

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, 2005 AND 2004

CASS COUNTY MEMORIAL HOSPITAL

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CASS COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2005

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
John Molgaard, Chairman	Atlantic, Iowa	2010
Steve Sisler, Vice-Chairman	Anita, Iowa	2006
Phyllis Stakey, Secretary and Treasurer	Massena, Iowa	2010
Todd Pellett	Atlantic, Iowa	2008
Marcia Schildberg	Atlantic, Iowa	2008
Lois Casey	Atlantic, Iowa	2006
Marge Boucher	Griswold, Iowa	2008

Administrator/CEO:

Patricia A. Markham	Atlantic, Iowa
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Assistant Administrator/CFO:

Michael J. Collins	Atlantic, Iowa
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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, 2005 and 2004, 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 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 two component units 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, 2005 and 2004, 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2005 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, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Trustees
Cass County Memorial Hospital

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.

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, 2003 (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.

G. L. Lomenowald, Bell, Kuhn & Co. P.C.

Atlantic, Iowa
September 8, 2005



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, 2005 and 2004. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The Hospital's net assets increased \$186,157 or 1 percent in 2005 after a \$44,619 or .2 percent decrease in 2004.

The Hospital reported operating losses in both 2005 (\$1,689,929) and 2004 (\$1,993,260). Losses in 2005 decreased by \$303,331 or 15 percent less than the loss reported in 2004 due to increased patient service volumes. Operating losses in 2004 increased by \$745,623 or 60 percent over 2003.

Nonoperating revenues decreased by \$72,555 or 4 percent in 2005 compared to 2004. Nonoperating revenues increased in 2004 by \$237,124 or 14 percent compared to 2003.

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 increased \$186,157 in 2005, after decreasing \$44,619 in 2004, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 8,564,605	\$ 7,779,219	\$ 7,743,344
Capital assets, net	11,282,226	12,008,633	12,612,045
Other noncurrent assets	<u>5,777,882</u>	<u>5,731,483</u>	<u>5,584,873</u>
Total assets	<u>\$ 25,624,713</u>	<u>\$ 25,519,335</u>	<u>\$ 25,940,262</u>
Liabilities:			
Long-term debt outstanding	\$ 1,564,302	\$ 2,010,796	\$ 2,461,362
Other current and noncurrent liabilities	<u>4,557,232</u>	<u>4,191,517</u>	<u>4,117,259</u>
Total liabilities	<u>\$ 6,121,534</u>	<u>\$ 6,202,313</u>	<u>\$ 6,578,621</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 9,214,981	\$ 9,484,565	\$ 9,717,460
Restricted expendable	444,058	433,285	421,233
Unrestricted	<u>9,844,140</u>	<u>9,399,172</u>	<u>9,222,948</u>
Total net assets	<u>\$ 19,503,179</u>	<u>\$ 19,317,022</u>	<u>\$ 19,361,641</u>

A significant component of the change in the Hospital's assets is the increase in accounts receivable. Operating revenues increased in 2005 by \$1,511,423 (8 percent) and patient accounts receivable, net of estimated uncollectible amounts, increased by \$614,771 or 22 percent. The increase in accounts receivable is primarily the result of increases in patient volume and more physicians. The Hospital's average collection period increased slightly (59 days for 2005 and 57 days for 2004).

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2005, the Hospital's net assets increased by \$186,157 or 1 percent, as shown in Table 2. This increase 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>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues:			
Net patient service revenues	\$ 18,917,812	\$ 18,297,631	\$ 19,026,380
Other operating revenues	<u>388,473</u>	<u>402,231</u>	<u>412,380</u>
Total operating revenues	19,306,285	18,699,862	19,438,760
Operating Expenses:			
Salaries and benefits	13,226,276	13,030,510	13,085,204
Professional fees	968,107	953,989	958,992
Other operating expenses	5,416,149	5,324,816	5,254,999
Depreciation and amortization	<u>1,385,682</u>	<u>1,383,807</u>	<u>1,387,202</u>
Total operating expenses	<u>20,996,214</u>	<u>20,693,122</u>	<u>20,686,397</u>
Operating loss	(1,689,929)	(1,993,260)	(1,247,637)
Nonoperating Revenues and Expenses:			
Property taxes	1,633,874	1,636,253	1,640,163
Investment income	366,993	146,223	146,832
Noncapital grants and contributions	208,532	316,479	197,713
Other nonoperating revenues and expenses, net	<u>(333,313)</u>	<u>(150,314)</u>	<u>(273,191)</u>
Total nonoperating revenues (expenses)	<u>1,876,086</u>	<u>1,948,641</u>	<u>1,711,517</u>
Excess of Revenues Over Expenses and Increase in Net Assets	186,157	(44,619)	463,880
Net Assets Beginning of Year	<u>19,317,022</u>	<u>19,361,641</u>	<u>18,897,761</u>
Net Assets End of Year	<u>\$ 19,503,179</u>	<u>\$ 19,317,022</u>	<u>\$ 19,361,641</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 2005 decreased by \$303,331 or 15 percent less than the loss reported in 2004. Operating losses in 2004 increased by \$745,623 or 60 percent higher than the loss in 2003.

The primary components of these operating losses are:

An increase in net patient revenue of \$1,525,181 or 9 percent in 2005. Net patient revenues in 2004 decreased \$728,749, or 4%. The current year increase is due primarily to the successful recruitment of a second general surgeon during the year.

Increase in salary and benefit costs for the Hospital's employees (\$195,766 or 2 percent in 2005 following a decrease of \$54,694 or less than 1 percent in 2004).

Increases in medical supply, drug and other costs of \$91,333 or 2 percent in 2005 and of \$69,817 or 1 percent in 2004.

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

An increase in depreciation costs of \$1,875 or less than 1% in 2005 compared to a decrease of \$3,395 or less than 1% in 2004.

