

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, 2007 AND 2006

# CASS COUNTY MEMORIAL HOSPITAL

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CASS COUNTY MEMORIAL HOSPITAL  
Officials  
June 30, 2007

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Steve Sisler, Chairman	Anita, Iowa	2012
Lois Casey, Vice-Chairman	Atlantic, Iowa	2012
Marge Boucher, Secretary and Treasurer	Griswold, Iowa	2008
John Molgaard	Atlantic, Iowa	2010
Phyllis Stakey	Massena, Iowa	2010
Todd Pellett	Atlantic, Iowa	2008
Marcia Schildberg	Atlantic, Iowa	2008

Administrator/CEO:

Patricia A. Markham Atlantic, Iowa

Assistant Administrator/CFO:

Stephen Lewis Atlantic, Iowa

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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DAVID L. HANNASCH  
KENNETH P. TEGELS  
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, 2007 and 2006, 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, 2007 and 2006, 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 October 10, 2007 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, 2005 (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.

*Garrett, Bell, Kuhn & Co. P.C.*

Atlantic, Iowa  
October 10, 2007



# 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, 2007 and 2006. 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 help 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 (9%), Skilled Care (4%), Psychiatric Services (7%), and Nursery (6%), and had increased utilization in Outpatient Occasions of Service (2%) compared to FY 2006 and summarized in Table 1.

**Table 1: Statistics**

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Acute Care:			
Discharges	944	1,037	1,278
Patient Days	3,061	3,224	4,025
Skilled Care:			
Discharges	284	297	393
Patient Days	2,065	1,833	2,762
Psychiatric Unit:			
Discharges	207	223	127
Patient Days	1,014	1,406	804
Nursery:			
Patient Days	291	311	290
Outpatient Occasions of Service	55,640	54,571	45,468

## **BALANCE SHEET**

Net assets increased 7% from \$20,378,439 to \$21,807,194. Total Current Assets increased by 5% with Cash increasing 104% and Net Patient Receivables decreasing 9%. Cash position improved due to better reimbursement from the Medicare and Medicaid programs and a decrease in Net Patient Receivables. Current Liabilities remain relatively unchanged while Capital Lease Obligations increased due to a new lease on Ultrasound equipment in Radiology and Omnicell Equipment in Pharmacy. The long-term portion of Bonds Payable decreased 28%.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$ 10,216,164	\$ 9,766,964	\$ 8,564,605
Capital assets, net	10,573,153	11,083,160	11,282,226
Other noncurrent assets	<u>7,001,881</u>	<u>5,611,361</u>	<u>5,777,882</u>
Total assets	<u>\$ 27,791,198</u>	<u>\$ 26,461,485</u>	<u>\$ 25,624,713</u>
Liabilities:			
Long-term debt outstanding	\$ 1,481,850	\$ 1,488,187	\$ 1,564,302
Other current and noncurrent liabilities	<u>4,502,154</u>	<u>4,594,859</u>	<u>4,557,232</u>
Total liabilities	<u>\$ 5,984,004</u>	<u>\$ 6,083,046</u>	<u>\$ 6,121,534</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 8,528,206	\$ 8,949,210	\$ 9,214,981
Restricted	472,351	449,382	444,058
Unrestricted	<u>12,806,637</u>	<u>10,979,847</u>	<u>9,844,140</u>
Total net assets	<u>\$ 21,807,194</u>	<u>\$ 20,378,439</u>	<u>\$ 19,503,179</u>

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

Patient Service Revenue increased 3% from last fiscal year. Laboratory revenue increased 4%, CT Scan increased 63% due to increased volume, MRI increased 16%, Respiratory Care increased 10% and Home Care increased 11%.

Contractual adjustments to Patient Service Revenue decreased by 9% due to “cost based” reimbursement received for a full year from Medicare and Medicaid due to critical access status. Adjustments for bad debt had a significant increase (23%) while adjustments for uncompensated care had a small increase (1%).

Expenses increased 6%. Salaries increased 6% and employee benefits increased 5% due to an increase in Health Insurance (5%) and Worker’s Compensation Insurance (10%). Professional fees decreased 3% due to a decreased use of contract labor and supplies and other expense increased 9% (Collection expense increased 11% and Information System other expense increased 80% mainly due to an increase in minor equipment).

