

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, 2006 AND 2005

# CASS COUNTY MEMORIAL HOSPITAL

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CASS COUNTY MEMORIAL HOSPITAL  
Officials  
June 30, 2006

<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 (Resigned June, 2006)	Atlantic, Iowa
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Stephen Lewis (Effective May, 2006)	Atlantic, Iowa
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# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## 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, 2006 and 2005, 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 units 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, 2006 and 2005, 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 November 3, 2006 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, 2004 (none of which are presented herein) and expressed qualified 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.

*Granovold, Bell, Rykunt Co. P.C.*

Atlantic, Iowa  
November 3, 2006



# Cass County Memorial Hospital

1501 East 10th Street

Atlantic, Iowa 50022

712-243-3250

## CASS COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Discussion and analysis of the Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

### USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - Balance Sheet; Statement of Revenues, Expenses, and Changes in Net Assets; and 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.

Statistical Analysis give us an indication of Hospital utilization in certain areas. As with most rural hospitals, Cass County Memorial Hospital has seen a shift from "Inpatient utilization" to "Outpatient utilization." Thus, more procedures are done on an outpatient basis due to improved technology.

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets helps us understand if the Hospital as a whole is better or worse off as a result of this year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Both statements report the Hospital's net assets and changes in them. The change in net assets is a measure of the Hospital's "financial health" but you will need to consider other "nonfinancial" factors such as changes in the Hospital's patient base, measures in the quality of service, and local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities.

## **STATISTICAL ANALYSIS**

The Hospital experienced decreased utilization in Acute Care (19%) and Swing Bed (28%) and had increased utilization in the Psychiatric Unit (76%), Nursery (7%), and Outpatient Occasions of Service (20%) compared to FY 2005 and summarized in Table 1.

**Table 1: Statistics**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Acute Care:			
Discharges	1,037	1,278	1,171
Patient Days	3,224	4,025	3,794
Swing Bed:			
Discharges	284	393	389
Patient Days	1,754	2,762	3,993
Psychiatric Unit:			
Discharges	223	127	179
Patient Days	1,406	804	1,103
Nursery:			
Patient Days	311	290	311
Outpatient Occasions of Service	54,571	45,468	42,208

## **BALANCE SHEET**

Net assets increased 4% from \$19,503,179 to \$20,378,439. Total Current Assets increased by 14% with Cash decreasing 44% and Net Patient Receivables increasing 66%. The large increase in Patient Receivables is due to staff turn over in the Information Systems Department and Fiscal Services Department. There was also a change in billing procedures due to the Hospital becoming a Critical Access Hospital in November, 2005. Current Liabilities remain relatively unchanged while Capital Lease Obligations increased due to a new lease on CT Scan equipment in Radiology. The long-term portion of Bonds Payable decreased 31% due to bond refinancing.

**Table 2: Assets, Liabilities, Net Assets**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets:</b>			
Current assets	\$ 9,766,964	\$ 8,564,605	\$ 7,779,219
Capital assets, net	11,083,160	11,282,226	12,008,633
Other noncurrent assets	<u>5,611,361</u>	<u>5,777,882</u>	<u>5,731,483</u>
Total assets	<u>\$ 26,461,485</u>	<u>\$ 25,624,713</u>	<u>\$ 25,519,335</u>
<b>Liabilities:</b>			
Long-term debt outstanding	\$ 1,488,187	\$ 1,564,302	\$ 2,010,796
Other current and noncurrent liabilities	<u>4,594,859</u>	<u>4,557,232</u>	<u>4,191,517</u>
Total liabilities	<u>\$ 6,083,046</u>	<u>\$ 6,121,534</u>	<u>\$ 6,202,313</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$ 8,949,210	\$ 9,214,981	\$ 9,484,565
Restricted	449,382	444,058	433,285
Unrestricted	<u>10,979,847</u>	<u>9,844,140</u>	<u>9,399,172</u>
Total net assets	<u>\$ 20,378,439</u>	<u>\$ 19,503,179</u>	<u>\$ 19,317,022</u>

**STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS**

Patient Service Revenue increased 6% from last fiscal year. Laboratory revenue increased 44% due to the consolidation of the Hospital and clinic laboratories. Pharmacy had a 14% increase and Home Care/Hospice had an 8% increase.

Contractual adjustments to Patient Service Revenue decreased by 7% due to "cost based" reimbursement received for 8 months from Medicare and Medicaid due to critical access status. Adjustments for bad debt had a significant increase (42%) while adjustments for uncompensated care had a small increase (4%).

Expenses increased 9%. Salaries increased 3% while employee benefits decreased 1.6%. Professional fees increased 59% due to the increased use of contract labor and supplies increased 18% (Laboratory supplies & reagents increased 21% while Pharmacy drug cost increased 53%).

The Hospital had a net operating loss of \$940,767 compared to a net operating loss of \$1,689,929 in FY 2005. This is consistent with the Hospital's operating history. In 1966, when operations began as a county hospital, it was agreed that a portion of its cost would be subsidized by property tax revenues, making the facility more affordable for the county's lower income residents. The decrease in the operating loss is directly proportional to the increase in reimbursement from the Medicare and Medicaid programs. Nonoperating revenue (which includes County tax support) decreased by 3% but the excess of revenue over expense increased from a positive \$186,157 to \$875,260.

**Table 3: Revenues, Expenses & Changes in Net Assets**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Operating Revenues:</b>			
Patient service revenue	\$ 35,392,009	\$ 33,320,020	\$ 30,602,992
Adjustments to patient service revenue	( 13,916,819)	( 14,402,208)	( 13,210,361)
Net patient service revenue	21,475,190	18,917,812	17,392,631
Other operating revenue	<u>379,229</u>	<u>388,473</u>	<u>402,231</u>
Total operating revenues	21,854,419	19,306,285	17,794,862
<b>Operating Expenses:</b>			
Salaries	10,587,304	10,300,096	10,088,960
Employee benefits	2,879,977	2,926,180	2,941,550
Professional fees	1,537,624	968,107	953,989
Supplies and other expense	6,392,065	5,416,149	5,324,816
Depreciation	<u>1,398,216</u>	<u>1,385,682</u>	<u>1,383,807</u>
Total operating expenses	<u>22,795,186</u>	<u>20,996,214</u>	<u>20,693,122</u>
Operating loss	( 940,767)	( 1,689,929)	( 2,898,260)
<b>Nonoperating Revenue and Expense:</b>			
Property taxes	1,551,134	1,555,874	1,558,253
Other nonoperating revenue and expense	264,893	320,212	390,388
Unusual item	<u>--</u>	<u>--</u>	<u>905,000</u>
Total nonoperating revenue and expense	<u>1,816,027</u>	<u>1,876,086</u>	<u>2,853,641</u>
Excess of Revenues Over Expenses (Expenses Over Revenues)	875,260	186,157	( 44,619)
Net Assets Beginning of Year	<u>19,503,179</u>	<u>19,317,022</u>	<u>19,361,641</u>
Net Assets End of Year	<u>\$ 20,378,439</u>	<u>\$ 19,503,179</u>	<u>\$ 19,317,022</u>

**STATEMENT OF 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 of \$940,767. Cash in current assets on the balance sheet decreased from \$1,027,984 to \$576,870 due to the increase in patients' accounts receivable. The Hospital had a negative cash flow from operations of \$1,162,544, compared to a negative operating cash flow of \$508,809 in FY 2005.