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 2005, medical supplies, prescription drug and other costs totaled \$5.4 million or 25.8 percent of total expenses and an increase of 2 percent over 2004. And, in 2004, medical supplies, prescription drug and other costs totaled \$5.3 million, representing 25.7 percent of total expenses and an increase of 1 percent over 2003. 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 \$200,845 in 2005. In 2004, the cost of uncompensated care was \$104,025. 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 \$2,379 (less than 1 percent) in 2005 compared to a \$3,910 (less than 1 percent) decrease in 2004.

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 \$1.6 million. The Hospital had a negative cash flow from operations of \$508,809, compared to a negative operating cash flow of \$526,465 in 2004.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2005 was prepared on a modified accrual basis.

Actual expenditures were lower than the budget by approximately \$1,450,000 due to lower capital acquisitions and lower patient volumes. Actual revenues were lower than budgeted by approximately \$2,390,000 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 2005, the Hospital had \$11.3 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2005, the Hospital purchased new equipment costing \$1,034,866. \$819,700 was spent to acquire new equipment in 2004. Both of these amounts are more than 2003, when the Hospital spent \$686,982 for new equipment.

Debt:

At year-end, the Hospital had \$2.1 million in revenue notes and capital lease obligations outstanding. The Hospital issued no new debt in 2005 or 2004.

OTHER FACTORS

In addition to the successful recruitment of a second surgeon during the fiscal year, the Hospital continued its search for additional primary care providers. In February, 2005, a new physician assistant was successfully recruited. In November, 2005, a new physician was successfully recruited.

In November, 2005, the Hospital was notified that its application for critical access status under Medicare had been approved effective November 1, 2005. The result will be improved reimbursement based on costs of services.

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>2005</u>	<u>2004</u>
Current Assets:		
Cash	\$ 1,027,984	\$ 815,075
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,966,000 in 2005, \$1,955,000 in 2004)	3,412,310	2,797,539
Other receivables	438,240	506,713
Inventory	599,789	410,868
Prepaid expense	233,550	174,273
Estimated third-party payor settlements	801,000	992,000
Succeeding year property tax receivable	1,489,000	1,482,000
Internally designated assets	<u>562,732</u>	<u>600,751</u>
Total current assets	8,564,605	7,779,219
Designated and Restricted Assets:		
Internally designated assets	2,588,552	3,459,874
Restricted assets	<u>444,058</u>	<u>433,285</u>
	3,032,610	3,893,159
Less amounts required to meet current liabilities	<u>562,732</u>	<u>600,751</u>
	2,469,878	3,292,408
Capital Assets:		
Depreciable capital assets, net	8,153,551	8,545,021
Non-depreciable capital assets	492,188	647,332
Rental property, net	<u>2,636,487</u>	<u>2,816,280</u>
	11,282,226	12,008,633
Investment in Cass County Medical Clinics, Inc.	2,718,457	2,129,189
Other Noncurrent Assets	<u>589,547</u>	<u>309,886</u>
Total assets	<u>\$ 25,624,713</u>	<u>\$ 25,519,335</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2005</u>	<u>2004</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 453,151	\$ 456,823
Accounts payable	877,309	635,150
Accrued employee compensation	1,327,525	1,215,447
Payroll taxes withheld and accrued	263,645	253,013
Accrued interest payable	16,602	19,084
Other current liabilities	130,000	130,000
Deferred revenue for succeeding year property tax receivable	<u>1,489,000</u>	<u>1,482,000</u>
Total current liabilities	4,557,232	4,191,517
Long-Term Debt:		
Capital lease obligations, less current maturities	9,094	197,245
Bonds payable, less unamortized debt issue costs and current maturities	<u>1,555,208</u>	<u>1,813,551</u>
Total long-term debt	<u>1,564,302</u>	<u>2,010,796</u>
Total liabilities	6,121,534	6,202,313
Net Assets:		
Invested in capital assets, net of related debt	9,214,981	9,484,565
Restricted - expendable	444,058	433,285
Unrestricted	<u>9,844,140</u>	<u>9,399,172</u>
	<u>19,503,179</u>	<u>19,317,022</u>
 Total liabilities and net assets	 <u>\$ 25,624,713</u>	 <u>\$ 25,519,335</u>

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

	<u>2005</u>	<u>2004</u>
Revenues:		
Net patient service revenue	\$ 18,917,812	\$ 17,392,631
Other revenue	<u>388,473</u>	<u>402,231</u>
Total revenue	19,306,285	17,794,862
Expenses:		
Nursing service	5,230,726	4,977,172
Other professional service	6,809,147	6,914,635
General service	1,947,104	1,906,587
Fiscal and administrative service	5,623,555	5,510,921
Provision for depreciation	<u>1,385,682</u>	<u>1,383,807</u>
Total expenses	<u>20,996,214</u>	<u>20,693,122</u>
Operating Loss	(1,689,929)	(2,898,260)
Non-Operating Revenues (Expenses):		
County taxes	1,555,874	1,558,253
Home health care county revenue	78,000	78,000
Investment income	366,993	146,223
Noncapital grants and contributions	208,532	316,479
Medical office building rent, net	43,455	42,092
Southwest Iowa Mental Health Center services, net	(186,324)	23,804
Gain on disposal of assets	12,476	2,410
Retail pharmacy loss, net	(48,733)	(50,328)
Other rental income, net	508	10,179
Interest expense	<u>(154,695)</u>	<u>(178,471)</u>
Non-operating revenue, net	<u>1,876,086</u>	<u>1,948,641</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Unusual Item	186,157	(949,619)
Unusual Item (Note N)	<u>--</u>	<u>905,000</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) and Increase (Decrease) in Net Assets	186,157	(44,619)
Net Assets Beginning of Year	<u>19,317,022</u>	<u>19,361,641</u>
Net Assets End of Year	<u>\$ 19,503,179</u>	<u>\$ 19,317,022</u>

The accompanying notes are an integral part of these statements.