The Hospital had a net operating loss of \$333,458 compared to a net operating loss of \$940,767 in FY 2006. 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% mainly due to decreased reimbursement by Medicare for retail Pharmacy. The excess of revenue over expense increased from a positive \$875,260 to \$1,428,755.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues:			
Patient service revenue	\$ 36,357,236	\$ 35,392,009	\$ 33,320,020
Adjustments to patient service revenue	( 13,045,084)	( 13,916,819)	( 14,402,208)
Net patient service revenue	23,312,152	21,475,190	18,917,812
Other operating revenue	429,657	379,229	388,473
Total operating revenues	<u>23,741,809</u>	<u>21,854,419</u>	<u>19,306,285</u>
Operating Expenses:			
Salaries	11,266,503	10,587,304	10,300,096
Employee benefits	3,021,873	2,879,977	2,926,180
Professional fees	1,488,444	1,537,624	968,107
Supplies and other expense	6,951,148	6,392,065	5,416,149
Depreciation	1,347,299	1,398,216	1,385,682
Total operating expenses	<u>24,075,267</u>	<u>22,795,186</u>	<u>20,996,214</u>
Operating loss	( 333,458)	( 940,767)	( 1,689,929)
Nonoperating Revenue and Expense:			
Property taxes	1,563,691	1,551,134	1,555,874
Other nonoperating revenue and expense	198,522	264,893	320,212
Total nonoperating revenue and expense	<u>1,762,213</u>	<u>1,816,027</u>	<u>1,876,086</u>
Excess of Revenues Over Expenses	1,428,755	875,260	186,157
Net Assets Beginning of Year	<u>20,378,439</u>	<u>19,503,179</u>	<u>19,317,022</u>
Net Assets End of Year	<u>\$ 21,807,194</u>	<u>\$ 20,378,439</u>	<u>\$ 19,503,179</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 \$333,458. Cash in current assets on the balance sheet increased from \$576,870 to \$1,179,749 due to a decrease in patients' accounts receivable and better Medicare and Medicaid reimbursement. The Hospital had a positive cash flow from operations of \$1,113,580, compared to a negative operating cash flow of \$1,162,544 in FY 2006.

## **BUDGETARY HIGHLIGHTS**

The official county budget of the Hospital for the year ended June 30, 2007 was prepared on a modified accrual basis. There were no amendments made to the budget.

Patient Service Revenue was 1% above budget. Deductions from revenue were 6% below budget. Other Operating Revenue was 7% above budget, which made Total Operating Revenue 2% above budget. Total Operating expense was 3% below budget and Income from Operations was 78% above budget. The excess of revenue over expense was 33% over budget.

## **CAPITAL ASSETS**

At the end of 2007, the Hospital had \$10,573,153 invested in capital assets, net of accumulation depreciation. In FY 2007 the Hospital purchased new equipment costing \$1,028,591. New equipment purchased in FY 2006 was \$1,388,639.

## **DEBT**

The Hospital has three capital leases for the purchase of equipment (CT Scan, Ultrasound, & Omnicell). These leases carry an interest rates of 1.45% to 8.78% and mature from May 2011 to October 2012.

In January of 2006 the Hospital issued \$1,605,000 of Series 2006 Hospital Refunding Revenue Note with an effective interest rate of 4.53% to refund outstanding Series 1995 Hospital Revenue Bonds with varying interest rates ranging from 5.3% to 7.0%. The Hospital decreased its debt service payments by approximately \$131,850 over the next five years.

Total Long Term Debt and Capital Leases at the end of FY 2007 totaled \$2,044,947.

