81% and 78% of the Organization's net patient service revenue was earned under agreements with Medicare, Medicaid and Blue Cross for the years ended June 30, 2010 and 2009, respectively. 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, 2009.

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.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 2. Net Patient Service Revenue (Continued)

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, 2010 and 2009 is as follows:

	2010	2009
Gross patient service revenue	\$ 28,248,225	\$ 27,964,347
Less:		
Provision for bad debts	726,232	722,789
Discounts, allowances and estimated contractual adjustments under third-party reimbursement programs	9,405,408	8,827,522
Net patient service revenue	\$ 18,116,585	\$ 18,414,036

Contractual adjustment expense for the years ended June 30, 2010 and 2009 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 \$161,000 and \$336,000 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009 consisted of the following:

	2010	2009
Patients	\$ 3,653,502	\$ 3,477,594
Less:		
Allowance for doubtful accounts	741,940	820,280
Allowance for contractual adjustments	893,324	699,724
	\$ 2,018,238	\$ 1,957,590

Note 4. Cash and Investments

As of June 30, 2010, all of the Health Center's investments were maintained in U.S. Treasury notes, while the Foundation's investments were maintained in mutual funds.

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.

Clarinda Regional Health Center

Notes to Basic Financial Statements

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 U.S. Treasury notes and mutual funds held by the Health Center and Foundation as of June 30, 2010 are not rated by a nationally recognized statistical rating organization.

Concentration of credit risk: The Health Center's investment policy encourages diversification of investments to avoid undue concentration of assets in a specific maturity sector and also prevents against risks of market price volatility. The Health Center has investments of \$954,832 as of June 30, 2010 which consisted entirely of U.S. Treasury notes. The Foundation places no limit on the amount the Foundation may invest in any one issuer. The Foundation has investments of \$81,290 as of June 30, 2010 which consisted entirely 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, 2010, 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, 2010 and 2009 consist of the following:

	2010	2009
Cash	\$ 26,447,853	\$ 2,327,973
Certificates of deposit	4,508,716	4,442,987
Fixed income, U.S. Treasury notes	954,832	-
Equity securities, unit investment trusts	-	53,641
Mutual funds	81,290	349,814
	<u>\$ 31,992,691</u>	<u>\$ 7,174,415</u>

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 4. Cash and Investments (Continued)

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

	2010	2009
Current:		
Cash and cash equivalents	\$ 1,021,848	\$ 2,176,996
Certificates of deposit	4,508,716	3,942,987
Investments	81,290	403,455
Assets limited as to use, restricted by bond agreement	-	199,488
Noncurrent:		
Restricted by bond agreements:		
Project fund	24,462,875	-
Cost of issuance fund	101,530	-
Capitalized interest fund	954,832	-
Debt service reserve fund	649,000	300,512
Internally designated for health insurance	212,600	150,977
	<u>\$ 31,992,691</u>	<u>\$ 7,174,415</u>

Note 5. Capital Assets

Activity in capital assets and accumulated depreciation for the years ended June 30, 2010 and 2009 are as follows:

	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets not being depreciated:				
Land	\$ 61,750	\$ 175,752	\$ -	\$ 237,502
Construction in progress	316,245	1,155,152	(60,000)	1,411,397
Total capital assets not being depreciated	<u>377,995</u>	<u>1,330,904</u>	<u>(60,000)</u>	<u>1,648,899</u>
Capital assets being depreciated:				
Land improvements	220,633	-	-	220,633
Building	6,481,888	7,000	-	6,488,888
Fixed equipment	779,148	-	-	779,148
Movable equipment	5,617,237	441,595	(136,735)	5,922,097
Total capital assets being depreciated	<u>13,098,906</u>	<u>448,595</u>	<u>(136,735)</u>	<u>13,410,766</u>
Less accumulated depreciation for:				
Land improvements	170,530	10,945	-	181,475
Building	3,496,176	158,955	-	3,655,131
Fixed equipment	756,819	3,108	-	759,927
Movable equipment	4,084,876	634,276	(136,735)	4,582,417
Total accumulated depreciation	<u>8,508,401</u>	<u>807,284</u>	<u>(136,735)</u>	<u>9,178,950</u>
Total capital assets being depreciated, net	4,590,505	(358,689)	-	4,231,816
Capital assets, net	<u>\$ 4,968,500</u>	<u>\$ 972,215</u>	<u>\$ (60,000)</u>	<u>\$ 5,880,715</u>