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

	2005	2004
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 18,562,514	\$ 18,101,309
Cash paid to suppliers	(9,266,906)	(8,957,005)
Cash paid to employees	(10,188,018)	(10,069,882)
Other revenue	383,601	399,113
Net cash used in operating activities	(508,809)	(526,465)
Cash flows from noncapital financing activities:		
County tax revenue	1,633,874	1,636,253
Noncapital grants and contributions	208,532	316,479
Net cash provided by noncapital financing activities	1,842,406	1,952,732
Cash flows from capital and related financing activities:		
Capital expenditures	(874,237)	(724,777)
Construction in progress expenditures	(15,075)	(52,147)
Computer system expenditures	(28,374)	(149,504)
Proceeds from disposal of assets	50,000	5,600
Principal paid on long-term debt	(456,823)	(433,223)
Interest paid	(150,520)	(174,523)
Net cash used in capital and related financing activities	(1,475,029)	(1,528,574)
Cash flows from investing activities:		
Investment income	216,600	150,692
Investment in Cass County Medical Clinics, Inc.	(589,268)	(511,685)
Decrease in designated and restricted assets	964,283	536,815
Rental income, net	230,503	244,580
Southwest Iowa Mental Health Center services, net	(186,324)	23,804
Retail pharmacy loss, net	(48,733)	(50,328)
Change in other noncurrent assets	(284,251)	(33,265)
Net cash provided by investing activities	302,810	360,613
Net increase in cash and cash equivalents	161,378	258,306
Cash and cash equivalents at beginning of year	947,918	689,612
Cash and cash equivalents at end of year	\$ 1,109,296	\$ 947,918

(continued next page)

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

	<u>2005</u>	<u>2004</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,027,984	\$ 815,075
Cash and cash equivalents in designated and restricted assets	<u>81,312</u>	<u>132,843</u>
	<u>\$ 1,109,296</u>	<u>\$ 947,918</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$(1,689,929)	\$(2,898,260)
Adjustments to reconcile operating loss to net cash used in operating activities		
Provision for depreciation	1,385,682	1,383,807
Amortization	4,590	9,180
Provision for bad debts	914,383	818,008
Unusual item	--	905,000
Component of operating revenue reclassified for purposes of reporting cash flows		
Interest income on operating funds	(4,872)	(3,118)
Change in assets and liabilities		
Accounts receivable	(1,460,681)	(207,330)
Inventory	(188,921)	39,222
Prepaid expense	(59,277)	226,525
Accounts payable, trade	276,506	8,743
Accrued employee compensation	112,078	19,078
Payroll taxes withheld and accrued	10,632	(320)
Other current liabilities	--	(20,000)
Estimated third-party payor settlements	<u>191,000</u>	<u>(807,000)</u>
Total adjustments	<u>1,181,120</u>	<u>2,371,795</u>
Net cash used in operating activities	<u>\$(508,809)</u>	<u>\$(526,465)</u>

Non-Cash Transactions:

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash used in operating activities:

	<u>2005</u>	<u>2004</u>
Book value of assets traded	<u>\$ 7,566</u>	<u>\$ --</u>

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

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 two component units. Cass County Medical Clinics, Inc. is a component unit because three out of five board members are also board members of the Hospital, and the Cass County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation. The Hospital has elected to exclude the financial information of its component units 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.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

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

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.

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. Capital assets with lives in excess of five years and cost in excess of \$1,000 are capitalized. These 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 (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

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 2005 or 2004.

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, 2005 and 2004

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 organizations. *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, 2005 and 2004

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, 2005 and 2004

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2005	2004
Long-term debt	\$ 444,058	\$ 433,285

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2005 or 2004.

NOTE D - DESIGNATED NET ASSETS

Of the \$9,844,140 (\$9,399,172 as of June 30, 2004) of unrestricted net assets as of June 30, 2005, \$2,588,552 (\$3,459,874 for 2004) 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, 2005 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. 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, 2005 and 2004

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	<u>2005</u>	<u>2004</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 59,852	\$ 111,500
Certificates of deposit	2,384,526	3,204,507
Donated stock	119,309	123,043
Interest receivable	<u>24,865</u>	<u>20,824</u>
	<u>\$ 2,588,552</u>	<u>\$ 3,459,874</u>
Restricted Assets:		
Cash and cash equivalents	\$ 21,460	\$ 21,343
Certificate of deposit	422,000	411,106
Accrued interest	<u>598</u>	<u>836</u>
	<u>\$ 444,058</u>	<u>\$ 433,285</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

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, 2005 and 2004, was as follows:

	<u>2005</u>	<u>2004</u>
Receivable from:		
Patients	\$ 1,301,313	\$ 1,215,698
Medicare	1,711,235	1,799,115
Medicaid	887,203	588,386
Blue Cross	655,738	466,600
Other commercial insurance carriers	767,903	640,482
Others	<u>54,918</u>	<u>42,258</u>
	5,378,310	4,752,539
Less allowances for doubtful accounts and contractual adjustments	<u>1,966,000</u>	<u>1,955,000</u>
	<u>\$ 3,412,310</u>	<u>\$ 2,797,539</u>

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2005 and 2004 were as follows:

Hospital:

<u>Cost</u>	<u>Balance 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2005</u>
Land Improvements	\$ 1,822,690	\$ 23,978	\$ --	\$ 1,846,668
Buildings	6,994,703	130,717	99,264	7,026,156
Building Services Equipment	3,908,813	10,750	--	3,919,563
Fixed Equipment	2,705,954	3,037	--	2,708,991
Major Movable Equipment	<u>8,281,480</u>	<u>866,384</u>	<u>216,967</u>	<u>8,930,897</u>
	23,713,640	1,034,866	316,231	24,432,275

Depreciation

Land Improvements	925,149	118,370	--	1,043,519
Buildings	3,429,471	251,076	66,176	3,614,371
Building Services Equipment	2,610,233	163,850	--	2,774,083
Fixed Equipment	1,954,863	144,923	--	2,099,786
Major Movable Equipment	<u>6,248,903</u>	<u>707,463</u>	<u>209,401</u>	<u>6,746,965</u>
Total Depreciation	<u>15,168,619</u>	<u>1,385,682</u>	<u>275,577</u>	<u>16,278,724</u>