## **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>2007</u>	<u>2006</u>
<b>Current Assets:</b>		
Cash	\$ 1,179,749	\$ 576,870
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$2,220,000 in 2007, \$2,311,000 in 2006)	5,129,144	5,651,770
Other receivables	374,128	342,678
Inventory	617,445	584,569
Prepaid expense	343,526	345,593
Estimated third-party payor settlements	265,000	--
Succeeding year property tax receivable	1,711,000	1,493,000
Internally designated assets	<u>596,172</u>	<u>772,484</u>
Total current assets	10,216,164	9,766,964
<b>Designated and Restricted Assets:</b>		
Internally designated assets	3,641,084	2,400,687
Restricted assets	<u>472,351</u>	<u>449,382</u>
	4,113,435	2,850,069
Less amounts required to meet current liabilities	<u>596,172</u>	<u>772,484</u>
	3,517,263	2,077,585
<b>Capital Assets:</b>		
Depreciable capital assets, net	7,601,581	7,441,317
Non-depreciable capital assets	692,053	1,180,213
Rental property, net	<u>2,279,519</u>	<u>2,461,630</u>
	10,573,153	11,083,160
Investment in Cass County Medical Clinics, Inc.	3,001,090	2,969,786
Other Noncurrent Assets	<u>483,528</u>	<u>563,990</u>
Total assets	<u>\$ 27,791,198</u>	<u>\$ 26,461,485</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
<b>Current Liabilities:</b>		
Current maturities of long-term debt	\$ 504,148	\$ 569,681
Accounts payable	738,704	787,030
Accrued employee compensation	1,135,090	974,761
Payroll taxes withheld and accrued	278,211	279,642
Accrued interest payable	5,001	27,745
Other current liabilities	130,000	130,000
Estimated third-party payor settlements	--	333,000
Deferred revenue for succeeding year property tax receivable	<u>1,711,000</u>	<u>1,493,000</u>
Total current liabilities	4,502,154	4,594,859
<b>Long-Term Debt:</b>		
Capital lease obligations, less current maturities	709,577	419,121
Bonds payable, less unamortized debt issue costs and current maturities	<u>772,273</u>	<u>1,069,066</u>
Total long-term debt	<u>1,481,850</u>	<u>1,488,187</u>
Total liabilities	5,984,004	6,083,046
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	8,528,206	8,949,210
Restricted - expendable	472,351	449,382
Unrestricted	<u>12,806,637</u>	<u>10,979,847</u>
	<u>21,807,194</u>	<u>20,378,439</u>
Total liabilities and net assets	<u>\$ 27,791,198</u>	<u>\$ 26,461,485</u>

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

	<u>2007</u>	<u>2006</u>
Revenues:		
Net patient service revenue	\$ 23,312,152	\$ 21,475,190
Other revenue	<u>429,657</u>	<u>379,229</u>
Total revenue	23,741,809	21,854,419
Expenses:		
Nursing service	5,658,621	5,382,372
Other professional service	8,722,612	8,182,846
General service	2,194,819	2,087,164
Fiscal and administrative service	6,151,916	5,744,588
Provision for depreciation	<u>1,347,299</u>	<u>1,398,216</u>
Total expenses	<u>24,075,267</u>	<u>22,795,186</u>
Operating Loss	( 333,458)	( 940,767)
Non-Operating Revenues (Expenses):		
County taxes	1,563,691	1,551,134
Home health care county revenue	83,000	81,000
Investment income	343,468	213,569
Noncapital grants and contributions	343,704	363,301
Medical office building rent, net	( 280,346)	( 300,387)
Southwest Iowa Mental Health Center services, net	( 88,920)	( 28,584)
Loss on disposal of assets	( 6,788)	--
Retail pharmacy loss, net	( 141,734)	( 75,307)
Other rental income, net	1,979	475
Interest expense	<u>( 123,170)</u>	<u>( 117,671)</u>
Non-operating revenue, net	<u>1,694,884</u>	<u>1,687,530</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,361,426	746,763
Capital Grants and Contributions	<u>67,329</u>	<u>128,497</u>
Excess of Revenues Over Expenses and Increase in Net Assets	1,428,755	875,260
Net Assets Beginning of Year	<u>20,378,439</u>	<u>19,503,179</u>
Net Assets End of Year	<u>\$ 21,807,194</u>	<u>\$ 20,378,439</u>

The accompanying notes are an integral part of these statements.