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 5. Capital Assets (Continued)

	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

As of June 30, 2010, construction in progress primarily represents costs incurred in connection with the construction of a new facility. The Series 2010 revenue bonds were issued to finance this project. The total estimated cost of the project is approximately \$28,000,000 with expected completion in December 2011.

Beginning on July 1, 2010, the Organization began accelerating depreciation on assets which are expected to be abandoned when the new facility opens. The Organization is expecting to accelerate approximately \$1,940,000 of depreciation expense over a period of 18 months.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 6. Long-Term Debt

Long-term debt activity as of and for the years ended June 30, 2010 and 2009 is as follows:

	June 30, 2009	Borrowings	Payments	June 30, 2010	Due Within One Year
Long-term debt:					
2010 Hospital Revenue Bonds, Series A (A)	\$ -	\$ 18,900,000	\$ -	\$ 18,900,000	\$ -
2010 Hospital Revenue Bonds, Series B (B)	-	6,355,000	-	6,355,000	-
2010 Hospital Revenue Bonds, Series C (C)	-	1,745,000	-	1,745,000	-
1997 Hospital Revenue Bonds, Series A (D)	278,704	-	(278,704)	-	-
1997 Hospital Revenue Bonds, Series B (D)	530,170	-	(530,170)	-	-
Capital lease obligations (E)	657,353	-	(328,222)	329,131	216,166
	1,466,227	27,000,000	(1,137,096)	27,329,131	216,166
Less unamortized bond discount	-	203,850	-	203,850	-
	<u>\$ 1,466,227</u>	<u>\$ 26,796,150</u>	<u>\$ (1,137,096)</u>	<u>\$ 27,125,281</u>	<u>\$ 216,166</u>
	June 30, 2008	Borrowings	Payments	June 30, 2009	Due Within One Year
Long-term debt:					
1997 Hospital Revenue Bonds, Series A (D)	\$ 357,090	\$ -	\$ (78,386)	\$ 278,704	\$ 81,381
1997 Hospital Revenue Bonds, Series B (D)	645,207	-	(115,037)	530,170	118,107
Capital lease obligations (E)	1,109,170	-	(451,817)	657,353	319,884
	<u>\$ 2,111,467</u>	<u>\$ -</u>	<u>\$ (645,240)</u>	<u>\$ 1,466,227</u>	<u>\$ 519,372</u>

- (A) Hospital Revenue Bonds, 2010 Series A require semi-annual payments of interest only through June 2012, at an interest rate of 2.00%. The United States Department of Agriculture – Rural Development (USDA – RD) has made a conditional commitment to lend funds to the Health Center to refund the Series A notes through the purchase of revenue bonds (USDA Direct Loan Bonds) to be issued upon completion of the project, in order to provide permanent financing. The USDA Direct Loan Bonds are scheduled to have a fixed interest rate at 4.00%, with principal and interest payments due through June 2052. The maturities schedule below assumes the USDA Direct Loan Bonds will be secured by the Health Center.
- (B) Hospital Revenue Bonds, 2010 Series B require semi-annual payments of interest only through June 2012. The interest rate adjusts annually, ranging from 2.00% as of June 30, 2010 to 6.15% as of June 30, 2030. Semi-annual principal and interest payments commence June 2012 and continue through June 2030.
- (C) Hospital Revenue Bonds, 2010 Series C require semi-annual payments of interest only through June 2030. Semi-annual payments of principal and interest will commence December 2030 and continue through June 2033. The interest rate is fixed at 6.125%.
- (D) Hospital Revenue Bonds, 1997 Series A and B were paid off early on June 30, 2010 with the proceeds from the 2010 Series bonds. Principal and interest paid in the current year on the 1997 Series A and B bonds were \$835,573.
- (E) 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.

