

CASS COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2004 AND 2003

CASS COUNTY MEMORIAL HOSPITAL

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CASS COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2004

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
John Molgaard, Chairman	Atlantic, Iowa	2004
Steve Sisler, Vice-Chairman	Anita, Iowa	2006
Phyllis Stakey, Secretary and Treasurer	Massena, Iowa	2004
Todd Pellett	Atlantic, Iowa	2008
Marcia Schildberg	Atlantic, Iowa	2008
Lois Casey	Atlantic, Iowa	2006
Marge Boucher	Griswold, Iowa	2008
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Patricia A. Markham	Atlantic, Iowa	
 <u>Assistant Administrator/CFO:</u>		
Michael J. Collins	Atlantic, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Cass County Memorial Hospital
Atlantic, Iowa

We have audited the accompanying balance sheets of Cass County Memorial Hospital as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note A, the operations of a component unit are excluded from these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that such entities be discreetly presented with these financial statements.

In our opinion, except for the effects of the exclusion of the component unit required to be included, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Cass County Memorial Hospital as of June 30, 2004 and 2003, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule on pages 4 through 4d and 23 are not a required part 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.

To the Board of Trustees
Cass County Memorial Hospital

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying information (shown on pages 24 through 40) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2004 on our consideration of Cass County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

G. M. Wade, Bell, Kuhn & Co., P. C.

Atlantic, Iowa
September 1, 2004



Cass County Memorial Hospital

1501 East 10th Street

Atlantic, Iowa 50022

712-243-3250

CASS COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Cass County Memorial Hospital (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The Hospital's net assets decreased \$44,619 or less than 1 percent in 2004 after a \$463,880 or 2.5 percent increase in 2003.

The Hospital reported operating losses in both 2004 (\$1,981,620) and 2003 (\$1,247,637). Losses in 2004 increased by \$1,638,983 or 131 percent over the loss reported in 2003 due to a net loss of physician providers. Operating losses in 2003 decreased by \$240,739 or 16.2 percent from 2002.

Nonoperating revenues increased by \$225,484 or 13.2 percent in 2004 compared to 2003. Nonoperating revenues also increased in 2003 by \$149,074 or 9.5 percent compared to 2002.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page 4a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5. The Hospitals' net assets decreased \$44,619 in 2004, after increasing \$463,880 (2.5 percent) in 2003, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current assets	\$ 8,451,955	\$ 7,743,344	\$ 7,698,020
Capital assets, net	12,008,633	12,612,045	13,456,744
Other noncurrent assets	<u>5,058,747</u>	<u>5,584,873</u>	<u>4,530,253</u>
Total assets	<u>\$ 25,519,335</u>	<u>\$ 25,940,262</u>	<u>\$ 25,685,017</u>
Liabilities:			
Long-term debt outstanding	\$ 2,010,796	\$ 2,461,362	\$ 2,888,727
Other current and noncurrent liabilities	<u>4,191,517</u>	<u>4,117,259</u>	<u>3,898,529</u>
Total liabilities	<u>\$ 6,202,313</u>	<u>\$ 6,578,621</u>	<u>\$ 6,787,256</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 9,541,014	\$ 9,717,460	\$ 10,158,011
Restricted expendable	433,285	421,233	422,331
Unrestricted	<u>9,342,723</u>	<u>9,222,948</u>	<u>8,317,419</u>
Total net assets	<u>\$ 19,317,022</u>	<u>\$ 19,361,641</u>	<u>\$ 18,897,761</u>

A significant component of the change in the Hospital's assets is the decrease in patient accounts receivable. Operating revenues decreased in 2004 by \$1,632,258 (8.4 percent) and patient accounts receivable, net of estimated uncollectible amounts, decreased by \$675,962 or 19.5 percent. The decrease in accounts receivable is primarily the result of decreases in patient volume and fewer physicians. The Hospital's average collection period declined slightly (57 days for 2004 and 64 days for 2003).

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2004, the Hospital's net assets decreased by \$44,619 or less than 1 percent, as shown in Table 2. This decrease is made up of very different components. The net patient service revenue shown below for 2004 includes \$905,000 of expected additional Medicare reimbursement, which is reported as an unusual item on page 6 of the audited financial statements.

Table 2: Operating Results and Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues:			
Net patient service revenues	\$ 18,297,631	\$ 19,026,380	\$ 17,849,405
Other operating revenues	<u>413,871</u>	<u>412,380</u>	<u>437,890</u>
Total operating revenues	18,711,502	19,438,760	18,287,295
Operating Expenses:			
Salaries and benefits	13,030,510	13,085,204	12,124,141
Professional fees	953,989	958,992	974,576
Other operating expenses	5,324,816	5,254,999	5,150,435
Depreciation and amortization	<u>1,383,807</u>	<u>1,387,202</u>	<u>1,526,519</u>
Total operating expenses	<u>20,693,122</u>	<u>20,686,397</u>	<u>19,775,671</u>
Operating loss	(1,981,620)	(1,247,637)	(1,488,376)
Nonoperating Revenues and Expenses:			
Property taxes	1,636,253	1,640,163	1,300,586
Investment income	134,583	146,832	111,408
Noncapital grants and contributions	316,479	197,713	435,735
Other nonoperating revenues and expenses, net	<u>(150,314)</u>	<u>(273,191)</u>	<u>(285,286)</u>
Total nonoperating revenues (expenses)	<u>1,937,001</u>	<u>1,711,517</u>	<u>1,562,443</u>
Excess of Revenues Over Expenses and Increase in Net Assets	(44,619)	463,880	74,067
Net Assets Beginning of Year	<u>19,361,641</u>	<u>18,897,761</u>	<u>18,823,694</u>
Net Assets End of Year	<u>\$ 19,317,022</u>	<u>\$ 19,361,641</u>	<u>\$ 18,897,761</u>

OPERATING LOSSES

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between net patient service and other revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating loss. This is consistent with the Hospital's operating history. The Hospital's operations were begun in 1966 as a county hospital, when it was agreed that a portion of its costs would be subsidized by property tax revenues, making the facility more affordable for the County's lower income residents. As reported above, losses in 2004 increased by \$733,983 or 58.8 percent higher than the loss reported in 2003. Operating losses in 2003 decreased by \$240,739 or 16.2 percent lower than the loss in 2002.

The primary components of these operating losses are:

A decrease in net patient revenue of \$1,633,749 or 8.6 percent in 2004. Net patient revenues in 2003 increased \$1,176,975, or 6.6%. This current year decrease of \$1,633,749 in net patient service revenue is offset by the \$905,000 of expected additional Medicare reimbursement due to the decline in patient admissions.

Decrease in salary and benefit costs for the Hospital's employees (\$54,694 or less than 1 percent in 2004 following an increase of \$961,063 or 7.9 percent in 2003).

Increases in medical supply, drug and other costs of \$69,817 or 1.3 percent in 2004 and of \$104,564 or 2.0 percent in 2003.

A decrease in the level of uncompensated care provided. These are services provided for which there is an expectation of reduced or no payment.

A decrease in depreciation costs of \$3,395 or less than 1% in 2004 compared to a decrease of \$139,317 or 9.1% in 2003.