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

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 23,205,328	\$ 20,465,292
Cash paid to suppliers	( 11,386,252)	( 11,053,993)
Cash paid to employees	( 11,106,174)	( 10,940,068)
Other revenue	<u>400,678</u>	<u>366,225</u>
Net cash provided by (used in) operating activities	1,113,580	( 1,162,544)
Cash flows from noncapital financing activities:		
County tax revenue	1,646,691	1,632,134
Noncapital grants and contributions	<u>343,704</u>	<u>363,301</u>
Net cash provided by noncapital financing activities	1,990,395	1,995,435
Cash flows from capital and related financing activities:		
Capital expenditures	( 437,724)	( 595,322)
Proceeds from new debt	--	1,605,000
Computer system expenditures	( 150,240)	( 161,791)
Capital grants and contributions	67,329	128,497
Proceeds from disposal of assets	2,400	--
Principal paid on long-term debt	( 627,601)	( 2,084,629)
Call premium and refunding costs	--	( 37,664)
Interest paid	<u>( 128,781)</u>	<u>( 95,154)</u>
Net cash used in capital and related financing activities	( 1,274,617)	( 1,241,063)
Cash flows from investing activities:		
Investment income	316,817	211,300
Investment in Cass County Medical Clinics, Inc.	( 162,278)	( 382,303)
(Increase) decrease in designated and restricted assets	( 685,082)	143,810
Rental income, net	21,910	28,581
Southwest Iowa Mental Health Center services, net	( 88,920)	( 28,584)
Retail pharmacy loss, net	( 141,734)	( 75,307)
Change in other noncurrent assets	<u>35,462</u>	<u>5,557</u>
Net cash used in investing activities	<u>( 703,825)</u>	<u>( 96,946)</u>
Net increase (decrease) in cash and cash equivalents	1,125,533	( 505,118)
Cash and cash equivalents at beginning of year	<u>604,178</u>	<u>1,109,296</u>
Cash and cash equivalents at end of year	<u>\$ 1,729,711</u>	<u>\$ 604,178</u>

(continued next page)

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

	<u>2007</u>	<u>2006</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,179,749	\$ 576,870
Cash and cash equivalents in designated and restricted assets	<u>549,962</u>	<u>27,308</u>
	<u>\$ 1,729,711</u>	<u>\$ 604,178</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$( 333,458)	\$( 940,767)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Provision for depreciation	1,347,299	1,398,216
Amortization	45,000	20,000
Provision for bad debts	1,595,165	1,296,410
Component of operating revenue reclassified for purposes of reporting cash flows		
Interest income on operating funds	( 28,979)	( 13,004)
Change in assets and liabilities		
Accounts receivable	( 1,103,989)	( 3,440,308)
Inventory	( 32,876)	15,220
Prepaid expense	2,067	( 112,043)
Accounts payable, trade	62,453	( 183,501)
Accrued employee compensation	160,329	( 352,764)
Payroll taxes withheld and accrued	( 1,431)	15,997
Estimated third-party payor settlements	<u>( 598,000)</u>	<u>1,134,000</u>
Total adjustments	<u>1,447,038</u>	<u>( 221,777)</u>
Net cash provided by (used in) operating activities	<u>\$ 1,113,580</u>	<u>\$( 1,162,544)</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 provided by (used in) operating activities:

	<u>2007</u>	<u>2006</u>
Purchase of assets through capital leases	<u>\$ 538,598</u>	<u>\$ 546,334</u>

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2007 and 2006

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, 2007 and 2006

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 2007 or 2006.

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, 2007 and 2006

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, 2007 and 2006

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 and most outpatient services 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 October 31, 2005. The Medicaid cost reports have been audited through June 30, 2004. 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, 2007 and 2006

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2007	2006
Long-term debt	\$ 472,351	\$ 449,382

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2007 or 2006.