Clarinda Regional Health Center

Notes to Basic Financial Statements

Note 6. Long-Term Debt (Continued)

The bond agreements require that payments be made to a sinking fund in amounts sufficient to pay the principal of and interest on the bonds when due. Sinking funds available for payment of principal and interest amounted to \$954,832 as of June 30, 2010. As of June 30, 2010, there was also \$24,564,405 of unspent bond proceeds in funds to be used for payment of project costs and costs of issuance.

The 2010 Series B and C Revenue Bond agreement requires the Health Center to maintain an amount not less than \$649,000 in restricted funds at all times. In connection with the Hospital Revenue Bonds, 2010 Series A, B and C, beginning in December 2011, the Health Center is required to comply with specific covenants as outlined within the bond agreement.

Clarinda Regional Health Center has pledged future revenues, net of operating expenses, (net revenues) to repay \$18,900,000, \$6,355,000 and \$1,745,000 for the 2010 Hospital Revenue Bonds, Series A, B, and C, respectively, issued June 2010. Proceeds from the bonds will be used for the construction of a new Health Center. The bonds are payable solely from the Health Center's net revenues and are payable through June 2052, June 2030, and June 2033, respectively. The total principal and interest remaining to be paid on all bonds is \$53,448,001. There were no payments of principal or interest on the 2010 Series Hospital Revenue Bonds as of June 30, 2010 and total net revenues were \$757,940.

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

Year ending June 30:	Hospital Revenue Bonds		Capital Lease Obligations		Total
	Principal	Interest	Principal	Interest	
2011	\$ -	\$ 620,239	\$ 216,166	\$ 13,233	\$ 849,638
2012	225,000	674,581	76,589	5,069	981,239
2013	428,894	1,180,381	36,376	1,090	1,646,741
2014	441,850	1,166,445	-	-	1,608,295
2015	460,124	1,150,886	-	-	1,611,010
2016 to 2020	2,581,787	5,462,866	-	-	8,044,653
2021 to 2025	3,214,324	4,827,354	-	-	8,041,678
2026 to 2030	4,103,741	3,943,122	-	-	8,046,863
2031 to 2035	3,927,358	2,805,855	-	-	6,733,213
2036 to 2040	2,655,173	2,119,296	-	-	4,774,469
2041 to 2045	3,230,425	1,544,045	-	-	4,774,470
2046 to 2050	3,930,304	844,164	-	-	4,774,468
2051 to 2052	1,801,020	108,767	-	-	1,909,787
	<u>\$ 27,000,000</u>	<u>\$ 26,448,001</u>	<u>\$ 329,131</u>	<u>\$ 19,392</u>	<u>\$ 53,796,524</u>

The following is the leased equipment as of June 30, 2010 and 2009:

	2010	2009
Moveable equipment	\$ 2,072,064	\$ 2,072,064
Less accumulated depreciation	1,759,998	1,463,524
	<u>\$ 312,066</u>	<u>\$ 608,540</u>

Clarinda Regional Health Center

Notes to Basic Financial Statements

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, 2010, regular and protected plan members are required to contribute 4.30% and 6.14%, respectively, of their annual salary, and the Organization is required to contribute 6.65% and 9.20%, respectively, of annual covered payroll. Contribution requirements are established by State statute. The Organization's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were approximately \$541,000, \$483,000 and \$452,000, 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 \$243,000 and \$289,000 for the years ended June 30, 2010 and 2009, 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, 2010. 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 \$177,000 and \$128,000 for the years ended June 30, 2010 and 2009, respectively. Settled claims have not exceeded available coverage in any of the past three years.