## **BUDGETARY HIGHLIGHTS**

The official county budget of the Hospital for the year ended June 30, 2006 was prepared on a modified accrual basis. An amendment was made to the budget during the year to increase budgeted expenses by \$1,734,130.

Actual expenditures were lower than the amended budget by approximately \$1,330,000 due to lower capital acquisitions and lower patient volumes. Actual revenues were higher than budgeted by approximately \$587,000 as a result of lower contractual adjustments related to Medicare and Medicaid patients.

## **CAPITAL ASSETS**

At the end of 2006, the Hospital had just over 11 million invested in capital assets, net of accumulation depreciation. In FY 2006 the Hospital purchased new equipment costing \$1,388,639. New equipment purchased in FY 2005 was \$892,719.

## **DEBT**

At year end, the Hospital had 2.1 million in revenue notes and capital lease obligations outstanding. The Hospital issued 1.6 million of a Hospital Revenue Refunding Note, Series 2006 for the purpose of early refunding the Hospital Revenue Bond, Series 1995. Interest rate for the refunding was 4.48% compared to interest rates ranging from 5.3% to 7.0%.

## **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>2006</u>	<u>2005</u>
<b>Current Assets:</b>		
Cash	\$ 576,870	\$ 1,027,984
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$2,311,000 in 2006, \$1,966,000 in 2005)	5,651,770	3,412,310
Other receivables	342,678	438,240
Inventory	584,569	599,789
Prepaid expense	345,593	233,550
Estimated third-party payor settlements	--	801,000
Succeeding year property tax receivable	1,493,000	1,489,000
Internally designated assets	<u>772,484</u>	<u>562,732</u>
Total current assets	9,766,964	8,564,605
<b>Designated and Restricted Assets:</b>		
Internally designated assets	2,400,687	2,588,552
Restricted assets	<u>449,382</u>	<u>444,058</u>
	2,850,069	3,032,610
Less amounts required to meet current liabilities	<u>772,484</u>	<u>562,732</u>
	2,077,585	2,469,878
<b>Capital Assets:</b>		
Depreciable capital assets, net	7,441,317	8,153,551
Non-depreciable capital assets	1,180,213	492,188
Rental property, net	<u>2,461,630</u>	<u>2,636,487</u>
	11,083,160	11,282,226
Investment in Cass County Medical Clinics, Inc.	2,969,786	2,718,457
Other Noncurrent Assets	<u>563,990</u>	<u>589,547</u>
Total assets	<u>\$ 26,461,485</u>	<u>\$ 25,624,713</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 569,681	\$ 453,151
Accounts payable	787,030	877,309
Accrued employee compensation	974,761	1,327,525
Payroll taxes withheld and accrued	279,642	263,645
Accrued interest payable	27,745	16,602
Other current liabilities	130,000	130,000
Estimated third-party payor settlements	333,000	--
Deferred revenue for succeeding year property tax receivable	<u>1,493,000</u>	<u>1,489,000</u>
Total current liabilities	4,594,859	4,557,232
<b>Long-Term Debt:</b>		
Capital lease obligations, less current maturities	419,121	9,094
Bonds payable, less unamortized debt issue costs and current maturities	<u>1,069,066</u>	<u>1,555,208</u>
Total long-term debt	<u>1,488,187</u>	<u>1,564,302</u>
Total liabilities	6,083,046	6,121,534
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	8,949,210	9,214,981
Restricted - expendable	449,382	444,058
Unrestricted	<u>10,979,847</u>	<u>9,844,140</u>
	<u>20,378,439</u>	<u>19,503,179</u>
Total liabilities and net assets	<u>\$ 26,461,485</u>	<u>\$ 25,624,713</u>

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

	<u>2006</u>	<u>2005</u>
<b>Revenues:</b>		
Net patient service revenue	\$ 21,475,190	\$ 18,917,812
Other revenue	<u>379,229</u>	<u>388,473</u>
Total revenue	21,854,419	19,306,285
<b>Expenses:</b>		
Nursing service	5,382,372	5,230,726
Other professional service	8,182,846	6,809,147
General service	2,087,164	1,947,104
Fiscal and administrative service	5,744,588	5,623,555
Provision for depreciation	<u>1,398,216</u>	<u>1,385,682</u>
Total expenses	<u>22,795,186</u>	<u>20,996,214</u>
Operating Loss	( 940,767)	( 1,689,929)
<b>Non-Operating Revenues (Expenses):</b>		
County taxes	1,551,134	1,555,874
Home health care county revenue	81,000	78,000
Investment income	213,569	366,993
Noncapital grants and contributions	363,301	194,883
Medical office building rent, net	( 300,387)	43,455
Southwest Iowa Mental Health Center services, net	( 28,584)	( 186,324)
Gain on disposal of assets	--	12,476
Retail pharmacy loss, net	( 75,307)	( 48,733)
Other rental income, net	475	508
Interest expense	<u>( 117,671)</u>	<u>( 154,695)</u>
Non-operating revenue, net	<u>1,687,530</u>	<u>1,862,437</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	746,763	172,508
Capital Grants and Contributions	<u>128,497</u>	<u>13,649</u>
Excess of Revenues Over Expenses and Increase in Net Assets	875,260	186,157
Net Assets Beginning of Year	<u>19,503,179</u>	<u>19,317,022</u>
Net Assets End of Year	<u>\$ 20,378,439</u>	<u>\$ 19,503,179</u>

The accompanying notes are an integral part of these statements.