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. A component of the Hospital's costs are expenses for medical supplies and prescription drugs. In 2004, medical supplies, prescription drug and other costs totaled \$5.3 million or 25.7 percent of total expenses and an increase of 1.3 percent over 2003. And, in 2003, medical supplies, prescription drug and other costs totaled \$5.3 million, representing 25.4 percent of total expenses and an increase of 2.0 percent over 2002. Some of the major factors contributing to the increased medical supply and drug costs include the introduction of new drugs that cannot be obtained in generic form, and changes in therapeutic mix.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Hospital when it became a county facility in 1966. The level of services provided to these patients was \$104,025 in 2004. In 2003, the cost of uncompensated care was \$139,945. Uncompensated care applications and determinations are made in the year they are received. Based on the timing of when applications are received, fluctuations in uncompensated care can occur.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital, interest revenue and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1. Nonoperating tax revenues decreased by \$3,910 (0.2 percent) in 2004 compared to a \$339,577 (26.1 percent) increase in 2003.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier. The Hospital incurred a loss from operations in excess of \$2.8 million. The Hospital had a negative cash flow from operations of \$812,396, compared to a positive operating cash flow of \$29,308 in 2003. Cash flows used by investing activities decreased due to the decrease in the Hospital's operating results discussed earlier.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2004 was prepared on a modified accrual basis.

Actual expenditures were lower than the budget by approximately \$1,562,000 due to lower capital acquisitions and lower patient volumes. Actual revenues were lower than budgeted by approximately \$2,609,000 as a result of lower patient volumes and higher contractual adjustments related to Medicare, Medicaid and Wellmark patients.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2004, the Hospital had \$8.5 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2004, the Hospital purchased new equipment costing \$819,700. \$686,982 was spent to acquire new equipment in 2003. Both of these amounts are less than 2002, when the Hospital spent \$1,201,717 for new equipment.

Debt:

At year-end, the Hospital had \$2.5 million in revenue notes and capital lease obligations outstanding. The Hospital issued no new debt in 2004 or 2003.

OTHER ECONOMIC FACTORS

While the County's largest employer is the Hospital, agriculture also has a significant impact on the local economy. The agricultural industry has been suffering through a recession in the past few years.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact administration at Cass County Memorial Hospital, Atlantic, Iowa 50022.

CASS COUNTY MEMORIAL HOSPITAL
Balance Sheets
June 30,

ASSETS

	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash	\$ 815,075	\$ 403,676
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,955,000 in 2004, \$1,967,000 in 2003)	2,797,539	3,473,501
Other receivables	1,179,449	816,594
Inventory	410,868	450,090
Prepaid expense	174,273	400,798
Estimated third-party payor settlements	992,000	185,000
Succeeding year property tax receivable	1,482,000	1,486,000
Internally designated assets	600,751	527,685
Total current assets	<u>8,451,955</u>	<u>7,743,344</u>
Designated and Restricted Assets:		
Internally designated assets	3,459,874	4,163,185
Restricted assets	433,285	421,233
	<u>3,893,159</u>	<u>4,584,418</u>
Less amounts required to meet current liabilities	600,751	527,685
	<u>3,292,408</u>	<u>4,056,733</u>
Capital Assets:		
Depreciable capital assets, net	8,545,021	9,112,318
Non-depreciable capital assets	647,332	501,086
Rental property, net	2,816,280	2,998,641
	<u>12,008,633</u>	<u>12,612,045</u>
Due from Cass County Medical Clinics, Inc.	1,456,453	1,242,339
Other Noncurrent Assets	<u>309,886</u>	<u>285,801</u>
Total assets	<u>\$ 25,519,335</u>	<u>\$ 25,940,262</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 456,823	\$ 433,223
Accounts payable	635,150	576,941
Accrued employee compensation	1,215,447	1,196,369
Payroll taxes withheld and accrued	253,013	253,333
Accrued interest payable	19,084	21,393
Other current liabilities	130,000	150,000
Deferred revenue for succeeding year property tax receivable	<u>1,482,000</u>	<u>1,486,000</u>
Total current liabilities	4,191,517	4,117,259
Long-Term Debt:		
Capital lease obligations, less current maturities	197,245	404,068
Bonds payable, less unamortized debt issue costs and current maturities	<u>1,813,551</u>	<u>2,057,294</u>
Total long-term debt	<u>2,010,796</u>	<u>2,461,362</u>
Total liabilities	6,202,313	6,578,621
Net Assets:		
Invested in capital assets, net of related debt	9,541,014	9,717,460
Restricted - expendable	433,285	421,233
Unrestricted	<u>9,342,723</u>	<u>9,222,948</u>
	<u>19,317,022</u>	<u>19,361,641</u>
 Total liabilities and net assets	 <u>\$ 25,519,335</u>	 <u>\$ 25,940,262</u>

CASS COUNTY MEMORIAL HOSPITAL
 Statements of Revenues, Expenses and Changes in Net Assets
 Year ended June 30,

	<u>2004</u>	<u>2003</u>
Revenues:		
Net patient service revenue	\$ 17,392,631	\$ 19,026,380
Other revenue	<u>413,871</u>	<u>412,380</u>
Total revenue	17,806,502	19,438,760
Expenses:		
Nursing service	4,977,172	4,970,122
Other professional service	6,914,635	7,163,924
General service	1,906,587	1,880,093
Fiscal and administrative service	5,510,921	5,285,056
Provision for depreciation	<u>1,383,807</u>	<u>1,387,202</u>
Total expenses	<u>20,693,122</u>	<u>20,686,397</u>
Operating Loss	(2,886,620)	(1,247,637)
Non-Operating Revenues (Expenses):		
County taxes	1,558,253	1,565,163
Home health care county revenue	78,000	75,000
Investment income	134,583	146,832
Noncapital grants and contributions	316,479	197,713
Medical office building rent, net	42,092	44,409
Southwest Iowa Mental Health Center services, net	23,804	(17,289)
Gain on disposal of assets	2,410	700
Retail pharmacy loss, net	(50,328)	(112,592)
Other rental income, net	10,179	12,260
Interest expense	<u>(178,471)</u>	<u>(200,679)</u>
Non-operating revenue, net	<u>1,937,001</u>	<u>1,711,517</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Unusual Item	(949,619)	463,880
Unusual Item (Note O)	<u>905,000</u>	<u>--</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) and Increase (Decrease) in Net Assets	(44,619)	463,880
Net Assets Beginning of Year	<u>19,361,641</u>	<u>18,897,761</u>
Net Assets End of Year	<u>\$ 19,317,022</u>	<u>\$ 19,361,641</u>

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 17,803,738	\$ 18,870,453
Cash paid to suppliers	(8,957,005)	(9,214,117)
Cash paid to employees	(10,069,882)	(10,034,115)
Other revenue	<u>410,753</u>	<u>407,087</u>
Net cash provided by (used in) operating activities	(812,396)	29,308
Cash flows from noncapital financing activities:		
County tax revenue	1,636,253	1,640,163
Noncapital grants and contributions	<u>316,479</u>	<u>197,713</u>
Net cash provided by noncapital financing activities	1,952,732	1,837,876
Cash flows from capital and related financing activities:		
Capital expenditures	(724,777)	(710,027)
Construction in progress expenditures	(52,147)	(43,430)
Computer system expenditures	(149,504)	--
Proceeds from disposal of assets	5,600	700
Principal paid on long-term debt	(433,223)	(410,006)
Interest paid	<u>(174,523)</u>	<u>(196,963)</u>
Net cash used in capital and related financing activities	(1,528,574)	(1,359,726)
Cash flows from investing activities:		
Investment income	139,052	158,551
Advance to Cass County Medical Clinics, Inc.	(214,114)	(565,493)
(Increase) decrease in designated and restricted assets	536,815	(570,466)
Rental income, net	244,580	246,275
Southwest Iowa Mental Health Center services, net	23,804	(17,289)
Retail pharmacy loss, net	(50,328)	(112,592)
Change in other noncurrent assets	<u>(33,265)</u>	<u>(53,402)</u>
Net cash provided by (used in) investing activities	<u>646,544</u>	<u>(914,416)</u>
Net increase (decrease) in cash and cash equivalents	258,306	(406,958)
Cash and cash equivalents at beginning of year	<u>689,612</u>	<u>1,096,570</u>
Cash and cash equivalents at end of year	<u>\$ 947,918</u>	<u>\$ 689,612</u>