NOTE D - DESIGNATED NET ASSETS

Of the \$12,806,637 (\$10,979,847 as of June 30, 2006) of unrestricted net assets as of June 30, 2007, \$3,641,084 (\$2,400,687 for 2006) 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, 2007 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, 2007 and 2006

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	2007	2006
Internally Designated Assets:		
Cash and cash equivalents	\$ 528,202	\$ 5,747
Certificates of deposit	2,888,330	2,224,275
Donated stock	190,251	134,614
Interest receivable	34,301	36,051
	\$ 3,641,084	\$ 2,400,687
Restricted Assets:		
Cash and cash equivalents	\$ 21,760	\$ 21,561
Certificate of deposit	442,796	420,443
Accrued interest	7,795	7,378
	\$ 472,351	\$ 449,382

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, 2007 and 2006, was as follows:

	2007	2006
Receivable from:		
Patients	\$ 2,108,764	\$ 1,613,644
Medicare	2,563,945	3,419,808
Medicaid	1,124,369	1,072,061
Blue Cross	635,139	804,228
Other commercial insurance carriers	848,763	1,002,383
Others	68,164	50,646
	7,349,144	7,962,770
Less allowances for doubtful accounts and contractual adjustments	2,220,000	2,311,000
	\$ 5,129,144	\$ 5,651,770

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2007 and 2006

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2007 and 2006 were as follows:

Hospital:

<u>Cost</u>	<u>Balance 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2007</u>
Land Improvements	\$ 1,851,292	\$ --	\$ --	\$ 1,851,292
Buildings	7,053,238	38,466	--	7,091,704
Building Services Equipment	4,083,922	130,294	--	4,214,216
Fixed Equipment	2,727,093	--	5,131	2,721,962
Major Movable Equipment	<u>9,402,712</u>	<u>1,347,991</u>	<u>1,129,164</u>	<u>9,621,539</u>
	25,118,257	1,516,751	1,134,295	25,500,713

Depreciation

Land Improvements	1,163,331	113,933	--	1,277,264
Buildings	3,864,813	246,166	--	4,110,979
Building Services Equipment	2,943,636	171,244	--	3,114,880
Fixed Equipment	2,207,942	101,355	5,131	2,304,166
Major Movable Equipment	<u>7,497,218</u>	<u>714,601</u>	<u>1,119,976</u>	<u>7,091,843</u>
Total Depreciation	<u>17,676,940</u>	<u>1,347,299</u>	<u>1,125,107</u>	<u>17,899,132</u>

Depreciable Capital Assets, Net	<u>\$ 7,441,317</u>	<u>\$ 169,452</u>	<u>\$ 9,188</u>	<u>\$ 7,601,581</u>
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Construction in Progress	\$ 2,294	\$ --	\$ --	\$ 2,294
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Computer System Project	742,356	150,240	638,400	254,196
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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>\$ 1,180,213</u>	<u>\$ 150,240</u>	<u>\$ 638,400</u>	<u>\$ 692,053</u>
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Medical Office Building:

Cost	\$ 4,287,186	\$ --	\$ --	\$ 4,287,186
Depreciation	<u>1,825,556</u>	<u>182,111</u>	<u>--</u>	<u>2,007,667</u>

Medical Office Building, Net	<u>\$ 2,461,630</u>	<u>\$ (182,111)</u>	<u>\$ --</u>	<u>\$ 2,279,519</u>
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CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2007 and 2006

NOTE G - CAPITAL ASSETS - Continued

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

Depreciation

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>
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Depreciable Capital Assets, Net	<u>\$ 8,153,551</u>	<u>\$ ( 712,234)</u>	<u>\$ --</u>	<u>\$ 7,441,317</u>
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Construction in Progress	\$ 2,294	\$ --	\$ --	\$ 2,294
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Computer System Project	54,331	708,125	20,100	742,356
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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>\$ 492,188</u>	<u>\$ 708,125</u>	<u>\$ 20,100</u>	<u>\$ 1,180,213</u>
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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>
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Total depreciation expense for the year ended June 30, 2007 was \$1,529,410 (\$1,587,705 for 2006).

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2007 and 2006

NOTE H - LEASES

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

	2007	2006
Medical Equipment	\$ 1,090,870	\$ 1,095,876
Less: Accumulated Amortization	173,369	540,598
Net Book Value	\$ 917,501	\$ 555,278

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2007 and 2006 follows:

	Balance 2006	Additions	Reductions	Balance 2007	Current Portion
Long-Term Debt:					
Note payable	\$1,605,000	\$ --	\$ 459,852	\$1,145,148	\$ 313,926
Debt issue and refunding costs	( 76,082)	--	( 17,133)	( 58,949)	--
Total Long-Term Debt	1,528,918	--	442,719	1,086,199	313,926
Capital Lease Obligations	528,950	538,598	167,749	899,799	190,222
Total Non-Current Liabilities	\$2,057,868	\$ 538,598	\$ 610,468	\$1,985,998	\$ 504,148
	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

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2007 and 2006

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 1.45% to 8.78%. The leases mature from May, 2011 to October, 2012.