Clarinda Regional Health Center

Notes to Basic Financial Statements

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

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 \$3,000,000 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, 2010 and 2009. The Organization has recorded a current liability for open claims and claims incurred but not reported.

	2010	2009
Balance, beginning	\$ 125,000	\$ 125,000
Claims expense	897,614	948,023
Claims payment	(922,614)	(948,023)
Balance, ending	<u>\$ 100,000</u>	<u>\$ 125,000</u>

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.

CMS RAC Program:

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.

Clarinda Regional Health Center

Notes to Basic Financial Statements

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

Health care reform:

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

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 or 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 \$35,925 to the plan during the year ended June 30, 2010.

Clarinda Regional Health Center

Notes to Basic Financial Statements

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

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:

	2010	2009
Annual required contribution	\$ 98,000	\$ 98,000
Interest on net OPEB obligation	2,925	-
Annual OPEB cost (expense)	100,925	98,000
Contributions made	35,925	33,000
Increase in net OPEB obligation	65,000	65,000
Net OPEB obligation, beginning of year	65,000	-
Net OPEB obligation, end of year	<u>\$ 130,000</u>	<u>\$ 65,000</u>

The Organization's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for fiscal year 2010 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:			
2010	\$ 100,925	35.6%	\$ 130,000
2009	98,000	33.7	65,000

Funded status and funding progress:

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

<u>Actuarial Valuation Date</u>	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 \$7,608,036 and the ratio of UAAL to covered payroll was 8.08%.

Clarinda Regional Health Center

Notes to Basic Financial Statements

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

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, 2010:

Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*: 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*: 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.

Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*: This Statement provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs.

The Organization's financial statements were not affected by the implementation of these standards.

Clarinda Regional Health Center

Notes to Basic Financial Statements

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

As of June 30, 2010, the GASB has issued the following Statements not yet implemented by the Organization which might impact the Organization:

Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, issued January 2010, will be effective for the Organization beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. GASB 57 amends GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Statement No. 59, *Financial Instruments Omnibus*, issued June 2010, will be effective for the Organization beginning with its year ending June 30, 2011. This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investment pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investment pools, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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

Clarinda Regional Health Center

**Required Supplementary Information, Budget and Budgetary Accounting
Year Ended June 30, 2010**

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, 2010:

<u>GAAP Expenses</u>	<u>Adjustments to Budgetary Basis</u>	<u>Budgetary Basis</u>	<u>Adopted Budget, Budgetary Basis</u>
\$ 17,970,164	\$ 2,157,682	\$ 20,127,846	\$ 20,039,682

Clarinda Regional Health Center

**Required Supplementary Information, Other Postemployment Benefit Plan
Year Ended June 30, 2010**

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]
2010	7/1/2008	\$ -	\$ 615,000	\$ 615,000	0.00%	\$ 7,608,036	8.08%
2009	7/1/2008	-	615,000	615,000	0.00%	7,136,867	8.62%