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
 Statements of Cash Flows - Continued
 Year ended June 30,

	<u>2004</u>	<u>2003</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 815,075	\$ 403,676
Cash and cash equivalents in designated and restricted assets	<u>132,843</u>	<u>285,936</u>
	<u>\$ 947,918</u>	<u>\$ 689,612</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$(2,886,620)	\$(1,247,637)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Provision for depreciation	1,383,807	1,387,202
Amortization	9,180	9,180
Provision for bad debts	818,008	762,002
Unusual item	905,000	--
Component of operating revenue reclassified for purposes of reporting cash flows		
Interest income on operating funds	(3,118)	(5,293)
Change in assets and liabilities		
Accounts receivable	(504,901)	(1,700,929)
Inventory	39,222	(52,950)
Prepaid expense	226,525	(124,270)
Accounts payable, trade	8,743	90,064
Accrued employee compensation	19,078	104,813
Payroll taxes withheld and accrued	(320)	19,126
Other current liabilities	(20,000)	5,000
Estimated third-party payor settlements	<u>(807,000)</u>	<u>783,000</u>
Total adjustments	<u>2,074,224</u>	<u>1,276,945</u>
Net cash provided by (used in) operating activities	<u>\$(812,396)</u>	<u>\$ 29,308</u>

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization is a county hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has a component unit resulting from the fact that for Cass County Medical Clinics, Inc., three out of five board members are also board members of the Hospital. The Hospital has elected to exclude the financial information of its component unit from these financial statements which, when discreetly presented, would not affect the Hospital's Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, or Statement of Cash Flows.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market, except for general stores inventory which is valued at average cost.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives.

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in either 2004 or 2003.

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 552 hours for full-time employees and 276 for part-time employees. Any excess over the maximum hours accumulated by the employee's anniversary date is lost. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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 are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and 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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organization. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note C.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

16. Net Assets

Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note I. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Outpatient services provided to Medicare beneficiaries are paid at prospectively determined rates with a hold-harmless transition period based on the Hospital's reimbursable costs. The hold-harmless transition period is scheduled to end December 31, 2005.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2004	2003
Long-term debt	\$ 433,285	\$ 421,233

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2004 or 2003.

NOTE D - DESIGNATED NET ASSETS

Of the \$9,342,723 (\$9,222,948 as of June 30, 2003) of unrestricted net assets as of June 30, 2004, \$3,459,874 (\$4,163,185 for 2003) has been designated by the Hospital's Board of Trustees for capital acquisitions. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	2004	2003
Internally Designated Assets:		
Cash and cash equivalents	\$ 111,500	\$ 264,703
Certificates of deposit	3,204,507	3,743,279
Donated stock	123,043	124,394
Interest receivable	20,824	30,809
	\$ 3,459,874	\$ 4,163,185
Restricted Assets:		
Cash and cash equivalents	\$ 21,343	\$ 21,233
U.S. treasury obligations	411,106	400,000
Accrued interest	836	--
	\$ 433,285	\$ 421,233

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2004 and 2003, was as follows:

	2004	2003
Receivable from:		
Patients	\$ 1,215,698	\$ 1,175,243
Medicare	1,799,115	2,368,116
Medicaid	588,386	587,224
Blue Cross	466,600	588,615
Other commercial insurance carriers	674,397	702,969
Others	8,343	18,334
	4,752,539	5,440,501
Less allowances for doubtful accounts and contractual adjustments	1,955,000	1,967,000
	\$ 2,797,539	\$ 3,473,501

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2004 and 2003 were as follows:

Hospital:

<u>Cost</u>	<u>Balance 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2004</u>
Land Improvements	\$ 1,959,973	\$ 10,619	\$ 147,902	\$ 1,822,690
Buildings	6,919,863	76,312	1,472	6,994,703
Building Services Equipment	3,811,039	141,291	43,517	3,908,813
Fixed Equipment	2,887,259	40,987	222,292	2,705,954
Major Movable Equipment	<u>9,239,678</u>	<u>550,491</u>	<u>1,508,689</u>	<u>8,281,480</u>
	24,817,812	819,700	1,923,872	23,713,640

Depreciation

Land Improvements	956,048	117,003	147,902	925,149
Buildings	3,180,455	250,488	1,472	3,429,471
Building Services Equipment	2,486,766	166,984	43,517	2,610,233
Fixed Equipment	1,973,189	202,464	220,790	1,954,863
Major Movable Equipment	<u>7,109,036</u>	<u>646,868</u>	<u>1,507,001</u>	<u>6,248,903</u>

Total Depreciation	<u>15,705,494</u>	<u>1,383,807</u>	<u>1,920,682</u>	<u>15,168,619</u>
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Depreciable Capital Assets, Net	<u>\$ 9,112,318</u>	<u>\$(564,107)</u>	<u>\$ 3,190</u>	<u>\$ 8,545,021</u>
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Construction in Progress	\$ 46,192	\$ 63,685	\$ 66,943	\$ 42,934
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Computer System Project	19,331	149,504	--	168,835
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Land Held for Future Development	410,080	--	--	410,080
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Land	<u>25,483</u>	<u>--</u>	<u>--</u>	<u>25,483</u>
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Non-Depreciable Capital Assets	<u>\$ 501,086</u>	<u>\$ 213,189</u>	<u>\$ 66,943</u>	<u>\$ 647,332</u>
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Medical Office Building:

Cost	\$ 4,258,916	\$ 5,962	\$ --	\$ 4,264,878
Depreciation	<u>1,260,275</u>	<u>188,323</u>	<u>--</u>	<u>1,448,598</u>

Medical Office Building, Net	<u>\$ 2,998,641</u>	<u>\$(182,361)</u>	<u>\$ --</u>	<u>\$ 2,816,280</u>
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CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE G - CAPITAL ASSETS - Continued

Hospital:

<u>Cost</u>	<u>Balance 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2003</u>
Land Improvements	\$ 1,940,705	\$ 19,268	\$ --	\$ 1,959,973
Buildings	6,904,550	15,313	--	6,919,863
Building Services Equipment	3,776,804	34,235	--	3,811,039
Fixed Equipment	2,869,517	17,742	--	2,887,259
Major Movable Equipment	<u>8,641,999</u>	<u>600,424</u>	<u>2,745</u>	<u>9,239,678</u>
	24,133,575	686,982	2,745	24,817,812

Depreciation

Land Improvements	841,217	114,831	--	956,048
Buildings	2,932,514	247,941	--	3,180,455
Building Services Equipment	2,324,653	162,113	--	2,486,766
Fixed Equipment	1,752,552	220,637	--	1,973,189
Major Movable Equipment	<u>6,469,987</u>	<u>641,680</u>	<u>2,631</u>	<u>7,109,036</u>

Total Depreciation	<u>14,320,923</u>	<u>1,387,202</u>	<u>2,631</u>	<u>15,705,494</u>
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Depreciable Capital Assets, Net	<u>\$ 9,812,652</u>	<u>\$(700,220)</u>	<u>\$ 114</u>	<u>\$ 9,112,318</u>
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Construction in Progress	\$ 2,017	\$ 46,192	\$ 2,017	\$ 46,192
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Computer System Project	19,331	--	--	19,331
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Land Held for Future Development	410,080	--	--	410,080
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Land	<u>25,483</u>	<u>--</u>	<u>--</u>	<u>25,483</u>
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Non-Depreciable Capital Assets	<u>\$ 456,911</u>	<u>\$ 46,192</u>	<u>\$ 2,017</u>	<u>\$ 501,086</u>
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Medical Office Building:

Cost	\$ 4,258,916	\$ --	\$ --	\$ 4,258,916
Depreciation	<u>1,071,735</u>	<u>188,540</u>	<u>--</u>	<u>1,260,275</u>

Medical Office Building, Net	<u>\$ 3,187,181</u>	<u>\$(188,540)</u>	<u>\$ --</u>	<u>\$ 2,998,641</u>
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CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE H - LEASES

Assets recorded under capital leases consist of the following at June 30:

	2004	2003
Medical Equipment	\$ 979,442	\$ 979,442
Less: Accumulated Amortization	604,421	408,531
Net Book Value	\$ 375,021	\$ 570,911

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2004 and 2003 follows:

	Balance 2003	Additions	Reductions	Balance 2004	Current Portion
Long-Term Debt:					
Revenue bonds	\$2,355,000	\$ --	\$ 235,000	\$2,120,000	\$ 250,000
Debt issue costs	(62,706)	--	(6,257)	(56,449)	--
Total Long-Term Debt	2,292,294	--	228,743	2,063,551	250,000
Capital Lease Obligations	602,291	--	198,223	404,068	206,823
Total Non-Current Liabilities	\$2,894,585	\$ --	\$ 426,966	\$2,467,619	\$ 456,823
	Balance 2002	Additions	Reductions	Balance 2003	Current Portion
Long-Term Debt:					
Revenue bonds	\$2,575,000	\$ --	\$ 220,000	\$2,355,000	\$ 235,000
Debt issue costs	(68,564)	--	(5,858)	(62,706)	--
Total Long-Term Debt	2,506,436	--	214,142	2,292,294	235,000
Capital Lease Obligations	792,297	--	190,006	602,291	198,223
Total Non-Current Liabilities	\$3,298,733	\$ --	\$ 404,148	\$2,894,585	\$ 433,223

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE I - NON-CURRENT LIABILITIES - Continued

The Series 1995 Cass County, Iowa Hospital Revenue bonds were issued in October, 1995 to finance a portion of the costs of a building and renovation project of the Hospital. The bonds mature in annual installments through November, 2010, with varying interest rates ranging from 5.3% to 7.0% and are collateralized by the Hospital's net revenues.

Under the terms of the bond resolution, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The bond resolution also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30,	Long-Term Debt		Capital Leases	
	Principal	Interest	Principal	Interest
2005	\$ 250,000	\$ 136,595	\$ 206,823	\$ 13,925
2006	265,000	119,982	188,151	5,033
2007	280,000	102,060	9,094	52
2008	300,000	82,250	--	--
2009	320,000	60,555	--	--
2010-11	705,000	50,225	--	--
	<u>\$ 2,120,000</u>	<u>\$ 551,667</u>	<u>\$ 404,068</u>	<u>\$ 19,010</u>

NOTE J - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were approximately \$613,000, \$621,000, and \$573,000, respectively, equal to the required contributions for each year.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE K - DEFERRED COMPENSATION PLAN

The Hospital offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows Hospital employees to defer a portion of their current salary until future years. The Hospital matches a portion of employee contributions to the employees' accounts. The Hospital's contribution expense totaled \$133,912 and \$130,829 for the years ended June 30, 2004 and 2003, respectively. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the independent contractor for investment. The plan is designed so that each participant retains investment control of his/her individual account. The employees become eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting administrators. These contractors are responsible for withholdings and W-2s when the participants receive payments. The contractors are also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2004, was \$4,644,437 (\$3,918,524 at June 30, 2003). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE L - RELATED PARTIES

Southwest Iowa Mental Health Center

The Hospital has entered into a sharing agreement with Southwest Iowa Mental Health Center, pursuant to Chapter 28E of the Iowa Code, to deliver mental health services in the area. Under the agreement, all non-physician personnel became employees of the Hospital. The Mental Health Center agreed to purchase all non-physician services necessary for the Center's operations from the Hospital. Tax funds collected by the Hospital for a portion of the cost of the Center's non-physician personnel result in credits being passed through to the Center. The Hospital agreed to purchase all mental health physician services necessary for its inpatient operation from the Center.

The Hospital has agreed to provide operating capital and fund operating deficits of the Center. During the years ended June 30, 2004 and 2003, the Hospital provided \$70,000 of operating capital. The Center had a deficit in 2004 of \$18,571 (\$29,835 deficit in 2003) without the Hospital's funding.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE L - RELATED PARTIES - Continued

Below is a summary of the activity and amounts due under the agreement with the Mental Health Center as of June 30:

	<u>2004</u>	<u>2003</u>
Hospital expense to Mental Health Center for physicians	\$ <u>196,369</u>	\$ <u>232,956</u>
Support passed through from Hospital to Mental Health Center	\$ <u>65,042</u>	\$ <u>58,445</u>
Hospital revenue for Mental Health Center personnel costs	\$ <u>605,331</u>	\$ <u>557,609</u>
Owed to Hospital by the Mental Health Center	\$ <u>228,196</u>	\$ <u>158,169</u>

The financial arrangements for the 2004-2005 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$219,000, which includes financial support and payment for physician services. The Center agreed to pay the Hospital approximately \$575,580 for non-physician services. Future financial arrangements will be determined annually based on a review of actual operations and needs.

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Shelby County Myrtue Memorial Hospital of Harlan and Montgomery County Memorial Hospital of Red Oak) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2004</u>	<u>2003</u>
Services purchased from HPSI	\$ <u>137,849</u>	\$ <u>144,213</u>
Services and supplies provided to HPSI	\$ <u>230,037</u>	\$ <u>257,499</u>
Amount due from HPSI	\$ <u>48,411</u>	\$ <u>67,049</u>
Member share of net assets	\$ <u>241,981</u>	\$ <u>208,717</u>

The member share of net assets is included in other assets and the amount due from HPSI is included in other receivables on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Hospital and the Office of the State Auditor.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE M - COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

Cass County Medical Clinics, Inc.

The Hospital and local physicians developed a not-for-profit corporation, Cass County Medical Clinics, Inc. (CCMC), to operate local physicians' clinics. CCMC began operations January 1, 2000 and leases medical office space from the Hospital. The Hospital received approximately \$248,300 of rental income from CCMC for the year ended June 30, 2004 (\$247,200 for 2003). Effective January 1, 2001, CCMC began purchasing health insurance coverage through the Hospital's group health insurance plan. Payments received from CCMC for health insurance premiums totaled \$147,084 for fiscal year ended June 30, 2004 (\$134,235 for 2003). The operations of CCMC are managed by the Hospital and physicians. As of June 30, 2004, the Hospital has loaned CCMC \$1,456,453 (\$1,242,339 as of June 30, 2003) of operating capital. The Hospital has pledged to support CCMC as may be necessary in the future. Should problems develop which prevent CCMC from being a viable entity, the value of the receivable could be considerably less than the face amount, and could result in a loss to the Hospital. Because the amount, if any, of a potential loss cannot be estimated, no allowance for this contingency has been recorded.

Self-Funded Health Insurance

The Hospital has established an employee health insurance program. Under the self-insured plan, the Hospital pays claims up to maximum limits and carries stop loss insurance for claims in excess of the limits. The estimated amount of unpaid claims at June 30, 2004 is \$130,000 (\$150,000 at June 30, 2003), which is reported in other current liabilities.