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

	2006	2005
<b>Cash flows from operating activities:</b>		
Cash received from patients and third-party payors	\$ 20,465,292	\$ 18,562,514
Cash paid to suppliers	( 11,053,993)	( 9,266,906)
Cash paid to employees	( 10,940,068)	( 10,188,018)
Other revenue	<u>366,225</u>	<u>383,601</u>
Net cash used in operating activities	( 1,162,544)	( 508,809)
<b>Cash flows from noncapital financing activities:</b>		
County tax revenue	1,632,134	1,633,874
Noncapital grants and contributions	<u>363,301</u>	<u>194,883</u>
Net cash provided by noncapital financing activities	1,995,435	1,828,757
<b>Cash flows from capital and related financing activities:</b>		
Capital expenditures	( 595,322)	( 874,237)
Proceeds from new debt	1,605,000	--
Construction in progress expenditures	--	( 15,075)
Computer system expenditures	( 161,791)	( 28,374)
Capital grants and contributions	128,497	13,649
Proceeds from disposal of assets	--	50,000
Principal paid on long-term debt	( 2,084,629)	( 456,823)
Call premium and refunding costs	( 37,664)	--
Interest paid	<u>( 95,154)</u>	<u>( 150,520)</u>
Net cash used in capital and related financing activities	( 1,241,063)	( 1,461,380)
<b>Cash flows from investing activities:</b>		
Investment income	211,300	216,600
Investment in Cass County Medical Clinics, Inc.	( 382,303)	( 387,210)
Decrease in designated and restricted assets	143,810	964,283
Rental income, net	28,581	28,445
Southwest Iowa Mental Health Center services, net	( 28,584)	( 186,324)
Retail pharmacy loss, net	( 75,307)	( 48,733)
Change in other noncurrent assets	<u>5,557</u>	<u>( 284,251)</u>
Net cash provided by (used in) investing activities	<u>( 96,946)</u>	<u>302,810</u>
Net increase (decrease) in cash and cash equivalents	( 505,118)	161,378
Cash and cash equivalents at beginning of year	<u>1,109,296</u>	<u>947,918</u>
Cash and cash equivalents at end of year	<u>\$ 604,178</u>	<u>\$ 1,109,296</u>

(continued next page)

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

	2006	2005
<b>Reconciliation of cash and cash equivalents to the balance sheets:</b>		
Cash in current assets	\$ 576,870	\$ 1,027,984
Cash and cash equivalents in designated and restricted assets	27,308	81,312
	\$ 604,178	\$ 1,109,296
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$( 940,767)	\$( 1,689,929)
Adjustments to reconcile operating loss to net cash used in operating activities		
Provision for depreciation	1,398,216	1,385,682
Amortization	20,000	4,590
Provision for bad debts	1,296,410	914,383
Component of operating revenue reclassified for purposes of reporting cash flows		
Interest income on operating funds	( 13,004)	( 4,872)
Change in assets and liabilities		
Accounts receivable	( 3,440,308)	( 1,460,681)
Inventory	15,220	( 188,921)
Prepaid expense	( 112,043)	( 59,277)
Accounts payable, trade	( 183,501)	276,506
Accrued employee compensation	( 352,764)	112,078
Payroll taxes withheld and accrued	15,997	10,632
Estimated third-party payor settlements	1,134,000	191,000
Total adjustments	( 221,777)	1,181,120
<b>Net cash used in operating activities</b>	<b>\$( 1,162,544)</b>	<b>\$( 508,809)</b>

**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:

	2006	2005
Book value of assets traded	\$ --	\$ 7,566
Purchase of asset through capital lease	\$ 546,334	\$ --

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

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, 2006 and 2005

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 \$5,000 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 2006 or 2005.

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, 2006 and 2005

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, 2006 and 2005

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 and Medicaid - Inpatient services, most outpatient services, and defined capital costs related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2004. The Medicaid cost reports have been audited through June 30, 2003. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

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, 2006 and 2005

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2006	2005
Long-term debt	\$ 449,382	\$ 444,058

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2006 or 2005.

NOTE D - DESIGNATED NET ASSETS

Of the \$10,979,847 (\$9,844,140 as of June 30, 2005) of unrestricted net assets as of June 30, 2006, \$2,400,687 (\$2,588,552 for 2005) 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, 2006 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, 2006 and 2005

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	2006	2005
<b>Internally Designated Assets:</b>		
Cash and cash equivalents	\$ 5,747	\$ 59,852
Certificates of deposit	2,224,275	2,384,526
Donated stock	134,614	119,309
Interest receivable	36,051	24,865
	\$ 2,400,687	\$ 2,588,552
<b>Restricted Assets:</b>		
Cash and cash equivalents	\$ 21,561	\$ 21,460
Certificate of deposit	420,443	422,000
Accrued interest	7,378	598
	\$ 449,382	\$ 444,058

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, 2006 and 2005, was as follows:

	2006	2005
<b>Receivable from:</b>		
Patients	\$ 1,613,644	\$ 1,301,313
Medicare	3,419,808	1,711,235
Medicaid	1,072,061	887,203
Blue Cross	804,228	655,738
Other commercial insurance carriers	1,002,383	767,903
Others	50,646	54,918
	7,962,770	5,378,310
Less allowances for doubtful accounts and contractual adjustments	2,311,000	1,966,000
	\$ 5,651,770	\$ 3,412,310

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2006 and 2005 were as follows:

Hospital:

<u>Cost</u>	<u>Balance 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2006</u>
Land Improvements	\$ 1,846,668	\$ 4,624	\$ --	\$ 1,851,292
Buildings	7,026,156	27,082	--	7,053,238
Building Services Equipment	3,919,563	164,359	--	4,083,922
Fixed Equipment	2,708,991	18,102	--	2,727,093
Major Movable Equipment	<u>8,930,897</u>	<u>471,815</u>	<u>--</u>	<u>9,402,712</u>
	24,432,275	685,982	--	25,118,257
 <u>Depreciation</u>				
Land Improvements	1,043,519	119,812	--	1,163,331
Buildings	3,614,371	250,442	--	3,864,813
Building Services Equipment	2,774,083	169,553	--	2,943,636
Fixed Equipment	2,099,786	108,156	--	2,207,942
Major Movable Equipment	<u>6,746,965</u>	<u>750,253</u>	<u>--</u>	<u>7,497,218</u>
Total Depreciation	<u>16,278,724</u>	<u>1,398,216</u>	<u>--</u>	<u>17,676,940</u>
Depreciable Capital Assets, Net	<u>\$ 8,153,551</u>	<u>\$( 712,234)</u>	<u>\$ --</u>	<u>\$ 7,441,317</u>
Construction in Progress	\$ 2,294	\$ --	\$ --	\$ 2,294
Computer System Project	54,331	708,125	20,100	742,356
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>\$ 492,188</u>	<u>\$ 708,125</u>	<u>\$ 20,100</u>	<u>\$ 1,180,213</u>
 Medical Office Building:				
Cost	\$ 4,272,554	\$ 14,632	\$ --	\$ 4,287,186
Depreciation	<u>1,636,067</u>	<u>189,489</u>	<u>--</u>	<u>1,825,556</u>
Medical Office Building, Net	<u>\$ 2,636,487</u>	<u>\$( 174,857)</u>	<u>\$ --</u>	<u>\$ 2,461,630</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE G - CAPITAL ASSETS - Continued