Depreciable Capital Assets,
Net

	<u>\$ 8,545,021</u>	<u>\$ (350,816)</u>	<u>\$ 40,654</u>	<u>\$ 8,153,551</u>
Construction in Progress	\$ 42,934	\$ 775	\$ 41,415	\$ 2,294
Computer System Project	168,835	28,374	142,878	54,331
Land Held for Future Development	410,080	--	--	410,080
Land	<u>25,483</u>	<u>--</u>	<u>--</u>	<u>25,483</u>
Non-Depreciable Capital Assets	<u>\$ 647,332</u>	<u>\$ 29,149</u>	<u>\$ 184,293</u>	<u>\$ 492,188</u>

Medical Office Building:

Cost	\$ 4,264,878	\$ 12,997	\$ 5,321	\$ 4,272,554
Depreciation	<u>1,448,598</u>	<u>188,354</u>	<u>885</u>	<u>1,636,067</u>
Medical Office Building, Net	<u>\$ 2,816,280</u>	<u>\$ (175,357)</u>	<u>\$ 4,436</u>	<u>\$ 2,636,487</u>

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

NOTE G - CAPITAL ASSETS - Continued

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>

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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Total depreciation expense for the year ended June 30, 2005 was \$1,574,036 (\$1,572,130 for 2004).

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

NOTE H - LEASES

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

	<u>2005</u>	<u>2004</u>
Medical Equipment	\$ 979,442	\$ 979,442
Less: Accumulated Amortization	<u>800,308</u>	<u>604,421</u>
Net Book Value	<u>\$ 179,134</u>	<u>\$ 375,021</u>

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2005 and 2004 follows:

	<u>Balance 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2005</u>	<u>Current Portion</u>
Long-Term Debt:					
Revenue bonds	\$2,120,000	\$ --	\$ 250,000	\$1,870,000	\$ 265,000
Debt issue costs	<u>(56,449)</u>	<u>--</u>	<u>(6,657)</u>	<u>(49,792)</u>	<u>--</u>
Total Long-Term Debt	2,063,551	--	243,343	1,820,208	265,000
Capital Lease Obligations	<u>404,068</u>	<u>--</u>	<u>206,823</u>	<u>197,245</u>	<u>188,151</u>
Total Non-Current Liabilities	<u>\$2,467,619</u>	<u>\$ --</u>	<u>\$ 450,166</u>	<u>\$2,017,453</u>	<u>\$ 453,151</u>
	<u>Balance 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2004</u>	<u>Current Portion</u>
Long-Term Debt:					
Revenue bonds	\$2,355,000	\$ --	\$ 235,000	\$2,120,000	\$ 250,000
Debt issue costs	<u>(62,706)</u>	<u>--</u>	<u>(6,257)</u>	<u>(56,449)</u>	<u>--</u>
Total Long-Term Debt	2,292,294	--	228,743	2,063,551	250,000
Capital Lease Obligations	<u>602,291</u>	<u>--</u>	<u>198,223</u>	<u>404,068</u>	<u>206,823</u>
Total Non-Current Liabilities	<u>\$2,894,585</u>	<u>\$ --</u>	<u>\$ 426,966</u>	<u>\$2,467,619</u>	<u>\$ 456,823</u>

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

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
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	340,000	37,450	--	--
2011	365,000	12,775	--	--
	<u>\$ 1,870,000</u>	<u>\$ 415,072</u>	<u>\$ 197,245</u>	<u>\$ 5,085</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, 2005, 2004, and 2003 were approximately \$623,000, \$613,000, and \$621,000, respectively, equal to the required contributions for each year.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

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 \$136,869 and \$133,912 for the years ended June 30, 2005 and 2004, 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, 2005, was \$5,149,029 (\$4,644,437 at June 30, 2004). 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, 2005 and 2004, the Hospital provided \$70,000 of operating capital. The Center had a deficit in 2005 of \$221,637 (\$18,571 deficit in 2004) without the Hospital's funding.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

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>2005</u>	<u>2004</u>
Hospital expense to Mental Health Center for physicians	\$ <u>176,654</u>	\$ <u>196,369</u>
Support passed through from Hospital to Mental Health Center	\$ <u>60,434</u>	\$ <u>65,042</u>
Hospital revenue for Mental Health Center personnel costs	\$ <u>581,319</u>	\$ <u>605,331</u>
Owed to Hospital by the Mental Health Center	\$ <u>87,612</u>	\$ <u>228,196</u>

The financial arrangements for the 2005-2006 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$252,720, which includes financial support and payment for physician services. The Center agreed to pay the Hospital approximately \$557,010 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>2005</u>	<u>2004</u>
Services purchased from HPSI	\$ <u>143,303</u>	\$ <u>137,849</u>
Services and supplies provided to HPSI	\$ <u>181,051</u>	\$ <u>230,037</u>
Amount due from HPSI	\$ <u>36,159</u>	\$ <u>48,411</u>
Member share of net assets	\$ <u>267,232</u>	\$ <u>241,981</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, 2005 and 2004

NOTE L - RELATED PARTIES - Continued

Cass County Memorial Hospital Foundation

Cass County Memorial Hospital Foundation is a separate not for profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation. During the year ended June 30, 2005, contributions received from this organization were \$ - 0 - (\$102,071 for 2004).

NOTE M - COMMITMENTS AND CONTINGENCIES

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 recorded approximately \$248,300 of rental income from CCMC for the year ended June 30, 2005 (\$248,300 for 2004). Effective January 1, 2001, CCMC began purchasing health insurance coverage through the Hospital's group health insurance plan. CCMC health insurance premiums totaled \$196,825 for fiscal year ended June 30, 2005 (\$147,084 for 2004). The operations of CCMC are managed by the Hospital and physicians. 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 investment 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.

Following is a schedule of the investment in CCMC as of June 30:

	<u>2005</u>	<u>2004</u>
Purchases of physician practices	\$ 915,292	\$ 830,348
Advances of operating capital, and unpaid rent and insurance	<u>1,803,165</u>	<u>1,298,841</u>
	<u>\$ 2,718,457</u>	<u>\$ 2,129,189</u>

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, 2005 is \$130,000 (\$130,000 at June 30, 2004), which is reported in other current liabilities.