Construction in Progress

As of June 30, 2004, the Hospital incurred planning costs of \$42,934 for the remodeling of the emergency room department. As of the date of this report, no commitments have been made. The project will be financed through the use of internally generated funds.

Computer System Project

As of June 30, 2004, the Hospital incurred fees of \$168,835 for various computer hardware and software applications that had not been completed and placed in service. The total estimated cost to implement the remaining applications is \$30,000, which is being financed through the use of internally generated funds.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Cass County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2004 and 2003

NOTE N - NON-CASH TRANSACTIONS

The cash transactions of the Hospital are presented on the statements of cash flows. The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by (used in) operating activities:

	2004	2003
Decrease in unrealized gains	\$ <u> --</u>	\$(<u> 6,426</u>)
Book value of asset traded	\$ <u> --</u>	\$ <u> 114</u>

NOTE O - UNUSUAL ITEM

As a result of a special Medicare regulation, the Hospital qualifies for additional payments estimated at \$905,000 for the cost report periods ended June 30, 2004 and 2003, which was recorded during the year ended June 30, 2004. The Hospital is eligible for this additional reimbursement because it experienced more than a five percent decrease in inpatient discharges from the previous year and because it met several other special requirements.

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REQUIRED SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2004

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 following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for interest, plant and equipment purchases, debt payments, and net assets differently for financial statement and budget purposes.

	<u>Per Financial Statements</u>			
	<u>Unrestricted Fund</u>	<u>Restricted Fund</u>	<u>Total</u>	
Amount raised by taxation	\$ 1,636,253	\$ --	\$ 1,636,253	
Other revenues	19,012,250	--	19,012,250	
Transfers in (out)	<u>(12,052)</u>	<u>12,052</u>	<u>--</u>	
	20,636,451	12,052	20,648,503	
Expenses	<u>20,693,122</u>	<u>--</u>	<u>20,693,122</u>	
Net	(56,671)	12,052	(44,619)	
Balance beginning of year	<u>18,940,408</u>	<u>421,233</u>	<u>19,361,641</u>	
Balance end of year	<u>\$ 18,883,737</u>	<u>\$ 433,285</u>	<u>\$ 19,317,022</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Adopted Budget</u>
Amount raised by taxation	\$ 1,636,253	\$(78,000)	\$ 1,558,253	\$ 1,485,709
Other revenues	<u>19,012,250</u>	<u>256,471</u>	<u>19,268,721</u>	<u>21,950,348</u>
	20,648,503	178,471	20,826,974	23,436,057
Expenses	<u>20,693,122</u>	<u>1,104,899</u>	<u>21,798,021</u>	<u>23,360,000</u>
Net	(44,619)	(926,428)	(971,047)	76,057
Balance beginning of year	<u>19,361,641</u>	<u>(10,396,253)</u>	<u>8,965,388</u>	<u>8,965,388</u>
Balance end of year	<u>\$ 19,317,022</u>	<u>\$(11,322,681)</u>	<u>\$ 7,994,341</u>	<u>\$ 9,041,445</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

CASS COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 898,364	18.9%	\$ 1,046,573	19.2%
31 - 60	676,062	14.2	951,813	17.5
61 - 90	436,761	9.2	456,088	8.4
91 - 120	181,223	3.8	233,492	4.3
121 and over	816,701	17.2	873,512	16.1
	<u>3,009,111</u>	<u>63.3</u>	<u>3,561,478</u>	<u>65.5</u>
In hospital	<u>1,743,428</u>	<u>36.7</u>	<u>1,879,023</u>	<u>34.5</u>
	<u>4,752,539</u>	<u>100.0%</u>	<u>5,440,501</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	600,000		650,000	
Allowance for contractual adjustments	<u>1,355,000</u>		<u>1,317,000</u>	
	<u>\$ 2,797,539</u>		<u>\$ 3,473,501</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Balance, beginning	\$ 650,000	\$ 700,000
Provision for bad debts	818,008	762,002
Recoveries of accounts previously written off	<u>104,025</u>	<u>139,945</u>
	<u>1,572,033</u>	<u>1,601,947</u>
Accounts written off	<u>972,033</u>	<u>951,947</u>
Balance, ending	<u>\$ 600,000</u>	<u>\$ 650,000</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Other Receivables/Inventory/Prepaid Expense
June 30,

	<u>2004</u>	<u>2003</u>
<u>Other Receivables</u>		
Shared services	\$ 54,326	\$ 41,895
Health Partners of Southwest Iowa	48,411	67,049
Lifeline	41,730	31,453
Southwest Iowa Mental Health Center	228,196	158,169
Cass County Medical Clinics, Inc.	672,736	375,165
Other	<u>134,050</u>	<u>142,863</u>
	<u>\$ 1,179,449</u>	<u>\$ 816,594</u>
 <u>Inventory</u>		
General stores	\$ 55,879	\$ 51,588
Pharmacy	257,993	290,421
Radiology	14,324	10,752
Laboratory	37,070	41,705
Dietary	5,669	5,004
Fuel oil	2,490	2,167
Information system	<u>37,443</u>	<u>48,453</u>
	<u>\$ 410,868</u>	<u>\$ 450,090</u>
 <u>Prepaid Expense</u>		
Dues	\$ 14,298	\$ 14,340
Insurance	5,829	148,897
Rentals	--	169
Other	<u>154,146</u>	<u>237,392</u>
	<u>\$ 174,273</u>	<u>\$ 400,798</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Patient Service Revenue
Year ended June 30,

	2004	2003
Daily Patient Services:		
Medical and surgical	\$ 2,463,105	\$ 2,772,992
Obstetric	223,974	212,308
Intensive care	777,002	819,640
Nursery	104,708	109,263
Psychiatric services	1,519,376	1,191,487
	5,088,165	5,105,690
Other Nursing Services:		
Operating room	1,276,207	1,146,139
Recovery room	277,830	293,670
Delivery and labor rooms	164,115	141,610
Central services and supply	1,577,749	1,326,400
Intravenous therapy	585,539	766,933
Emergency service	1,746,182	1,785,879
Oncology service	273,455	279,537
Enterstomal therapy	75,769	86,264
	5,976,846	5,826,432
Other Professional Services:		
Laboratory	3,379,220	3,802,724
Blood bank	242,226	217,993
Electrocardiology	161,064	176,922
Cardiac stress testing	142,450	130,575
Ambulatory electrocardiology	78,340	77,950
Electroencephalography	1,310	8,493
Radiology	1,783,015	1,841,899
CT scanning	1,326,278	1,413,154
MRI scanning	884,508	767,664
Nuclear medicine and ultrasound	1,145,274	1,216,549
Pharmacy	4,620,783	4,455,637
Anesthesia	1,006,074	1,034,912
Respiratory care	1,619,429	1,628,504
Physical therapy	885,405	888,436
Speech therapy	42,904	37,565
Occupational therapy	168,633	255,723
Home Health Care	1,218,843	1,524,238
Hospice	410,419	275,973
Cardiac rehabilitation	200,050	198,578
Diabetic center	44,778	37,012
Sleep study	174,460	176,424
Business health	2,518	23,267
	19,537,981	20,190,192
	\$ 30,602,992	\$ 31,122,314

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Patient Service Revenue - Continued
Year ended June 30,