NOTE: Fiscal year 2009 was 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

**Net Patient Service Revenue
Years Ended June 30, 2010 and 2009**

	Total	
	2010	2009
Routine services, medical and surgical	\$ 1,434,256	\$ 1,622,200
Other nursing services:		
Operating room	1,675,234	1,494,912
Recovery room	154,885	140,194
Emergency room	1,528,123	1,426,868
Home health agency	23,902	27,498
	<u>3,382,144</u>	<u>3,089,472</u>
Other professional services:		
Ambulance	913,137	787,950
Anesthesiology	474,120	449,085
Blood service	52,711	50,045
Cardiac rehabilitation	576,685	510,315
Clinic	756,077	758,240
CT scan	2,980,149	2,710,108
Electrocardiology	147,605	137,828
Hypnotherapy	6,053	8,361
Inhalation therapy	1,054,827	2,044,320
Intravenous therapy	1,211,786	676,884
Laboratory	4,307,784	4,121,403
Nuclear medicine	250,768	263,469
Occupational therapy	270,508	297,162
Pharmacy	3,543,689	3,873,649
Physical therapy	881,575	951,408
Radiology	2,593,246	2,389,885
Speech therapy	29,836	6,997
Ultrasound	325,808	311,931
Villisca Rural Health Clinic	159,398	125,850
Wound care	59,873	71,990
Clarinda Medical Associates	3,031,493	2,895,316
	<u>23,627,128</u>	<u>23,442,196</u>
Patient service revenue	28,443,528	28,153,868
Less charity care	195,303	189,521
	<u>28,248,225</u>	<u>27,964,347</u>
Less contractual adjustments and bad debts	10,131,640	9,550,311
Net patient service revenue	\$ 18,116,585	\$ 18,414,036

Inpatient		Outpatient	
2010	2009	2010	2009
\$ 1,268,466	\$ 1,493,958	\$ 165,790	\$ 128,242
197,743	209,106	1,477,491	1,285,806
11,404	10,772	143,481	129,422
25,348	13,426	1,502,775	1,413,442
-	-	23,902	27,498
234,495	233,304	3,147,649	2,856,168
-	-	913,137	787,950
46,259	46,807	427,861	402,278
29,840	26,667	22,871	23,378
126,940	95,530	449,745	414,785
3,210	3,319	752,867	754,921
326,742	362,718	2,653,407	2,347,390
16,574	13,951	131,031	123,877
-	-	6,053	8,361
749,924	1,689,306	304,903	355,014
88,129	147,147	1,123,657	529,737
429,576	418,367	3,878,208	3,703,036
11,036	8,442	239,732	255,027
65,095	78,608	205,413	218,554
1,099,499	1,268,586	2,444,190	2,605,063
90,298	111,622	791,277	839,786
201,264	146,157	2,391,982	2,243,728
1,981	747	27,855	6,250
43,429	31,357	282,379	280,574
-	-	159,398	125,850
19,987	18,940	39,886	53,050
-	-	3,031,493	2,895,316
3,349,783	4,468,271	20,277,345	18,973,925
\$ 4,852,744	\$ 6,195,533	\$ 23,590,784	\$ 21,958,335

Clarinda Regional Health Center

**Adjustments to Patient Service Revenue and Other Revenue
Years Ended June 30, 2010 and 2009**

	2010	2009
Adjustments to patient service revenue:		
Contractual adjustments:		
Medicare	\$ 4,873,267	\$ 5,288,612
Medicaid	930,073	683,089
Other	3,602,068	2,855,821
Provision for bad debts	726,232	722,789
Total contractual adjustments and bad debts	\$ 10,131,640	\$ 9,550,311
Other revenue:		
Lifeline, net	\$ 6,449	\$ 4,268
Dietary	12,510	7,211
Employee meals	72,665	65,506
Meals on wheels and congregate meals	58,111	51,793
Wellness program	13,439	6,584
Medical records transcripts	7,059	7,253
Other miscellaneous	(4,427)	101,787
Total other revenue	\$ 165,806	\$ 244,402