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
2008	\$ 313,926	\$ 47,934	\$ 190,222	\$ 45,666
2009	328,287	33,573	200,214	35,674
2010	343,096	18,764	210,865	25,023
2011	159,839	3,610	191,787	13,774
2012	--	--	86,757	5,429
2013	--	--	19,954	293
	<u>\$ 1,145,148</u>	<u>\$ 103,881</u>	<u>\$ 899,799</u>	<u>\$ 125,859</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, 2007 and 2006

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% (3.90% July 1, 2007) of their annual salary and the Hospital is required to contribute 5.75% (6.05% July 1, 2007) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were approximately \$659,000, \$649,000, and \$623,000, 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 \$146,142 and \$143,519 for the years ended June 30, 2007 and 2006, 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, 2007 was \$6,418,722 (\$5,615,248 at June 30, 2006). 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, 2007 and 2006

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, 2007 and 2006, the Hospital provided \$70,000 of operating capital. The Center had a deficit in 2007 of \$109,074 (\$55,523 deficit in 2006) 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>2007</u>	<u>2006</u>
Hospital expense to Mental Health Center for physicians	<u>\$ 280,709</u>	<u>\$ 248,611</u>
Support passed through from Hospital to Mental Health Center	<u>\$ 72,644</u>	<u>\$ 73,569</u>
Hospital revenue for Mental Health Center personnel costs and insurance	<u>\$ 757,060</u>	<u>\$ 730,360</u>
Owed to Hospital by the Mental Health Center	<u>\$ 137,401</u>	<u>\$ 151,000</u>

The financial arrangements for the 2007-2008 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$318,850, which includes financial support and payment for physician services. The Center agreed to pay the Hospital approximately \$656,090 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, 2007 and 2006

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>2007</u>	<u>2006</u>
Services purchased from HPSI	\$ <u>88,572</u>	\$ <u>127,186</u>
Services and supplies provided to HPSI	\$ <u>143,146</u>	\$ <u>222,898</u>
Amount due from HPSI	\$ <u>27,865</u>	\$ <u>38,192</u>
Member share of net assets	\$ <u>261,213</u>	\$ <u>261,675</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 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, 2007, contributions received from this organization were approximately \$53,000 (\$100,000 for 2006).

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, 2007, the Hospital wrote-off \$316,132 of the receivable balance due from CCMC (\$333,032 for 2006). 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. Transactions for the year ended June 30, are listed below:

	<u>2007</u>	<u>2006</u>
Rent	\$ <u>231,400</u>	\$ <u>248,300</u>
Medical services and supplies	\$ <u>271,115</u>	\$ <u>291,661</u>
Health insurance	\$ <u>239,747</u>	\$ <u>194,592</u>

CASS COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2007 and 2006

NOTE N - COMMITMENTS AND CONTINGENCIES - Continued

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

	2007	2006
Purchases of physician practices	\$ 915,292	\$ 915,292
Advances of operating capital, and unpaid rent and insurance	2,085,798	2,054,494
	\$ 3,001,090	\$ 2,969,786

Effective October 1, 2007, the physicians' clinics became designated as Rural Health Clinics. As Rural Health Clinics, the assets and liabilities of CCMC will be combined with the Hospital's assets and liabilities, and the related receivable and payable will be offset. The Hospital will contract with CCMC for physician services, and the operations of the physicians' clinics will be recorded as a department of the Hospital.

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, 2007 is \$130,000 (\$130,000 at June 30, 2006), which is reported in other current liabilities.