	<u>2004</u>	<u>2003</u>
SUMMARY		
Inpatient	\$ 8,100,388	\$ 9,100,218
Swing Bed	3,307,895	3,647,420
Psychiatric Services	1,781,988	1,419,373
Outpatient	15,783,459	15,155,092
Home Health Care	1,218,843	1,524,238
Hospice	<u>410,419</u>	<u>275,973</u>
	<u>\$ 30,602,992</u>	<u>\$ 31,122,314</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 30,602,992	\$ 31,122,314
Contractual adjustments	(12,288,328)	(11,193,987)
Provision for bad debts	(818,008)	(762,002)
Uncompensated care	<u>(104,025)</u>	<u>(139,945)</u>
	<u>\$ 17,392,631</u>	<u>\$ 19,026,380</u>
Other Revenue:		
Interest income on operating funds	\$ 3,118	\$ 5,293
Meals sold to employees and guests	150,967	156,041
Meals on wheels	34,629	41,233
Medical record transcripts	9,221	8,670
VHA participation	53,061	42,972
Biomedical service	19,845	19,367
Nursing education	2,953	18,862
Wellness program	949	3,170
Laundry and linen	6,628	6,648
Health promotion	47,799	--
Other	<u>84,701</u>	<u>110,124</u>
	<u>\$ 413,871</u>	<u>\$ 412,380</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Administrative:		
Salaries and wages	\$ 230,195	\$ 207,438
Supplies and other expense	<u>12,361</u>	<u>25,203</u>
	242,556	232,641
In-Service Training:		
Salaries and wages	71,032	76,110
Supplies and other expense	<u>18,422</u>	<u>6,034</u>
	89,454	82,144
Quality Assurance:		
Salaries and wages	44,506	35,807
Supplies and other expense	<u>1,016</u>	<u>2,039</u>
	45,522	37,846
Nursing Supervision:		
Salaries and wages	199,805	187,379
Supplies and other expense	<u>422</u>	<u>504</u>
	200,227	187,883
Medical and Surgical:		
Salaries and wages	1,071,135	1,139,011
Supplies and other expense	<u>48,919</u>	<u>58,881</u>
	1,120,054	1,197,892
Psychiatric Services:		
Salaries and wages	797,786	788,331
Professional fees	196,369	232,956
Supplies and other expense	<u>17,050</u>	<u>19,231</u>
	1,011,205	1,040,518
Intensive Care:		
Salaries and wages	387,580	358,631
Supplies and other expense	<u>11,721</u>	<u>15,602</u>
	399,301	374,233
Obstetric:		
Salaries and wages	230,961	229,690
Supplies and other expense	<u>11,976</u>	<u>9,779</u>
	242,937	239,469
Nursery:		
Salaries and wages	105,233	99,177

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CASS COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Operating Room:		
Salaries and wages	\$ 278,344	\$ 237,062
Professional fees	--	5,500
Supplies and other expense	<u>89,280</u>	<u>72,086</u>
	367,624	314,648
Recovery Room:		
Salaries and wages	19,420	21,153
Delivery and Labor Rooms:		
Salaries and wages	46,215	43,557
Supplies and other expense	<u>440</u>	<u>505</u>
	46,655	44,062
Central Services and Supply:		
Salaries and wages	49,855	63,829
Supplies sold to patients	235,754	281,528
Supplies and other expense	<u>4,132</u>	<u>987</u>
	289,741	346,344
Intravenous Therapy:		
Solutions	13,725	15,273
Supplies and other expense	<u>78,826</u>	<u>89,806</u>
	92,551	105,079
Emergency and Outpatient Services:		
Salaries and wages	459,454	433,395
Professional fees	215,276	186,310
Supplies and other expense	<u>29,962</u>	<u>27,328</u>
	<u>704,692</u>	<u>647,033</u>
	<u>\$ 4,977,172</u>	<u>\$ 4,970,122</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses
Year ended June 30,

	2004	2003
Laboratory:		
Salaries and wages	\$ 377,560	\$ 375,846
Professional fees	130,651	328,197
Supplies and other expense	151,736	169,808
Cost of chemistry reagents	<u>164,399</u>	<u>150,379</u>
	824,346	1,024,230
Blood Bank:		
Cost of blood	129,768	125,050
Electrocardiology:		
Supplies and other expense	343	279
Cardiac Stress Testing:		
Salaries and wages	3,079	10,948
Professional fees	3,164	2,604
Supplies and other expense	<u>832</u>	<u>710</u>
	7,075	14,262
Ambulatory Electrocardiology:		
Salaries and wages	11,089	8,329
Supplies and other expense	<u>297</u>	<u>505</u>
	11,386	8,834
Electroencephalography:		
Salaries and wages	130	1,080
Supplies and other expense	<u>3,132</u>	<u>3,865</u>
	3,262	4,945
Radiology:		
Salaries and wages	258,715	261,000
Professional fees	3,489	3,039
Cost of film	15,535	24,499
Supplies and other expense	<u>100,173</u>	<u>107,999</u>
	377,912	396,537
CT and MRI Scanning:		
Salaries and wages	49,579	50,391
Purchased services	134,593	133,800
Supplies and other expense	<u>78,570</u>	<u>135,126</u>
	262,742	319,317

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Nuclear Medicine and Ultrasound:		
Salaries and wages	\$ 63,038	\$ 61,635
Purchased services	75,636	31,423
Supplies and other expense	<u>16,821</u>	<u>19,951</u>
	155,495	113,009
Pharmacy:		
Salaries and wages	482,288	480,680
Drugs	1,506,069	1,470,756
Supplies and other expense	<u>46,379</u>	<u>44,736</u>
	2,034,736	1,996,172
Anesthesia:		
Salaries and wages	74,364	215,847
Professional fees	236,403	90,371
Supplies and other expense	<u>19,119</u>	<u>24,874</u>
	329,886	331,092
Respiratory Care:		
Salaries and wages	179,937	184,289
Oxygen	20,461	18,886
Supplies and other expense	<u>34,137</u>	<u>36,882</u>
	234,535	240,057
Physical Therapy:		
Salaries and wages	229,443	230,496
Supplies and other expense	<u>6,907</u>	<u>10,467</u>
	236,350	240,963
Occupational Therapy:		
Salaries and wages	70,751	86,326
Supplies and other expense	<u>1,884</u>	<u>3,018</u>
	72,635	89,344
Speech Therapy:		
Professional fees	17,204	15,840
Supplies and other expense	<u>3,390</u>	<u>3,677</u>
	20,594	19,517

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CASS COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Home Health Care:		
Salaries and wages	\$ 1,093,794	\$ 1,149,072
Professional fees	13,108	5,107
Supplies and other expense	<u>107,837</u>	<u>69,996</u>
	1,214,739	1,224,175
Hospice:		
Salaries and wages	130,158	107,209
Professional fees	377	722
Supplies and other expense	<u>118,426</u>	<u>81,139</u>
	248,961	189,070
Cardiac Rehabilitation:		
Salaries and wages	128,112	108,976
Supplies and other expense	<u>22,644</u>	<u>24,430</u>
	150,756	133,406
Diabetic Center:		
Salaries and wages	81,613	79,479
Supplies and other expense	<u>2,111</u>	<u>3,923</u>
	83,724	83,402
Business Health:		
Salaries and wages	912	3,650
Supplies and other expense	<u>1,020</u>	<u>40,121</u>
	1,932	43,771
Social Services:		
Salaries and wages	120,679	155,502
Supplies and other expense	<u>2,797</u>	<u>5,911</u>
	123,476	161,413
Medical Records:		
Salaries and wages	230,106	242,471
Supplies and other expense	21,562	23,253
Microfilming services purchased	<u>11,017</u>	<u>29,922</u>
	262,685	295,646

(continued next page)

CASS COUNTY MEMORIAL HOSPITAL
 Other Professional Service Expenses - Continued
 Year ended June 30,