Clarinda Regional Health Center

Operating Expenses

Years Ended June 30, 2010 and 2009

	Total	
	2010	2009
Nursing services:		
Nursing administration	\$ 103,846	\$ 75,583
Routine care	1,131,215	1,390,241
Operating room	759,008	716,118
Emergency room	786,579	738,820
Home health agency	54,686	58,933
	2,835,334	2,979,695
Other professional services:		
Ambulance	245,843	190,981
Anesthesiology	12,848	11,465
Cardiac rehabilitation	99,391	86,892
Central service and supply	71,510	71,695
Clinic	270,681	268,958
CT scan	185,550	174,046
Electrocardiology	9,389	6,827
Hypnotherapy	2,785	4,102
Inhalation therapy	224,310	209,147
Laboratory	685,316	769,752
Nuclear medicine	107,398	125,911
Occupational therapy	4,482	3,961
Performance management	39,955	-
Pharmacy	1,520,850	1,512,504
Physical therapy	80,909	86,372
Radiology	656,750	614,873
Speech therapy	36,815	-
Ultrasound	69,144	68,986
Clarinda Medical Associates	1,921,935	1,769,047
Villisca Rural Health Clinic	120,960	176,189
Wellness	15,107	6,798
Wound care	55,514	52,080
	\$ 6,437,442	\$ 6,210,586

Salaries		Other	
2010	2009	2010	2009
\$ 102,662	\$ 73,806	\$ 1,184	\$ 1,777
962,592	1,031,678	168,623	358,563
411,306	514,580	347,702	201,538
736,177	692,306	50,402	46,514
50,575	50,689	4,111	8,244
2,263,312	2,363,059	572,022	616,636
153,076	126,172	92,767	64,809
-	-	12,848	11,465
65,670	60,582	33,721	26,310
73,333	69,851	(1,823)	1,844
235,983	238,120	34,698	30,838
-	-	185,550	174,046
3,402	3,319	5,987	3,508
2,755	3,630	30	472
133,132	110,933	91,178	98,214
283,083	282,522	402,233	487,230
-	-	107,398	125,911
-	-	4,482	3,961
39,765	-	190	-
154,125	162,145	1,366,725	1,350,359
71,267	66,456	9,642	19,916
386,773	354,385	269,977	260,488
35,224	-	1,591	-
55,053	54,699	14,091	14,287
1,921,935	1,769,047	-	-
101,770	151,966	19,190	24,223
-	-	15,107	6,798
55,514	52,080	-	-
\$ 3,771,860	\$ 3,505,907	\$ 2,665,582	\$ 2,704,679

(Continued)

Clarinda Regional Health Center

**Operating Expenses (Continued)
Years Ended June 30, 2010 and 2009**

	Total	
	2010	2009
General services:		
Diabetes management	\$ 15,383	\$ -
Dietary	574,203	556,841
Operation of plant	417,567	424,991
Clarinda Medical Foundation	84,091	103,064
Housekeeping	303,552	292,922
	<u>1,394,796</u>	<u>1,377,818</u>
Administrative services:		
Medical records	414,766	351,890
Social services	48,812	52,955
Administration	1,913,730	1,849,032
Community relations	142,783	132,371
Quality improvement	101,999	102,840
Infection control	57,329	53,163
Clarinda Medical Association	189,495	174,940
Data processing	340,503	250,582
	<u>3,209,417</u>	<u>2,967,773</u>
Employee benefits	2,248,366	2,250,954
Medical professional fees	1,023,236	984,851
Depreciation and amortization	807,284	869,107
Interest	14,289	81,439
	<u>\$ 17,970,164</u>	<u>\$ 17,722,223</u>

Salaries		Other	
2010	2009	2010	2009
\$ 14,855	\$ -	\$ 528	\$ -
348,526	326,297	225,677	230,544
158,064	154,433	259,503	270,558
53,029	45,125	31,062	57,939
174,118	173,427	129,434	119,495
748,592	699,282	646,204	678,536
249,054	210,615	165,712	141,275
48,557	46,685	255	6,270
669,825	656,052	1,243,905	1,192,980
34,542	45,366	108,241	87,005
99,829	100,151	2,170	2,689
50,474	46,302	6,855	6,861
-	-	189,495	174,940
77,896	38,595	262,607	211,987
1,230,177	1,143,766	1,979,240	1,824,007
-	-	2,248,366	2,250,954
-	-	1,023,236	984,851
-	-	807,284	869,107
-	-	14,289	81,439
\$ 8,013,941	\$ 7,712,014	\$ 9,956,223	\$ 10,010,209