Construction in Progress

As of June 30, 2005, the Hospital incurred planning costs of \$2,294 for possible future renovations to the existing facility. As of the date of this report, no commitments have been made. The project will be financed through the use of internally generated funds.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2005 and 2004

NOTE M - COMMITMENTS AND CONTINGENCIES - Continued

Computer System Project

As of June 30, 2005, the Hospital incurred fees of \$54,331 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 \$60,000, 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.

NOTE N - 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.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. 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.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,633,874	\$ --	\$ 1,633,874
Other revenues	19,548,497	--	19,548,497
Transfers in (out)	(10,773)	10,773	--
	<u>21,171,598</u>	<u>10,773</u>	<u>21,182,371</u>
Expenses	<u>20,996,214</u>	<u>--</u>	<u>20,996,214</u>
Net	175,384	10,773	186,157
Balance beginning of year	<u>18,883,737</u>	<u>433,285</u>	<u>19,317,022</u>
Balance end of year	<u>\$ 19,059,121</u>	<u>\$ 444,058</u>	<u>\$ 19,503,179</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,633,874	\$(78,000)	\$ 1,555,874	\$ 1,482,180
Other revenues	<u>19,548,497</u>	<u>232,695</u>	<u>19,781,192</u>	<u>22,249,021</u>
	21,182,371	154,695	21,337,066	23,731,201
Expenses	<u>20,996,214</u>	<u>1,072,381</u>	<u>22,068,595</u>	<u>23,520,000</u>
Net	186,157	(917,686)	(731,529)	211,201
Balance beginning of year	<u>19,317,022</u>	<u>(11,066,238)</u>	<u>8,250,784</u>	<u>8,250,784</u>
Balance end of year	<u>\$ 19,503,179</u>	<u>\$(11,983,924)</u>	<u>\$ 7,519,255</u>	<u>\$ 8,461,985</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>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,232,481	22.9%	\$ 898,364	18.9%
31 - 60	689,489	12.8	676,062	14.2
61 - 90	365,630	6.8	436,761	9.2
91 - 120	338,721	6.3	181,223	3.8
121 and over	989,695	18.4	816,701	17.2
	<u>3,616,016</u>	<u>67.2</u>	<u>3,009,111</u>	<u>63.3</u>
In hospital	<u>1,762,294</u>	<u>32.8</u>	<u>1,743,428</u>	<u>36.7</u>
	<u>5,378,310</u>	<u>100.0%</u>	<u>4,752,539</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	625,000		600,000	
Allowance for contractual adjustments	<u>1,341,000</u>		<u>1,355,000</u>	
	<u>\$ 3,412,310</u>		<u>\$ 2,797,539</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Balance, beginning	\$ 600,000	\$ 650,000
Provision for bad debts	914,383	818,008
Recoveries of accounts previously written off	<u>252,679</u>	<u>284,512</u>
	<u>1,767,062</u>	<u>1,752,520</u>
Accounts written off	<u>1,142,062</u>	<u>1,152,520</u>
Balance, ending	<u>\$ 625,000</u>	<u>\$ 600,000</u>

See Independent Auditor's Report.

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

	2005	2004
<u>Other Receivables</u>		
Shared services	\$ 24,541	\$ 54,326
Health Partners of Southwest Iowa	36,159	48,411
Lifeline	42,068	41,730
Southwest Iowa Mental Health Center	87,612	228,196
Other	247,860	134,050
	\$ 438,240	\$ 506,713
 <u>Inventory</u>		
General stores	\$ 58,344	\$ 55,879
Pharmacy	446,714	257,993
Radiology	16,565	14,324
Laboratory	34,829	37,070
Dietary	5,535	5,669
Fuel oil	5,496	2,490
Information system	32,306	37,443
	\$ 599,789	\$ 410,868
 <u>Prepaid Expense</u>		
Dues	\$ 15,720	\$ 14,298
Insurance	9,542	5,829
Other	208,288	154,146
	\$ 233,550	\$ 174,273

See Independent Auditor's Report.

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

	<u>2005</u>	<u>2004</u>
Daily Patient Services:		
Medical and surgical	\$ 2,038,321	\$ 2,463,105
Obstetric	216,994	223,974
Intensive care	878,525	777,002
Nursery	98,744	104,708
Psychiatric services	<u>1,144,917</u>	<u>1,519,376</u>
	4,377,501	5,088,165
Other Nursing Services:		
Operating room	2,020,529	1,276,207
Recovery room	371,758	277,830
Delivery and labor rooms	157,980	164,115
Central services and supply	2,151,145	1,577,749
Intravenous therapy	548,069	585,539
Emergency service	1,943,395	1,746,182
Oncology service	332,519	273,455
Enterstomal therapy	<u>103,300</u>	<u>75,769</u>
	7,628,695	5,976,846
Other Professional Services:		
Laboratory	4,265,677	3,379,220
Blood bank	201,927	242,226
Electrocardiology	188,550	161,064
Cardiac stress testing	166,980	142,450
Ambulatory electrocardiology	65,162	78,340
Electroencephalography	6,930	1,310
Radiology	1,856,790	1,783,015
CT scanning	1,565,943	1,326,278
MRI scanning	977,066	884,508
Nuclear medicine and ultrasound	1,322,383	1,145,274
Pharmacy	4,621,275	4,620,783
Anesthesia	1,322,745	1,006,074
Respiratory care	1,578,726	1,619,429
Physical therapy	814,737	885,405
Speech therapy	36,413	42,904
Occupational therapy	130,404	168,633
Home Health Care	1,250,041	1,218,843
Hospice	511,877	410,419
Cardiac rehabilitation	182,941	200,050
Diabetic center	33,822	44,778
Sleep study	213,435	174,460
Business health	--	2,518
	<u>21,313,824</u>	<u>19,537,981</u>
	<u>\$ 33,320,020</u>	<u>\$ 30,602,992</u>

(continued next page)

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

	<u>2005</u>	<u>2004</u>
SUMMARY		
Inpatient	\$ 9,774,100	\$ 8,100,388
Swing Bed	2,574,761	3,307,895
Psychiatric Services	1,361,105	1,781,988
Outpatient	17,848,136	15,783,459
Home Health Care	1,250,041	1,218,843
Hospice	<u>511,877</u>	<u>410,419</u>
	<u>\$ 33,320,020</u>	<u>\$ 30,602,992</u>

See Independent Auditor's Report.