	2004	2003
Medical Education - Community Orientation Program:		
Supplies and other expense	\$ 3,750	\$ 4,005
Utilization Review:		
Salaries and wages	73,167	49,737
Supplies and other expense	1,780	1,020
	74,947	50,757
Sleep Studies:		
Purchased services	48,600	53,400
Supplies and other expense	--	1,271
	48,600	54,671
	\$ 6,914,635	\$ 7,163,924

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
General Service Expenses
Year ended June 30,

	2004	2003
Dietary:		
Salaries and wages	\$ 362,674	\$ 350,606
Food	235,354	222,375
Supplies and other expense	43,500	39,562
	641,528	612,543
Operation of Plant:		
Salaries and wages	234,465	243,963
Electricity	105,900	112,465
Natural gas and fuel oil	103,715	85,519
Water	19,726	18,897
Supplies and other expense	170,025	171,313
	633,831	632,157
Clinical Equipment:		
Contracted services	79,999	77,985
Supplies and other expense	4,183	3,345
	84,182	81,330
Housekeeping:		
Salaries and wages	274,790	275,970
Contracted management services	119,629	118,380
Supplies and other expense	46,340	45,569
	440,759	439,919
Laundry and Linen:		
Salaries and wages	62,211	63,653
Contracted management services	19,397	21,493
Supplies and other expense	13,447	11,401
Linens	11,232	17,597
	106,287	114,144
	\$ 1,906,587	\$ 1,880,093

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2004</u>	<u>2003</u>
Administrative Services:		
Salaries and wages	\$ 248,825	\$ 245,501
Dues and subscriptions	31,543	32,848
Legal publications and advertising	6,754	7,649
Purchased services	6,511	6,951
Consulting fees	116,542	68,350
Supplies and other expense	<u>38,461</u>	<u>43,430</u>
	448,636	404,729
Fiscal Services:		
Salaries and wages	326,826	317,073
Telephone	36,065	34,086
Freight and postage	21,374	21,554
Professional fees	21,370	19,716
Supplies and other expense	<u>93,088</u>	<u>80,912</u>
	498,723	473,341
Admissions:		
Salaries and wages	166,022	167,083
Supplies and other expense	<u>7,426</u>	<u>11,964</u>
	173,448	179,047
Credit and Collections:		
Salaries and wages	152,730	157,081
Supplies and other expense	88,858	74,057
Collection expense	<u>89,368</u>	<u>78,605</u>
	330,956	309,743
Information Systems:		
Salaries and wages	291,466	234,490
Supplies and other expense	<u>141,327</u>	<u>105,248</u>
	432,793	339,738
Human Resources:		
Salaries and wages	139,980	111,191
Supplies and other expense	<u>43,128</u>	<u>108,471</u>
	183,108	219,662
Public Relations:		
Salaries and wages	29,688	24,807
Supplies and other expense	<u>50,483</u>	<u>52,471</u>
	80,171	77,278
Purchasing:		
Salaries and wages	86,922	91,884
Supplies and other expense	<u>24,945</u>	<u>14,587</u>
	111,867	106,471

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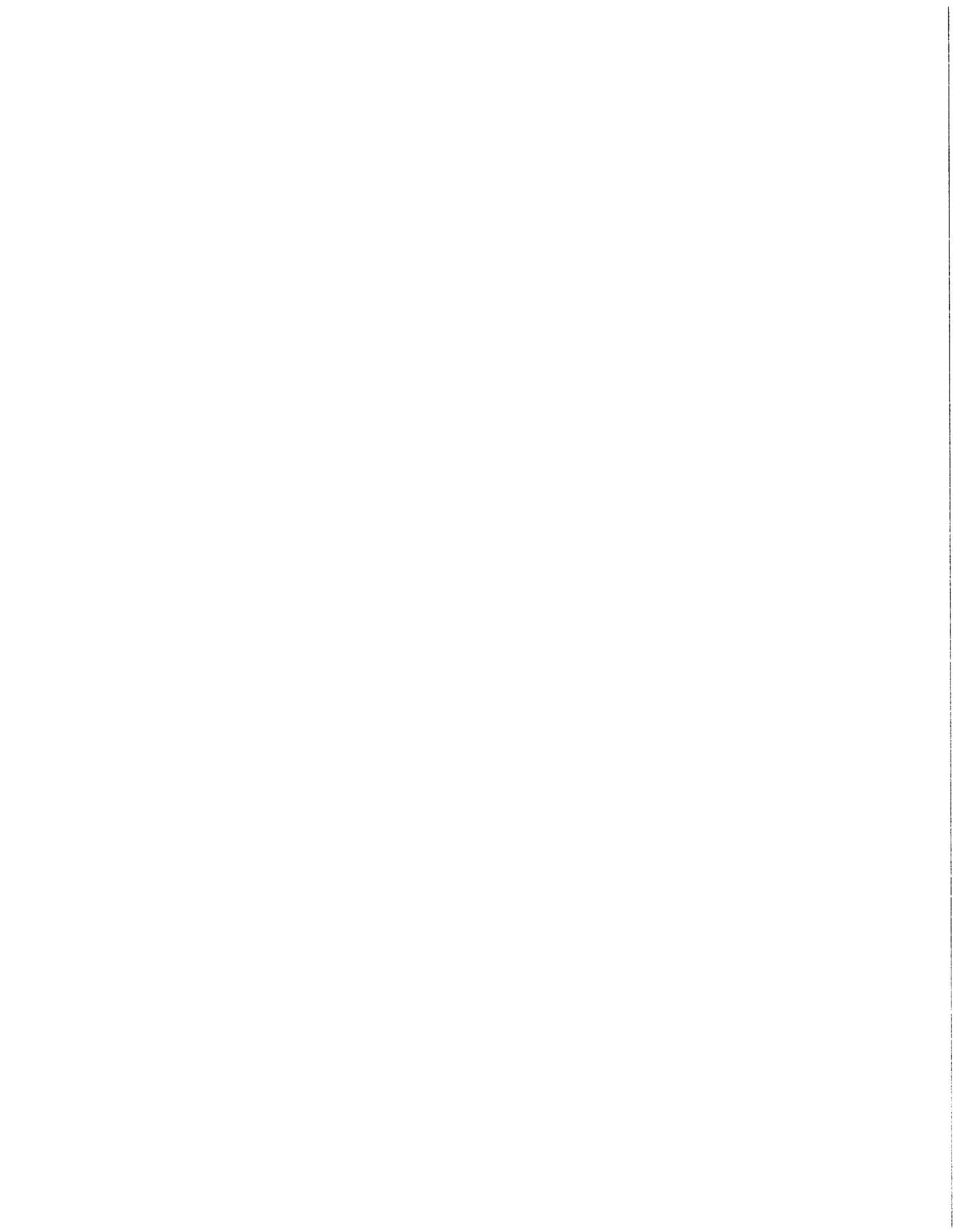
CASS COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

	2004	2003
Employee Welfare:		
Social Security tax	\$ 728,322	\$ 734,970
Iowa Public Employees' Retirement System	613,091	621,447
Group health insurance	1,170,496	1,175,402
Workers' compensation insurance	277,973	280,012
Deferred compensation	133,912	130,829
Other	<u>17,756</u>	<u>3,616</u>
	2,941,550	2,946,276
Insurance:		
Liability and property insurance	221,095	99,405
Wellness:		
Salaries and wages	17,036	34,796
Supplies and other expense	<u>14,547</u>	<u>7,001</u>
	31,583	41,797
Quality Improvement:		
Salaries and wages	45,290	36,402
Supplies and other expense	<u>1,141</u>	<u>3,125</u>
	46,431	39,527
Compliance:		
Professional fees	36	280
Supplies and other expense	<u>2,044</u>	<u>26,679</u>
	2,080	26,959
Customer Service:		
Salaries and wages	--	895
Supplies and other expense	<u>8,480</u>	<u>20,188</u>
	8,480	21,083
	<u>\$ 5,510,921</u>	<u>\$ 5,285,056</u>

Summary of Expenses

Salaries and wages	\$ 10,088,960	\$ 10,138,928
Employee benefits	2,941,550	2,946,276
Professional fees	953,989	958,992
Supplies and other expense	5,324,816	5,254,999
Provision for depreciation	<u>1,383,807</u>	<u>1,387,202</u>
	<u>\$ 20,693,122</u>	<u>\$ 20,686,397</u>

See Independent Auditor's Report.