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>
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Construction in Progress	\$ 42,934	\$ 775	\$ 41,415	\$ 2,294
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Computer System Project	168,835	28,374	142,878	54,331
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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>\$ 647,332</u>	<u>\$ 29,149</u>	<u>\$ 184,293</u>	<u>\$ 492,188</u>
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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>
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Total depreciation expense for the year ended June 30, 2006 was \$1,587,705 (\$1,574,036 for 2005).

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE H - LEASES

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

	2006	2005
Medical Equipment	\$ 1,095,876	\$ 979,442
Less: Accumulated Amortization	540,598	800,308
Net Book Value	\$ 555,278	\$ 179,134

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2006 and 2005 follows:

	Balance 2005	Additions	Reductions	Balance 2006	Current Portion
Long-Term Debt:					
Revenue bonds	\$1,870,000	\$ --	\$1,870,000	\$ --	\$ --
Note payable	--	1,605,000	--	1,605,000	459,852
Debt issue and refunding costs	( 49,792)	( 37,664)	( 11,374)	( 76,082)	--
Total Long-Term Debt	1,820,208	1,567,336	1,858,626	1,528,918	459,852
Capital Lease Obligations	197,245	546,334	214,629	528,950	109,829
Total Non-Current Liabilities	\$2,017,453	\$2,113,670	\$2,073,255	\$2,057,868	\$ 569,681
	Balance 2004	Additions	Reductions	Balance 2005	Current Portion
Long-Term Debt:					
Revenue bonds	\$2,120,000	\$ --	\$ 250,000	\$1,870,000	\$ 265,000
Debt issue costs	( 56,449)	--	( 6,657)	( 49,792)	--
Total Long-Term Debt	2,063,551	--	243,343	1,820,208	265,000
Capital Lease Obligations	404,068	--	206,823	197,245	188,151
Total Non-Current Liabilities	\$2,467,619	\$ --	\$ 450,166	\$2,017,453	\$ 453,151

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE I - NON-CURRENT LIABILITIES - Continued

Note Payable

The Hospital issued \$1,605,000 of a Hospital Revenue Refunding Note, Series 2006, for the purpose of early refunding the Hospital Revenue Bonds, Series 1995. The note is payable from the revenues of the Hospital. The note matures in semi-annual installments of \$180,930 starting in May, 2006 through November, 2010, with an interest rate of 4.48%.

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

Capital Leases

The Hospital has entered into three capital leases for the purchase of equipment. The leases carry interest rates of 3.12% to 4.34%. The leases mature from September, 2006 to April, 2011.

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
2007	\$ 459,852	\$ 82,939	\$ 109,829	\$ 20,625
2008	313,925	47,934	105,195	16,114
2009	328,287	33,573	109,852	11,457
2010	343,096	18,764	114,716	6,593
2011	159,840	3,610	89,358	1,623
	<u>\$ 1,605,000</u>	<u>\$ 186,820</u>	<u>\$ 528,950</u>	<u>\$ 56,412</u>

NOTE J - CURRENT REFUNDING OF DEBT

In January, 2006, the Hospital issued \$1,605,000 of Series 2006 Hospital Revenue Refunding Note, with an interest rate of 4.48% (effective interest rate of 4.53%). This note was used to current refund \$1,590,000 of outstanding Series 1995 Hospital Revenue Bonds, with varying interest rates ranging from 5.3% to 7.0%. The Hospital, in effect, decreased its aggregate debt service payments by approximately \$131,850 over the next five years and incurred an economic gain (the difference between the present values of the old and new debt service payments) of approximately \$81,506.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE K - 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, 2006, 2005, and 2004, were approximately \$649,000, \$623,000, and \$613,000, respectively, equal to the required contributions for each year.

NOTE L - 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 \$143,519 and \$136,869 for the years ended June 30, 2006 and 2005, 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, 2006, was \$5,615,248 (\$5,149,029 at June 30, 2005). 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.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE M - 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, 2006 and 2005, the Hospital provided \$70,000 of operating capital. The Center had a deficit in 2006 of \$55,523 (\$221,637 deficit in 2005) without the Hospital's funding.

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

	<u>2006</u>	<u>2005</u>
Hospital expense to Mental Health Center for physicians	<u>\$ 248,611</u>	<u>\$ 176,654</u>
Support passed through from Hospital to Mental Health Center	<u>\$ 73,569</u>	<u>\$ 60,434</u>
Hospital revenue for Mental Health Center personnel costs	<u>\$ 716,494</u>	<u>\$ 581,319</u>
Owed to Hospital by the Mental Health Center	<u>\$ 151,000</u>	<u>\$ 87,612</u>

The financial arrangements for the 2006-2007 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$339,320, which includes financial support and payment for physician services. The Center agreed to pay the Hospital approximately \$668,930 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 (Myrtue Medical Center 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.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE M - RELATED PARTIES - Continued

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

	<u>2006</u>	<u>2005</u>
Services purchased from HPSI	\$ 127,186	\$ 143,303
Services and supplies provided to HPSI	\$ 222,898	\$ 181,051
Amount due from HPSI	\$ 38,192	\$ 36,159
Member share of net assets	\$ 261,675	\$ 267,232

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 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, 2006, contributions received from this organization were \$100,000 (\$ - 0 - for 2005).

NOTE N - 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 leases medical office space, and purchases medical services and supplies from the Hospital. CCMC also purchases health insurance coverage through the Hospital's self-funded group health insurance plan. During the year ended June 30, 2006, the Hospital wrote-off \$333,032 of the receivable balance due from CCMC. 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. Transactions for the year ended June 30, are listed below:

	<u>2006</u>	<u>2005</u>
Rent	\$ 248,300	\$ 248,300
Medical services and supplies	\$ 291,661	\$ --
Health insurance	\$ 194,592	\$ 196,825

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE N - COMMITMENTS AND CONTINGENCIES - Continued

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

	2006	2005
Purchases of physician practices	\$ 915,292	\$ 915,292
Advances of operating capital, and unpaid rent and insurance	2,054,494	1,803,165
	\$ 2,969,786	\$ 2,718,457

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, 2006 is \$130,000 (\$130,000 at June 30, 2005), which is reported in other current liabilities.