Clarinda Regional Health Center

**Aging Analysis of Accounts Receivable from Patients and Allowance for Doubtful Accounts
Years Ended June 30, 2010 and 2009**

Aging Analysis of Accounts Receivable (by Date of Discharge)	2010		2009	
	Amount	Percent	Amount	Percent
1-30 days, includes patients in Hospital June 30	\$ 2,014,401	55%	\$ 1,619,459	47%
30-60 days	490,292	13	483,558	14
61-90 days	258,834	7	295,790	9
91-120 days	175,805	5	182,275	5
121 days and over	712,133	20	891,939	25
	<u>3,651,465</u>	<u>100%</u>	<u>3,473,021</u>	<u>100%</u>
Home health and other	<u>2,037</u>		<u>4,573</u>	
Total accounts receivable	3,653,502		3,477,594	
Less allowance for contractual adjustments	893,324		699,724	
Less allowance for doubtful accounts	741,940		820,280	
	<u>\$ 2,018,238</u>		<u>\$ 1,957,590</u>	
Net patient service revenue per calendar day, excludes bad debt	<u>\$ 49,634</u>		<u>\$ 50,449</u>	
Days of net patient service revenue in accounts receivable at year-end	<u>41</u>		<u>39</u>	
	2010		2009	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Allowance for Doubtful Accounts				
Beginning balance	\$ 820,280		\$ 1,056,793	
Add:				
Provision for bad debts	981,117	5.42%	896,014	4.87%
Recoveries previously written off	<u>(254,885)</u>	<u>(1.41)</u>	<u>(173,225)</u>	<u>(0.94)</u>
	1,546,512		1,779,582	
Deduct accounts written off	804,572	(4.44)	959,302	(5.21)
Balance ending	<u>\$ 741,940</u>		<u>\$ 820,280</u>	

Clarinda Regional Health Center

**Inventories and Prepaid Expenses
June 30, 2010 and 2009**

	2010	2009
Inventories:		
General	\$ 195,621	\$ 139,288
Pharmacy	241,896	224,123
Dietary	11,796	13,448
Office supplies	5,078	5,314
	<u>\$ 454,391</u>	<u>\$ 382,173</u>
Prepaid expenses:		
Insurance	\$ 83,083	\$ 72,683
Maintenance and other	58,707	49,153
	<u>\$ 141,790</u>	<u>\$ 121,836</u>

Clarinda Regional Health Center

**Schedule of Insurance
Year Ended June 30, 2010
(Unaudited)**

Coverage Type	Coverage Period		Coverage Amount
Property, including rental dwellings	6/1/10 thru 5/31/11	\$	18,549,000
General liability	6/1/10 thru 5/31/11		1,000,000/3,000,000
Professional	6/1/10 thru 5/31/11		1,000,000/3,000,000
Automobile	6/1/10 thru 5/31/11		1,000,000
Directors and officers liability	7/1/10 thru 7/1/11		1,000,000/3,000,000
Umbrella, excess liability	6/1/10 thru 5/31/11		3,000,000
Workers' compensation	4/1/10 thru 3/31/11		500,000/500,000

Clarinda Regional Health Center

**Comparative Statistics
Years Ended June 30, 2010 and 2009
(Unaudited)**

	2010	2009
Acute:		
Admissions	453	528
Discharges	450	525
Patient days	1,272	1,489
Average length of stay	2.8	2.8
Swing bed:		
Admissions	131	173
Discharges	128	176
Patient days	763	1,185

Clarinda Regional Health Center

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010**

Current Number	Comment	Status
Reportable conditions in internal control:		
09-I-A	The Health Center does not have an adequate system over checks outstanding greater than one year.	Corrected.



**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 basic financial statements of Clarinda Regional Health Center as of and for the year ended June 30, 2010, and have issued our report thereon dated November 22, 2010. 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.