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

	2005	2004
Net Patient Service Revenue:		
Patient service revenue	\$ 33,320,020	\$ 30,602,992
Contractual adjustments	(13,286,980)	(12,288,328)
Provision for bad debts	(914,383)	(818,008)
Uncompensated care	(200,845)	(104,025)
	\$ 18,917,812	\$ 17,392,631
Other Revenue:		
Interest income on operating funds	\$ 4,872	\$ 3,118
Meals sold to employees and guests	148,005	150,967
Meals on wheels	33,301	34,629
Medical record transcripts	8,792	9,221
VHA participation	44,488	41,421
Biomedical service	21,773	19,845
Nursing education	1,390	2,953
Wellness program	1,247	949
Laundry and linen	3,956	6,628
Other	120,649	132,500
	\$ 388,473	\$ 402,231

See Independent Auditor's Report.

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

	<u>2005</u>	<u>2004</u>
Administrative:		
Salaries and wages	\$ 171,067	\$ 230,195
Supplies and other expense	<u>8,659</u>	<u>12,361</u>
	179,726	242,556
In-Service Training:		
Salaries and wages	63,253	71,032
Supplies and other expense	<u>8,640</u>	<u>18,422</u>
	71,893	89,454
Quality Assurance:		
Salaries and wages	44,901	44,506
Supplies and other expense	<u>1,194</u>	<u>1,016</u>
	46,095	45,522
Nursing Supervision:		
Salaries and wages	227,392	199,805
Supplies and other expense	<u>427</u>	<u>422</u>
	227,819	200,227
Medical and Surgical:		
Salaries and wages	1,036,131	1,071,135
Supplies and other expense	<u>52,889</u>	<u>48,919</u>
	1,089,020	1,120,054
Psychiatric Services:		
Salaries and wages	775,936	797,786
Professional fees	176,654	196,369
Supplies and other expense	<u>12,005</u>	<u>17,050</u>
	964,595	1,011,205
Intensive Care:		
Salaries and wages	392,758	387,580
Supplies and other expense	<u>12,953</u>	<u>11,721</u>
	405,711	399,301
Obstetric:		
Salaries and wages	247,519	230,961
Supplies and other expense	<u>13,182</u>	<u>11,976</u>
	260,701	242,937
Nursery:		
Salaries and wages	113,742	105,233

(continued next page)

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

	2005	2004
Operating Room:		
Salaries and wages	\$ 336,641	\$ 278,344
Supplies and other expense	101,516	89,280
	438,157	367,624
Recovery Room:		
Salaries and wages	30,805	19,420
Supplies and other expense	151	--
	30,956	19,420
Delivery and Labor Rooms:		
Salaries and wages	49,952	46,215
Supplies and other expense	460	440
	50,412	46,655
Central Services and Supply:		
Salaries and wages	42,013	49,855
Supplies sold to patients	485,291	235,754
Supplies and other expense	4,609	4,132
	531,913	289,741
Intravenous Therapy:		
Solutions	14,177	13,725
Supplies and other expense	85,783	78,826
	99,960	92,551
Emergency and Outpatient Services:		
Salaries and wages	460,906	459,454
Professional fees	226,379	215,276
Supplies and other expense	32,741	29,962
	720,026	704,692
	\$ 5,230,726	\$ 4,977,172

See Independent Auditor's Report.

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

	2005	2004
Laboratory:		
Salaries and wages	\$ 418,714	\$ 377,560
Professional fees	146,831	130,651
Supplies and other expense	197,613	151,736
Cost of chemistry reagents	192,250	164,399
	955,408	824,346
 Blood Bank:		
Cost of blood	116,949	129,768
 Electrocardiology:		
Supplies and other expense	573	343
 Cardiac Stress Testing:		
Salaries and wages	8,481	3,079
Professional fees	2,352	3,164
Supplies and other expense	1,715	832
	12,548	7,075
 Ambulatory Electrocardiology:		
Salaries and wages	7,445	11,089
Supplies and other expense	215	297
	7,660	11,386
 Electroencephalography:		
Salaries and wages	--	130
Supplies and other expense	2,949	3,132
	2,949	3,262
 Radiology:		
Salaries and wages	249,262	258,715
Professional fees	3,259	3,489
Cost of film	10,666	15,535
Supplies and other expense	121,781	100,173
	384,968	377,912
 CT and MRI Scanning:		
Salaries and wages	60,530	49,579
Purchased services	139,987	134,593
Supplies and other expense	82,212	78,570
	282,729	262,742

(continued next page)

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

	<u>2005</u>	<u>2004</u>
Nuclear Medicine and Ultrasound:		
Salaries and wages	\$ 64,867	\$ 63,038
Purchased services	109,095	75,636
Supplies and other expense	<u>12,272</u>	<u>16,821</u>
	186,234	155,495
Pharmacy:		
Salaries and wages	477,531	482,288
Drugs	1,132,610	1,506,069
Supplies and other expense	<u>44,875</u>	<u>46,379</u>
	1,655,016	2,034,736
Anesthesia:		
Salaries and wages	153,368	74,364
Professional fees	177,078	236,403
Supplies and other expense	<u>17,834</u>	<u>19,119</u>
	348,280	329,886
Respiratory Care:		
Salaries and wages	189,340	179,937
Oxygen	14,520	20,461
Supplies and other expense	<u>14,936</u>	<u>34,137</u>
	218,796	234,535
Physical Therapy:		
Salaries and wages	222,270	229,443
Supplies and other expense	<u>7,998</u>	<u>6,907</u>
	230,268	236,350
Occupational Therapy:		
Salaries and wages	54,626	70,751
Supplies and other expense	<u>2,088</u>	<u>1,884</u>
	56,714	72,635
Speech Therapy:		
Professional fees	16,662	17,204
Supplies and other expense	<u>3,240</u>	<u>3,390</u>
	19,902	20,594