CASS COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Acute Care:					
Admissions	1,167	1,307	1,395	1,344	1,307
Discharges	1,171	1,307	1,399	1,335	1,300
Patient Days	3,794	4,206	4,576	4,462	4,567
Average Length of Stay	3.24	3.22	3.27	3.34	3.51
Average Occupied Beds	10.4	11.5	12.5	12.2	12.5
Swing Bed:					
Admissions	384	436	438	410	407
Discharges	389	440	431	409	412
SNF Days	3,993	4,484	4,640	4,353	4,184
Average Occupied Beds	10.9	12.3	12.7	11.9	11.4
Combined Average Occupied Beds (Acute and Swing Bed)	21.3	23.8	25.2	24.1	23.9
Psychiatric Unit:					
Admissions	175	118	125	120	112
Discharges	179	116	129	118	116
Patient Days	1,103	870	808	1,126	929
Average Occupied Beds	3.0	2.4	2.2	3.1	2.5
Total Average Occupied Beds	24.3	26.2	27.4	27.2	26.4
Nursery Days	311	318	285	349	330
Outpatient Occasions of Service	42,208	43,431	44,173	44,617	46,510

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	2004	2003
Current Assets:		
Cash	\$ 815,075	\$ 403,676
Patient receivables, net	2,797,539	3,473,501
Other receivables	1,179,449	816,594
Inventory	410,868	450,090
Prepaid expense	174,273	400,798
Estimated third-party payor settlements	992,000	185,000
Succeeding year property tax receivable	1,482,000	1,486,000
Internally designated assets	600,751	527,685
Total current assets	8,451,955	7,743,344
Other Assets:		
Designated and restricted assets, net	3,292,408	4,056,733
Capital assets, net	8,613,438	9,183,993
Other noncurrent assets	5,161,534	4,956,192
Total other assets	17,067,380	18,196,918
	\$ 25,519,335	\$ 25,940,262
Current Liabilities:		
Current maturities	\$ 456,823	\$ 433,223
Accounts payable	635,150	576,941
Accrued expenses	1,617,544	1,621,095
Deferred revenue for succeeding year property tax receivable	1,482,000	1,486,000
Total current liabilities	4,191,517	4,117,259
Capital Lease Obligations, Net	197,245	404,068
Bonds Payable, Net	1,813,551	2,057,294
Net Assets	19,317,022	19,361,641
	\$ 25,519,335	\$ 25,940,262

See Independent Auditor's Report.

<u>2002</u>	<u>2001</u>	<u>2000</u>
\$ 693,368	\$ 287,387	\$ 633,308
2,714,344	3,147,546	3,272,786
636,824	547,523	370,490
397,140	365,745	302,821
276,528	184,289	250,197
968,000	475,000	277,000
1,486,000	1,095,000	1,055,000
<u>525,816</u>	<u>468,132</u>	<u>506,918</u>
7,698,020	6,570,622	6,668,520
3,611,828	3,571,808	3,981,975
9,840,152	10,659,605	10,242,846
<u>4,535,017</u>	<u>4,521,530</u>	<u>4,601,331</u>
<u>17,986,997</u>	<u>18,752,943</u>	<u>18,826,152</u>
<u>\$ 25,685,017</u>	<u>\$ 25,323,565</u>	<u>\$ 25,494,672</u>
\$ 410,006	\$ 354,327	\$ 294,918
508,225	472,158	479,668
1,494,298	1,438,786	1,376,146
<u>1,486,000</u>	<u>1,095,000</u>	<u>1,055,000</u>
3,898,529	3,360,271	3,205,732
602,291	638,622	1,237
2,286,436	2,500,978	2,700,785
<u>18,897,761</u>	<u>18,823,694</u>	<u>19,586,918</u>
<u>\$ 25,685,017</u>	<u>\$ 25,323,565</u>	<u>\$ 25,494,672</u>

CASS COUNTY MEMORIAL HOSPITAL
 Comparative Statements of Revenues and Expenses
 Year ended June 30,

	<u>2004</u>	<u>2003</u>
Patient Service Revenue	\$ 30,602,992	\$ 31,122,314
Adjustments to Patient Service Revenue	<u>(13,210,361)</u>	<u>(12,095,934)</u>
Net Patient Service Revenue	17,392,631	19,026,380
Other Revenue	<u>413,871</u>	<u>412,380</u>
Total Revenue	17,806,502	19,438,760
Expenses	<u>20,693,122</u>	<u>20,686,397</u>
Operating Loss	(2,886,620)	(1,247,637)
Non-Operating Revenue, Net	<u>1,937,001</u>	<u>1,711,517</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Unusual Item	(949,619)	463,880
Unusual Item	<u>905,000</u>	<u>--</u>
Excess of Revenues Over Expenses (Expenses Over Revenues)	<u><u>\$(44,619)</u></u>	<u><u>\$ 463,880</u></u>

See Independent Auditor's Report.

<u>2002</u>	<u>2001</u>	<u>2000</u>
\$ 25,853,885	\$ 24,437,910	\$ 25,591,673
<u>(8,004,480)</u>	<u>(7,989,985)</u>	<u>(8,143,258)</u>
17,849,405	16,447,925	17,448,415
<u>437,890</u>	<u>394,549</u>	<u>473,179</u>
18,287,295	16,842,474	17,921,594
<u>19,775,671</u>	<u>18,954,981</u>	<u>18,192,824</u>
(1,488,376)	(2,112,507)	(271,230)
<u>1,562,443</u>	<u>1,349,283</u>	<u>1,000,514</u>
74,067	(763,224)	729,284
<u> --</u>	<u> --</u>	<u> --</u>
<u>\$ 74,067</u>	<u>\$(763,224)</u>	<u>\$ 729,284</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees
Cass County Memorial Hospital
Atlantic, Iowa

We have audited the financial statements of Cass County Memorial Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated September 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Cass County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. 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 interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cass County Memorial Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Cass County Memorial Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

To the Board of Trustees
Cass County Memorial Hospital

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 04-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of Cass County Memorial Hospital and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Grunewald, Bell, Kuhn & L.P.C.

Atlantic, Iowa
September 1, 2004

CASS COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2004

PART I - REPORTABLE CONDITIONS

04-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

04-II-A Official Depositories: A resolution naming official depositories has been adopted by the Board. During the audit, no deposits in excess of the limits were noted.

04-II-B Certified Budget: Hospital expenditures during the year ended June 30, 2004 did not exceed amounts budgeted.

04-II-C Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated March 12, 1975. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Employee Recreation Club	Employee holiday party	\$ 500

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated March 12, 1975.

Conclusion: Response accepted.

CASS COUNTY MEMORIAL HOSPITAL
Schedule of Findings - Continued
Year ended June 30, 2004

PART II - REQUIRED STATUTORY REPORTING - Continued

04-II-D Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

04-II-E Business Transactions: During our audit, we noted no business transactions with Hospital employees or officials.

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

04-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

* * *