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.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clarinda Regional Health Center's 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, 2010 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 22, 2010.

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 22, 2010

Clarinda Regional Health Center

Schedule of Findings
Year Ended June 30, 2010

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

None reported.

(B) Compliance Findings

None reported.

II. Other Findings Related to Required Statutory Reporting

10-II-A – Certified Budget:

Finding: Expenditures during the year ended June 30, 2010 exceeded the amount budgeted.

Recommendation: The budget should be amended in accordance with Chapter 331.435 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response and Corrective Action Plan: The Organization will monitor actual expenses on a monthly basis and file a budget amendment when the projected expenses are expected to exceed the approved budgeted expenses.

Conclusion: Response accepted.

10-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.

10-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.

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

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

10-II-F – Deposits and Investments: Chapter 12C.2 of the Code of Iowa states that a written resolution must be approved which names each depository approved and specify the maximum amount that may be kept on deposit in each depository.

There were funds held with one depository which was not on the written resolution.

Recommendation: The Organization should approve a written depository policy which approves all depositories which with which they hold funds.

Response and Corrective Action Plan: The Organization will adopt a policy.

Conclusion: Response accepted.

Clarinda Regional Health Center

**Schedule of Findings
Year Ended June 30, 2010**

10-II-G – Mileage Rate for Travel Purposes: While the mileage rate used by the Organization 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 Organization 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.



Board of Trustees
Clarinda Regional Health Center
Clarinda, Iowa

In connection with our audit of the financial statements of Clarinda Regional Health Center (the Organization) as of and for the year ended June 30, 2010, we identified deficiencies in internal control over financial reporting (control 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 and correct 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 would not be 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 material weakness is a deficiency, or a 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 deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Certain control deficiencies that have been previously communicated to you, in writing, by us or by others within your Organization are not repeated herein.

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

CURRENT YEAR CONTROL DEFICIENCIES

Bank Reconciliation Reviews

During our test of controls over the Health Center's Treasury transaction process, we noted that two of the twelve monthly bank reconciliations (March and June 2010) did not contain the Chief Financial Officer's (CFO) initials indicating a review of the bank reconciliation had been completed. We recommend the CFO initial each month's bank reconciliation to indicate a review has been performed.

Foundation Segregation of Duties

Upon completing walkthroughs on the Clarinda Medical Foundation Treasury process, we noted there are segregation of duties issues around processing cash receipts for donations and pledges. A strong internal control environment segregates duties so that one person doesn't have the ability to authorize, initiate and record, process and report a transaction. As new capital campaigns are undertaken with the construction of the new facility, we recommend the following actions be taken to mitigate the segregation of duties identified. First, the responsibilities of recording and processing pledges should be performed by a person independent of the cash receipts process. Additionally, the person processing cash receipts should not have access to the accounting system and if thank you letters are sent to individuals making pledges, these responsibilities should be completed by someone independent of who records and processes the pledge. Finally, if the Foundation continues to accept online donations, credit card numbers and bank account numbers provided for processing should be stored in a secure file and access should be restricted.

Estimated Third-Party Payor Settlement

In working with management throughout the year, we noted the estimated third-party payor settlement was not being reconciled from the estimated cost report settlements to the amount recorded on the Organization's balance sheet. We recommend management perform the reconciliation monthly to reconcile all open cost report years to the estimated third-party payor receivable or payable reported on the balance sheet.

PRIOR YEAR CONTROL DEFICIENCIES

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.

Resolved: The Organization has paid off the 1997 Series Hospital Revenue Bonds which these financial covenants were associated with.

CURRENT YEAR MANAGEMENT RECOMMENDATIONS

Capital Assets

On June 30, 2010, the Organization began constructing a new facility. Management should review the listing of capital assets and accelerate depreciation on any capital assets that will not be used when the new facility is opened. Accounting standards require that the depreciation should be accelerated so the 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 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