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

	<u>2005</u>	<u>2004</u>
Home Health Care:		
Salaries and wages	\$ 1,143,897	\$ 1,093,794
Professional fees	43,081	13,108
Supplies and other expense	<u>83,432</u>	<u>107,837</u>
	1,270,410	1,214,739
Hospice:		
Salaries and wages	135,076	130,158
Professional fees	3,059	377
Supplies and other expense	<u>167,226</u>	<u>118,426</u>
	305,361	248,961
Cardiac Rehabilitation:		
Salaries and wages	128,192	128,112
Supplies and other expense	<u>23,664</u>	<u>22,644</u>
	151,856	150,756
Diabetic Center:		
Salaries and wages	85,684	81,613
Supplies and other expense	<u>2,411</u>	<u>2,111</u>
	88,095	83,724
Business Health:		
Salaries and wages	--	912
Supplies and other expense	<u>1,421</u>	<u>1,020</u>
	1,421	1,932
Social Services:		
Salaries and wages	--	120,679
Supplies and other expense	<u>--</u>	<u>2,797</u>
	--	123,476
Medical Records:		
Salaries and wages	247,447	230,106
Supplies and other expense	27,926	21,562
Microfilming services purchased	<u>31,298</u>	<u>11,017</u>
	306,671	262,685

(continued next page)

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

	2005	2004
Medical Education - Community Orientation Program:		
Supplies and other expense	\$ 350	\$ 3,750
Utilization Review:		
Salaries and wages	145,997	73,167
Supplies and other expense	1,792	1,780
	147,789	74,947
Sleep Studies:		
Purchased services	58,200	48,600
	\$ 6,809,147	\$ 6,914,635

See Independent Auditor's Report.

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

	2005	2004
Dietary:		
Salaries and wages	\$ 368,826	\$ 362,674
Food	207,179	235,354
Supplies and other expense	39,157	43,500
	615,162	641,528
 Operation of Plant:		
Salaries and wages	251,501	234,465
Electricity	107,201	105,900
Natural gas and fuel oil	116,695	103,715
Water	21,621	19,726
Supplies and other expense	160,403	170,025
	657,421	633,831
 Clinical Equipment:		
Contracted services	80,154	79,999
Supplies and other expense	4,062	4,183
	84,216	84,182
 Housekeeping:		
Salaries and wages	296,252	274,790
Contracted management services	112,044	119,629
Supplies and other expense	49,635	46,340
	457,931	440,759
 Laundry and Linen:		
Salaries and wages	63,535	62,211
Contracted management services	17,043	19,397
Supplies and other expense	40,149	13,447
Linens	11,647	11,232
	132,374	106,287
	\$ 1,947,104	\$ 1,906,587

See Independent Auditor's Report.

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

	<u>2005</u>	<u>2004</u>
Administrative Services:		
Salaries and wages	\$ 221,850	\$ 248,825
Dues and subscriptions	34,961	31,543
Legal publications and advertising	6,928	6,754
Purchased services	6,356	6,511
Consulting fees	105,464	116,542
Supplies and other expense	<u>54,938</u>	<u>38,461</u>
	430,497	448,636
Fiscal Services:		
Salaries and wages	280,192	326,826
Telephone	20,618	36,065
Freight and postage	17,518	21,374
Professional fees	23,727	21,370
Supplies and other expense	<u>89,783</u>	<u>93,088</u>
	431,838	498,723
Admissions:		
Salaries and wages	173,980	166,022
Supplies and other expense	<u>11,121</u>	<u>7,426</u>
	185,101	173,448
Credit and Collections:		
Salaries and wages	155,203	152,730
Supplies and other expense	88,950	88,858
Collection expense	<u>79,660</u>	<u>89,368</u>
	323,813	330,956
Information Systems:		
Salaries and wages	371,881	291,466
Professional fees	43,561	--
Supplies and other expense	<u>175,779</u>	<u>141,327</u>
	591,221	432,793
Human Resources:		
Salaries and wages	148,093	139,980
Supplies and other expense	<u>96,907</u>	<u>43,128</u>
	245,000	183,108
Public Relations:		
Salaries and wages	38,802	29,688
Supplies and other expense	<u>53,173</u>	<u>50,483</u>
	91,975	80,171
Purchasing:		
Salaries and wages	86,071	86,922
Supplies and other expense	<u>30,043</u>	<u>24,945</u>
	116,114	111,867

(continued next page)

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

	<u>2005</u>	<u>2004</u>
Employee Welfare:		
Social Security tax	\$ 737,018	\$ 728,322
Iowa Public Employees' Retirement System	622,748	613,091
Group health insurance	1,202,385	1,170,496
Workers' compensation insurance	215,953	277,973
Deferred compensation	136,869	133,912
Other	<u>11,207</u>	<u>17,756</u>
	2,926,180	2,941,550
Insurance:		
Liability and property insurance	196,987	221,095
Wellness:		
Salaries and wages	--	17,036
Supplies and other expense	<u>--</u>	<u>14,547</u>
	--	31,583
Quality Improvement:		
Salaries and wages	58,167	45,290
Supplies and other expense	<u>2,060</u>	<u>1,141</u>
	60,227	46,431
Compliance:		
Professional fees	--	36
Supplies and other expense	<u>22,178</u>	<u>2,044</u>
	22,178	2,080
Customer Service:		
Supplies and other expense	<u>2,424</u>	<u>8,480</u>
	<u>\$ 5,623,555</u>	<u>\$ 5,510,921</u>