Construction in Progress

As of June 30, 2006, 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.

Computer System Project and Equipment

As of June 30, 2006, the Hospital incurred fees of \$742,356 for various computer hardware and software applications, and equipment that had not been completed and placed in service. The total remaining estimated cost of the equipment and software is \$840,194, which is being financed through the use of internally generated funds and a capital lease agreement.

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.

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REQUIRED SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL  
 Budgetary Comparison Schedule  
 Year Ended June 30, 2006

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.

	<u>Per Financial Statements</u>		
	<u>Unrestricted Fund</u>	<u>Restricted Fund</u>	<u>Total</u>
Amount raised by taxation	\$ 1,632,134	\$ --	\$ 1,632,134
Other revenues	22,038,312	--	22,038,312
Transfers in (out)	<u>( 5,324)</u>	<u>5,324</u>	<u>--</u>
	23,665,122	5,324	23,670,446
Expenses	<u>22,795,186</u>	<u>--</u>	<u>22,795,186</u>
Net	869,936	5,324	875,260
Balance beginning of year	<u>19,059,121</u>	<u>444,058</u>	<u>19,503,179</u>
Balance end of year	<u>\$ 19,929,057</u>	<u>\$ 449,382</u>	<u>\$ 20,378,439</u>

	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Adopted Budget</u>
Amount raised by taxation	\$ 1,632,134	\$( 81,000)	\$ 1,551,134	\$ 1,489,054
Other revenues	<u>22,038,312</u>	<u>198,671</u>	<u>22,236,983</u>	<u>21,712,507</u>
	23,670,446	117,671	23,788,117	23,201,561
Expenses	<u>22,795,186</u>	<u>874,784</u>	<u>23,669,970</u>	<u>25,000,000</u>
Net	875,260	( 757,113)	118,147	( 1,798,439)
Balance beginning of year	<u>19,503,179</u>	<u>( 13,316,002)</u>	<u>6,187,177</u>	<u>6,187,177</u>
Balance end of year	<u>\$ 20,378,439</u>	<u>\$( 14,073,115)</u>	<u>\$ 6,305,324</u>	<u>\$ 4,388,738</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>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 965,246	12.1%	\$ 1,232,481	22.9%
31 - 60	1,246,697	15.7	689,489	12.8
61 - 90	853,973	10.7	365,630	6.8
91 - 120	700,248	8.8	338,721	6.3
121 and over	<u>1,972,265</u>	<u>24.8</u>	<u>989,695</u>	<u>18.4</u>
	5,738,429	72.1	3,616,016	67.2
In hospital	<u>2,224,341</u>	<u>27.9</u>	<u>1,762,294</u>	<u>32.8</u>
	<u>7,962,770</u>	<u>100.0%</u>	<u>5,378,310</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	775,000		625,000	
Allowance for contractual adjustments	<u>1,536,000</u>		<u>1,341,000</u>	
	<u>\$ 5,651,770</u>		<u>\$ 3,412,310</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Balance, beginning	\$ 625,000	\$ 600,000
Provision for bad debts	1,296,410	914,383
Recoveries of accounts previously written off	<u>254,498</u>	<u>252,679</u>
	2,175,908	1,767,062
Accounts written off	<u>1,400,908</u>	<u>1,142,062</u>
Balance, ending	<u>\$ 775,000</u>	<u>\$ 625,000</u>

See Independent Auditor's Report.

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

	<u>2006</u>	<u>2005</u>
<u>Other Receivables</u>		
Shared services	\$ 23,090	\$ 24,541
Health Partners of Southwest Iowa	38,192	36,159
Lifeline	33,194	42,068
Southwest Iowa Mental Health Center	151,000	87,612
Other	<u>97,202</u>	<u>247,860</u>
	<u>\$ 342,678</u>	<u>\$ 438,240</u>
 <u>Inventory</u>		
General stores	\$ 58,670	\$ 58,344
Pharmacy	417,943	446,714
Radiology	9,394	16,565
Laboratory	52,810	34,829
Dietary	5,923	5,535
Fuel oil	6,157	5,496
Information system	<u>33,672</u>	<u>32,306</u>
	<u>\$ 584,569</u>	<u>\$ 599,789</u>
 <u>Prepaid Expense</u>		
Dues	\$ 14,844	\$ 15,720
Insurance	44,954	9,542
Maintenance agreements and other	<u>285,795</u>	<u>208,288</u>
	<u>\$ 345,593</u>	<u>\$ 233,550</u>

See Independent Auditor's Report.

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

	2006	2005
<b>Daily Patient Services:</b>		
Medical and surgical	\$ 1,498,979	\$ 2,038,321
Obstetric	231,515	216,994
Intensive care	812,603	878,525
Nursery	106,279	98,744
Psychiatric services	1,770,536	1,144,917
Distinct Skilled Unit	<u>35,486</u>	<u>--</u>
	4,455,398	4,377,501
<b>Other Nursing Services:</b>		
Operating room	1,976,071	2,020,529
Recovery room	427,972	371,758
Delivery and labor rooms	182,195	157,980
Central services and supply	1,854,443	2,151,145
Intravenous therapy	501,010	548,069
Emergency service	2,138,706	1,943,395
Oncology service	353,531	332,519
Enterstomal therapy	<u>98,530</u>	<u>103,300</u>
	7,532,458	7,628,695
<b>Other Professional Services:</b>		
Laboratory	6,146,527	4,265,677
Blood bank	170,487	201,927
Electrocardiology	170,190	188,550
Cardiac stress testing	141,654	166,980
Ambulatory electrocardiology	67,658	65,162
Electroencephalography	--	6,930
Radiology	1,761,934	1,856,790
CT scanning	1,653,685	1,565,943
MRI scanning	1,068,000	977,066
Nuclear medicine and ultrasound	1,208,748	1,322,383
Pharmacy	5,254,074	4,621,275
Anesthesia	1,187,245	1,322,745
Respiratory care	1,291,396	1,578,726
Physical therapy	810,360	814,737
Speech therapy	23,231	36,413
Occupational therapy	85,022	130,404
Home Health Care	1,334,217	1,250,041
Hospice	565,591	511,877
Cardiac rehabilitation	155,811	182,941
Diabetic center	49,385	33,822
Sleep study	<u>258,938</u>	<u>213,435</u>
	<u>23,404,153</u>	<u>21,313,824</u>
	<u>\$ 35,392,009</u>	<u>\$ 33,320,020</u>

(continued next page)

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

	<u>2006</u>	<u>2005</u>
SUMMARY		
Inpatient	\$ 7,382,756	\$ 9,774,100
Swing Bed	1,740,950	2,574,761
Distinct Skilled Unit	93,399	--
Psychiatric Services	2,158,397	1,361,105
Outpatient	22,116,699	17,848,136
Home Health Care	1,334,217	1,250,041
Hospice	<u>565,591</u>	<u>511,877</u>
	<u>\$ 35,392,009</u>	<u>\$ 33,320,020</u>

See Independent Auditor's Report.

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

	2006	2005
<b>Net Patient Service Revenue:</b>		
Patient service revenue	\$ 35,392,009	\$ 33,320,020
Contractual adjustments	( 12,411,359)	( 13,286,980)
Provision for bad debts	( 1,296,410)	( 914,383)
Uncompensated care	( 209,050)	( 200,845)
	<u>\$ 21,475,190</u>	<u>\$ 18,917,812</u>
<b>Other Revenue:</b>		
Interest income on operating funds	\$ 13,004	\$ 4,872
Meals sold to employees and guests	148,978	148,005
Meals on wheels	38,487	33,301
Medical record transcripts	9,178	8,792
VHA participation	47,281	44,488
Biomedical service	24,378	21,773
Nursing education	2,221	1,390
Wellness program	643	1,247
Laundry and linen	--	3,956
Other	95,059	120,649
	<u>\$ 379,229</u>	<u>\$ 388,473</u>

See Independent Auditor's Report.

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

	<u>2006</u>	<u>2005</u>
Administrative:		
Salaries and wages	\$ 127,596	\$ 171,067
Supplies and other expense	<u>10,361</u>	<u>8,659</u>
	137,957	179,726
In-Service Training:		
Salaries and wages	63,815	63,253
Supplies and other expense	<u>19,634</u>	<u>8,640</u>
	83,449	71,893
Quality Assurance:		
Salaries and wages	44,418	44,901
Supplies and other expense	<u>1,381</u>	<u>1,194</u>
	45,799	46,095
Nursing Supervision:		
Salaries and wages	215,063	227,392
Supplies and other expense	<u>922</u>	<u>427</u>
	215,985	227,819
Medical and Surgical:		
Salaries and wages	1,038,551	1,036,131
Supplies and other expense	<u>42,404</u>	<u>52,889</u>
	1,080,955	1,089,020
Psychiatric Services:		
Salaries and wages	822,168	775,936
Professional fees	254,448	176,654
Supplies and other expense	<u>16,446</u>	<u>12,005</u>
	1,093,062	964,595
Intensive Care:		
Salaries and wages	401,619	392,758
Supplies and other expense	<u>33,617</u>	<u>12,953</u>
	435,236	405,711
Obstetric:		
Salaries and wages	251,219	247,519
Supplies and other expense	<u>13,998</u>	<u>13,182</u>
	265,217	260,701
Distinct Skilled Unit:		
Salaries and wages	8,886	--
Supplies and other expense	<u>18</u>	<u>--</u>
	8,904	--

(continued next page)

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

	2006	2005
Nursery:		
Salaries and wages	\$ 115,223	\$ 113,742
Supplies and other expense	<u>403</u>	<u>--</u>
	115,626	113,742
Operating Room:		
Salaries and wages	369,036	336,641
Professional fees	51,600	--
Supplies and other expense	<u>83,808</u>	<u>101,516</u>
	504,444	438,157
Recovery Room:		
Salaries and wages	28,934	30,805
Supplies and other expense	<u>--</u>	<u>151</u>
	28,934	30,956
Delivery and Labor Rooms:		
Salaries and wages	50,920	49,952
Supplies and other expense	<u>460</u>	<u>460</u>
	51,380	50,412
Central Services and Supply:		
Salaries and wages	36,936	42,013
Supplies sold to patients	376,713	485,291
Supplies and other expense	<u>4,894</u>	<u>4,609</u>
	418,543	531,913
Intravenous Therapy:		
Solutions	13,637	14,177
Supplies and other expense	<u>78,862</u>	<u>85,783</u>
	92,499	99,960
Emergency and Outpatient Services:		
Salaries and wages	489,059	460,906
Professional fees	276,978	226,379
Supplies and other expense	<u>38,345</u>	<u>32,741</u>
	<u>804,382</u>	<u>720,026</u>
	<u>\$ 5,382,372</u>	<u>\$ 5,230,726</u>

See Independent Auditor's Report.

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

	<u>2006</u>	<u>2005</u>
<b>Laboratory:</b>		
Salaries and wages	\$ 595,975	\$ 418,714
Professional fees	267,160	146,831
Supplies and other expense	209,491	197,613
Cost of chemistry reagents	<u>263,665</u>	<u>192,250</u>
	1,336,291	955,408
<b>Blood Bank:</b>		
Cost of blood	102,817	116,949
<b>Electrocardiology:</b>		
Supplies and other expense	439	573
<b>Cardiac Stress Testing:</b>		
Salaries and wages	7,325	8,481
Professional fees	1,428	2,352
Supplies and other expense	<u>874</u>	<u>1,715</u>
	9,627	12,548
<b>Ambulatory Electrocardiology:</b>		
Salaries and wages	7,252	7,445
Supplies and other expense	<u>652</u>	<u>215</u>
	7,904	7,660
<b>Electroencephalography:</b>		
Supplies and other expense	--	2,949
<b>Radiology:</b>		
Salaries and wages	252,695	249,262
Professional fees	2,358	3,259
Cost of film	6,249	10,666
Supplies and other expense	<u>115,260</u>	<u>121,781</u>
	376,562	384,968
<b>CT and MRI Scanning:</b>		
Salaries and wages	74,540	60,530
Purchased services	133,375	139,987
Supplies and other expense	<u>126,251</u>	<u>82,212</u>
	334,166	282,729

(continued next page)