Summary of Expenses

Salaries and wages	\$ 10,300,096	\$ 10,088,960
Employee benefits	2,926,180	2,941,550
Professional fees	968,107	953,989
Supplies and other expense	5,416,149	5,324,816
Provision for depreciation	<u>1,385,682</u>	<u>1,383,807</u>
	<u>\$ 20,996,214</u>	<u>\$ 20,693,122</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Acute Care:					
Admissions	1,283	1,167	1,307	1,395	1,344
Discharges	1,278	1,171	1,307	1,399	1,335
Patient Days	3,991	3,794	4,206	4,576	4,462
Average Length of Stay	3.12	3.24	3.22	3.27	3.34
Average Occupied Beds	10.9	10.4	11.5	12.5	12.2
Swing Bed:					
Admissions	390	384	436	438	410
Discharges	393	389	440	431	409
SNF Days	2,762	3,993	4,484	4,640	4,353
Average Occupied Beds	7.6	10.9	12.3	12.7	11.9
Combined Average Occupied Beds (Acute and Swing Bed)	18.5	21.3	23.8	25.2	24.1
Psychiatric Unit:					
Admissions	130	175	118	125	120
Discharges	127	179	116	129	118
Patient Days	804	1,103	870	808	1,126
Average Occupied Beds	2.2	3.0	2.4	2.2	3.1
Total Average Occupied Beds	20.7	24.3	26.2	27.4	27.2
Nursery Days	290	311	318	285	349
Outpatient Occasions of Service	45,468	42,208	43,431	44,173	44,617

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	2005	2004
Current Assets:		
Cash	\$ 1,027,984	\$ 815,075
Patient receivables, net	3,412,310	2,797,539
Other receivables	438,240	506,713
Inventory	599,789	410,868
Prepaid expense	233,550	174,273
Estimated third-party payor settlements	801,000	992,000
Succeeding year property tax receivable	1,489,000	1,482,000
Internally designated assets	562,732	600,751
Total current assets	8,564,605	7,779,219
 Other Assets:		
Designated and restricted assets, net	2,469,878	3,292,408
Capital assets, net	11,282,226	12,008,633
Other noncurrent assets	3,308,004	2,439,075
Total other assets	17,060,108	17,740,116
	\$ 25,624,713	\$ 25,519,335
 Current Liabilities:		
Current maturities	\$ 453,151	\$ 456,823
Accounts payable	877,309	635,150
Accrued expenses	1,737,772	1,617,544
Deferred revenue for succeeding year property tax receivable	1,489,000	1,482,000
Total current liabilities	4,557,232	4,191,517
 Capital Lease Obligations, Net	9,094	197,245
 Bonds Payable, Net	1,555,208	1,813,551
 Net Assets	19,503,179	19,317,022
	\$ 25,624,713	\$ 25,519,335

See Independent Auditor's Report.

<u>2003</u>	<u>2002</u>	<u>2001</u>
\$ 403,676	\$ 693,368	\$ 287,387
3,473,501	2,714,344	3,147,546
816,594	636,824	547,523
450,090	397,140	365,745
400,798	276,528	184,289
185,000	968,000	475,000
1,486,000	1,486,000	1,095,000
<u>527,685</u>	<u>525,816</u>	<u>468,132</u>
7,743,344	7,698,020	6,570,622
4,056,733	3,611,828	3,571,808
12,612,045	13,456,744	14,547,947
<u>1,528,140</u>	<u>918,425</u>	<u>633,188</u>
18,196,918	17,986,997	18,752,943
<u>\$ 25,940,262</u>	<u>\$ 25,685,017</u>	<u>\$ 25,323,565</u>
\$ 433,223	\$ 410,006	\$ 354,327
576,941	508,225	472,158
1,621,095	1,494,298	1,438,786
<u>1,486,000</u>	<u>1,486,000</u>	<u>1,095,000</u>
4,117,259	3,898,529	3,360,271
404,068	602,291	638,622
2,057,294	2,286,436	2,500,978
<u>19,361,641</u>	<u>18,897,761</u>	<u>18,823,694</u>
<u>\$ 25,940,262</u>	<u>\$ 25,685,017</u>	<u>\$ 25,323,565</u>

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

	<u>2005</u>	<u>2004</u>
Patient Service Revenue	\$ 33,320,020	\$ 30,602,992
Adjustments to Patient Service Revenue	<u>(14,402,208)</u>	<u>(13,210,361)</u>
Net Patient Service Revenue	18,917,812	17,392,631
Other Revenue	<u>388,473</u>	<u>402,231</u>
Total Revenue	19,306,285	17,794,862
Expenses	<u>20,996,214</u>	<u>20,693,122</u>
Operating Loss	(1,689,929)	(2,898,260)
Non-Operating Revenue, Net	<u>1,876,086</u>	<u>1,948,641</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Unusual Item	186,157	(949,619)
Unusual Item	<u>--</u>	<u>905,000</u>
Excess of Revenues Over Expenses (Expenses Over Revenues)	<u>\$ 186,157</u>	<u>\$(44,619)</u>

See Independent Auditor's Report.

<u>2003</u>	<u>2002</u>	<u>2001</u>
\$ 31,122,314	\$ 25,853,885	\$ 24,437,910
<u>(12,095,934)</u>	<u>(8,004,480)</u>	<u>(7,989,985)</u>
19,026,380	17,849,405	16,447,925
<u>412,380</u>	<u>437,890</u>	<u>394,549</u>
19,438,760	18,287,295	16,842,474
<u>20,686,397</u>	<u>19,775,671</u>	<u>18,954,981</u>
(1,247,637)	(1,488,376)	(2,112,507)
<u>1,711,517</u>	<u>1,562,443</u>	<u>1,349,283</u>
463,880	74,067	(763,224)
<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ 463,880</u>	<u>\$ 74,067</u>	<u>\$ (763,224)</u>

COMMENTS AND RECOMMENDATIONS

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

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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

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, 2005, and have issued our report thereon dated September 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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.

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 caused by error or fraud 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 05-I-A is a material weakness.

To the Board of Trustees
Cass County Memorial Hospital

Compliance and Other Matters

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, contracts, and grant agreements, 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 or other matters 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, 2005 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.

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.

Gronwald, Bell, Kyhn & Co. P.C.

Atlantic, Iowa
September 8, 2005

CASS COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2005

PART I - REPORTABLE CONDITIONS

05-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

05-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.

05-II-B Certified Budget: Hospital expenditures during the year ended June 30, 2005 did not exceed amounts budgeted.

05-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, 2005

PART II - REQUIRED STATUTORY REPORTING - Continued

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

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

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

05-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.

* * *