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

	<u>2006</u>	<u>2005</u>
Nuclear Medicine and Ultrasound:		
Salaries and wages	\$ 66,215	\$ 64,867
Purchased services	116,186	109,095
Supplies and other expense	<u>18,891</u>	<u>12,272</u>
	201,292	186,234
Pharmacy:		
Salaries and wages	472,334	477,531
Drugs	1,732,523	1,132,610
Supplies and other expense	<u>85,039</u>	<u>44,875</u>
	2,289,896	1,655,016
Anesthesia:		
Salaries and wages	44,142	153,368
Professional fees	376,548	177,078
Supplies and other expense	<u>30,243</u>	<u>17,834</u>
	450,933	348,280
Respiratory Care:		
Salaries and wages	187,363	189,340
Oxygen	13,381	14,520
Supplies and other expense	<u>19,450</u>	<u>14,936</u>
	220,194	218,796
Physical Therapy:		
Salaries and wages	226,452	222,270
Supplies and other expense	<u>10,226</u>	<u>7,998</u>
	236,678	230,268
Occupational Therapy:		
Salaries and wages	34,400	54,626
Supplies and other expense	<u>1,308</u>	<u>2,088</u>
	35,708	56,714
Speech Therapy:		
Professional fees	11,086	16,662
Supplies and other expense	<u>3,656</u>	<u>3,240</u>
	14,742	19,902

(continued next page)

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

	<u>2006</u>	<u>2005</u>
Home Health Care:		
Salaries and wages	\$ 1,203,365	\$ 1,143,897
Professional fees	17,264	43,081
Supplies and other expense	<u>211,585</u>	<u>83,432</u>
	1,432,214	1,270,410
Hospice:		
Salaries and wages	150,989	135,076
Professional fees	527	3,059
Supplies and other expense	<u>152,918</u>	<u>167,226</u>
	304,434	305,361
Cardiac Rehabilitation:		
Salaries and wages	131,126	128,192
Supplies and other expense	<u>20,398</u>	<u>23,664</u>
	151,524	151,856
Diabetic Center:		
Salaries and wages	83,967	85,684
Supplies and other expense	<u>3,142</u>	<u>2,411</u>
	87,109	88,095
Business Health:		
Supplies and other expense	1,294	1,421
Medical Records:		
Salaries and wages	248,502	247,447
Supplies and other expense	29,593	27,926
Microfilming services purchased	<u>28,787</u>	<u>31,298</u>
	306,882	306,671
Medical Education - Community Orientation Program:		
Supplies and other expense	2,191	350

(continued next page)

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

	2006	2005
Utilization Review:		
Salaries and wages	\$ 205,234	\$ 145,997
Supplies and other expense	<u>1,907</u> 207,141	<u>1,792</u> 147,789
Sleep Studies:		
Purchased services	72,343	58,200
Supplies and other expense	<u>465</u> <u>72,808</u>	<u>--</u> <u>58,200</u>
	\$ 8,182,846	\$ 6,809,147

See Independent Auditor's Report.

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

	2006	2005
<b>Dietary:</b>		
Salaries and wages	\$ 378,914	\$ 368,826
Food	197,481	207,179
Supplies and other expense	50,369	39,157
	626,764	615,162
<b>Operation of Plant:</b>		
Salaries and wages	248,274	251,501
Electricity	109,733	107,201
Natural gas and fuel oil	139,605	116,695
Water	20,683	21,621
Supplies and other expense	189,273	160,403
	707,568	657,421
<b>Clinical Equipment:</b>		
Contracted services	84,587	80,154
Supplies and other expense	4,805	4,062
	89,392	84,216
<b>Housekeeping:</b>		
Salaries and wages	309,429	296,252
Contracted management services	117,755	112,044
Supplies and other expense	52,447	49,635
	479,631	457,931
<b>Laundry and Linen:</b>		
Salaries and wages	33,861	63,535
Contracted management services	42,910	17,043
Supplies and other expense	103,998	40,149
Linens	3,040	11,647
	183,809	132,374
	\$ 2,087,164	\$ 1,947,104

See Independent Auditor's Report.

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

	<u>2006</u>	<u>2005</u>
<b>Administrative Services:</b>		
Salaries and wages	\$ 237,292	\$ 221,850
Dues and subscriptions	36,042	34,961
Legal publications and advertising	7,322	6,928
Purchased services	102	6,356
Consulting fees	163,704	105,464
Supplies and other expense	<u>34,141</u>	<u>54,938</u>
	478,603	430,497
<b>Fiscal Services:</b>		
Salaries and wages	310,328	280,192
Telephone	38,094	20,618
Freight and postage	18,385	17,518
Professional fees	23,780	23,727
Supplies and other expense	<u>91,634</u>	<u>89,783</u>
	482,221	431,838
<b>Admissions:</b>		
Salaries and wages	187,108	173,980
Supplies and other expense	<u>12,638</u>	<u>11,121</u>
	199,746	185,101
<b>Credit and Collections:</b>		
Salaries and wages	153,975	155,203
Supplies and other expense	92,955	88,950
Collection expense	<u>87,370</u>	<u>79,660</u>
	334,300	323,813
<b>Information Systems:</b>		
Salaries and wages	328,574	371,881
Professional fees	85,643	43,561
Supplies and other expense	<u>187,208</u>	<u>175,779</u>
	601,425	591,221
<b>Human Resources:</b>		
Salaries and wages	158,233	148,093
Supplies and other expense	<u>143,649</u>	<u>96,907</u>
	301,882	245,000
<b>Public Relations:</b>		
Salaries and wages	37,217	38,802
Supplies and other expense	<u>55,289</u>	<u>53,173</u>
	92,506	91,975
<b>Purchasing:</b>		
Salaries and wages	91,690	86,071
Supplies and other expense	<u>18,135</u>	<u>30,043</u>
	109,825	116,114

(continued next page)

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

	<u>2006</u>	<u>2005</u>
Employee Welfare:		
Social Security tax	\$ 756,064	\$ 737,018
Iowa Public Employees' Retirement System	649,167	622,748
Group health insurance	1,117,504	1,202,385
Workers' compensation insurance	203,583	215,953
Deferred compensation	143,519	136,869
Other	<u>10,140</u>	<u>11,207</u>
	2,879,977	2,926,180
Insurance:		
Liability and property insurance	194,592	196,987
Quality Improvement:		
Salaries and wages	57,090	58,167
Supplies and other expense	<u>1,886</u>	<u>2,060</u>
	58,976	60,227
Compliance:		
Supplies and other expense	1,080	22,178
Customer Service:		
Professional fees	5,100	--
Supplies and other expense	<u>4,355</u>	<u>2,424</u>
	9,455	2,424
	<u>\$ 5,744,588</u>	<u>\$ 5,623,555</u>

Summary of Expenses

Salaries and wages	\$ 10,587,304	\$ 10,300,096
Employee benefits	2,879,977	2,926,180
Professional fees	1,537,624	968,107
Supplies and other expense	6,392,065	5,416,149
Provision for depreciation	<u>1,398,216</u>	<u>1,385,682</u>
	<u>\$ 22,795,186</u>	<u>\$ 20,996,214</u>

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Comparative Statistics  
Year ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Acute Care:</b>					
Admissions	1,041	1,283	1,167	1,307	1,395
Discharges	1,037	1,278	1,171	1,307	1,399
Patient Days	3,224	4,025	3,794	4,206	4,576
Average Length of Stay	3.11	3.15	3.24	3.22	3.27
Average Occupied Beds	8.8	11.0	10.4	11.5	12.5
<b>Swing Bed:</b>					
Admissions	281	390	384	436	438
Discharges	284	393	389	440	431
SNF Days	1,754	2,762	3,993	4,484	4,640
Average Occupied Beds	4.8	7.6	10.9	12.3	12.7
<b>Skilled Nursing Facility:</b>					
Admissions	13	--	--	--	--
Discharges	13	--	--	--	--
Patient Days	79	--	--	--	--
Combined Average Occupied Beds (Acute and Skilled)	13.9	18.5	21.3	23.8	25.2
<b>Psychiatric Unit:</b>					
Admissions	219	130	175	118	125
Discharges	223	127	179	116	129
Patient Days	1,406	804	1,103	870	808
Average Occupied Beds	3.9	2.2	3.0	2.4	2.2
Total Average Occupied Beds	17.7	20.8	24.3	26.2	27.4
Nursery Days	311	290	311	318	285
Outpatient Occasions of Service	54,571	45,468	42,208	43,431	44,173

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Comparative Balance Sheets  
June 30,

	2006	2005
<b>Current Assets:</b>		
Cash	\$ 576,870	\$ 1,027,984
Patient receivables, net	5,651,770	3,412,310
Other receivables	342,678	438,240
Inventory	584,569	599,789
Prepaid expense	345,593	233,550
Estimated third-party payor settlements	--	801,000
Succeeding year property tax receivable	1,493,000	1,489,000
Internally designated assets	772,484	562,732
Total current assets	9,766,964	8,564,605
<b>Other Assets:</b>		
Designated and restricted assets, net	2,077,585	2,469,878
Capital assets, net	11,083,160	11,282,226
Other noncurrent assets	3,533,776	3,308,004
Total other assets	16,694,521	17,060,108
	\$ 26,461,485	\$ 25,624,713
<b>Current Liabilities:</b>		
Current maturities	\$ 569,681	\$ 453,151
Accounts payable	787,030	877,309
Accrued expenses	1,412,148	1,737,772
Estimated third-party payor settlements	333,000	--
Deferred revenue for succeeding year property tax receivable	1,493,000	1,489,000
Total current liabilities	4,594,859	4,557,232
Capital Lease Obligations, Net	419,121	9,094
Bonds Payable, Net	1,069,066	1,555,208
Net Assets	20,378,439	19,503,179
	\$ 26,461,485	\$ 25,624,713

See Independent Auditor's Report.

<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 815,075	\$ 403,676	\$ 693,368
2,797,539	3,473,501	2,714,344
506,713	816,594	636,824
410,868	450,090	397,140
174,273	400,798	276,528
992,000	185,000	968,000
1,482,000	1,486,000	1,486,000
<u>600,751</u>	<u>527,685</u>	<u>525,816</u>
<u>7,779,219</u>	<u>7,743,344</u>	<u>7,698,020</u>
3,292,408	4,056,733	3,611,828
12,008,633	12,612,045	13,456,744
<u>2,439,075</u>	<u>1,528,140</u>	<u>918,425</u>
<u>17,740,116</u>	<u>18,196,918</u>	<u>17,986,997</u>
<u>\$ 25,519,335</u>	<u>\$ 25,940,262</u>	<u>\$ 25,685,017</u>
\$ 456,823	\$ 433,223	\$ 410,006
635,150	576,941	508,225
1,617,544	1,621,095	1,494,298
--	--	--
<u>1,482,000</u>	<u>1,486,000</u>	<u>1,486,000</u>
<u>4,191,517</u>	<u>4,117,259</u>	<u>3,898,529</u>
197,245	404,068	602,291
1,813,551	2,057,294	2,286,436
<u>19,317,022</u>	<u>19,361,641</u>	<u>18,897,761</u>
<u>\$ 25,519,335</u>	<u>\$ 25,940,262</u>	<u>\$ 25,685,017</u>

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

	<u>2006</u>	<u>2005</u>
Patient Service Revenue	\$ 35,392,009	\$ 33,320,020
Adjustments to Patient Service Revenue	<u>( 13,916,819)</u>	<u>( 14,402,208)</u>
Net Patient Service Revenue	21,475,190	18,917,812
Other Revenue	<u>379,229</u>	<u>388,473</u>
Total Revenue	21,854,419	19,306,285
Expenses	<u>22,795,186</u>	<u>20,996,214</u>
Operating Loss	( 940,767)	( 1,689,929)
Non-Operating Revenue, Net	<u>1,816,027</u>	<u>1,876,086</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Unusual Item	875,260	186,157
Unusual Item	<u>--</u>	<u>--</u>
Excess of Revenues Over Expenses (Expenses Over Revenues)	<u>\$ 875,260</u>	<u>\$ 186,157</u>

See Independent Auditor's Report.

<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 30,602,992	\$ 31,122,314	\$ 25,853,885
( 13,210,361)	( 12,095,934)	( 8,004,480)
17,392,631	19,026,380	17,849,405
<u>402,231</u>	<u>412,380</u>	<u>437,890</u>
17,794,862	19,438,760	18,287,295
<u>20,693,122</u>	<u>20,686,397</u>	<u>19,775,671</u>
( 2,898,260)	( 1,247,637)	( 1,488,376)
<u>1,948,641</u>	<u>1,711,517</u>	<u>1,562,443</u>
( 949,619)	463,880	74,067
<u>905,000</u>	<u>--</u>	<u>--</u>
<u><u>\$ ( 44,619)</u></u>	<u><u>\$ 463,880</u></u>	<u><u>\$ 74,067</u></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, 2006, and have issued our report thereon dated November 3, 2006. 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 06-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, 2006 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.

Glorinda, Ben, Kyhan & W. P.C.

Atlantic, Iowa  
November 3, 2006

CASS COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2006

PART I - REPORTABLE CONDITIONS

06-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

06-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2006 did not exceed amounts budgeted.

06-II-B 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 April 25, 1979. 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 April 25, 1979.

Conclusion: Response accepted.

CASS COUNTY MEMORIAL HOSPITAL  
Schedule of Findings - Continued  
Year ended June 30, 2006

PART II - REQUIRED STATUTORY REPORTING - Continued

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

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

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

06-II-F 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.

\* \* \*