Construction in Progress

As of June 30, 2007, 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, 2007, the Hospital incurred fees of \$254,196 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 \$221,000, 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, 2007

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 home health care county revenue, 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	\$ 1,646,691	\$ --	\$ 1,646,691
Other revenues	23,857,331	--	23,857,331
Transfers in (out)	( 22,969)	22,969	--
	25,481,053	22,969	25,504,022
Expenses	24,075,267	--	24,075,267
Net	1,405,786	22,969	1,428,755
Balance beginning of year	19,929,057	449,382	20,378,439
Balance end of year	\$ 21,334,843	\$ 472,351	\$ 21,807,194

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,646,691	\$( 83,000)	\$ 1,563,691	\$ 1,492,879
Other revenues	23,857,331	206,170	24,063,501	25,261,951
	25,504,022	123,170	25,627,192	26,754,830
Expenses	24,075,267	711,134	24,786,401	26,123,000
Net	1,428,755	( 587,964)	840,791	631,830
Balance beginning of year	20,378,439	( 14,385,243)	5,993,196	5,993,196
Balance end of year	\$ 21,807,194	\$( 14,973,207)	\$ 6,833,987	\$ 6,625,026

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

CASS COUNTY MEMORIAL HOSPITAL  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,431,430	19.5%	\$ 965,246	12.1%
31 - 60	873,934	11.9	1,246,697	15.7
61 - 90	772,267	10.5	853,973	10.7
91 - 120	392,238	5.3	700,248	8.8
121 and over	<u>2,346,635</u>	<u>31.9</u>	<u>1,972,265</u>	<u>24.8</u>
	5,816,504	79.1	5,738,429	72.1
In hospital	<u>1,532,640</u>	<u>20.9</u>	<u>2,224,341</u>	<u>27.9</u>
	<u>7,349,144</u>	<u>100.0%</u>	<u>7,962,770</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	720,000		775,000	
Allowance for contractual adjustments	<u>1,500,000</u>		<u>1,536,000</u>	
	<u>\$ 5,129,144</u>		<u>\$ 5,651,770</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Balance, beginning	\$ 775,000	\$ 625,000
Provision for bad debts	1,595,165	1,296,410
Recoveries of accounts previously written off	<u>342,274</u>	<u>254,498</u>
	2,712,439	2,175,908
Accounts written off	<u>1,992,439</u>	<u>1,400,908</u>
Balance, ending	<u>\$ 720,000</u>	<u>\$ 775,000</u>

See Independent Auditor's Report.

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

	2007	2006
<u>Other Receivables</u>		
Shared services	\$ 81,683	\$ 23,090
Health Partners of Southwest Iowa	27,865	38,192
Lifeline	76,094	33,194
Southwest Iowa Mental Health Center	137,401	151,000
Other	51,085	97,202
	\$ 374,128	\$ 342,678
 <u>Inventory</u>		
General stores	\$ 62,348	\$ 58,670
Pharmacy	445,633	417,943
Radiology	14,085	9,394
Laboratory	61,502	52,810
Dietary	5,311	5,923
Fuel oil	3,630	6,157
Information system	24,936	33,672
	\$ 617,445	\$ 584,569
 <u>Prepaid Expense</u>		
Dues	\$ 14,568	\$ 14,844
Insurance	48,654	44,954
Maintenance agreements and other	280,304	285,795
	\$ 343,526	\$ 345,593

See Independent Auditor's Report.

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

	2007	2006
Daily Patient Services:		
Medical and surgical	\$ 1,666,975	\$ 1,498,979
Obstetric	256,712	231,515
Intensive care	764,238	812,603
Nursery	111,528	106,279
Psychiatric services	1,408,774	1,770,536
Distinct Skilled Unit	9,733	35,486
	4,217,960	4,455,398
Other Nursing Services:		
Operating room	1,822,575	1,976,071
Recovery room	280,006	427,972
Delivery and labor rooms	186,715	182,195
Central services and supply	1,733,312	1,854,443
Intravenous therapy	373,716	501,010
Emergency service	2,030,208	2,138,706
Oncology service	364,473	353,531
Enterstomal therapy	127,775	98,530
	6,918,780	7,532,458
Other Professional Services:		
Laboratory	6,398,944	6,146,527
Blood bank	238,916	170,487
Electrocardiology	183,160	170,190
Cardiac stress testing	150,447	141,654
Ambulatory electrocardiology	69,006	67,658
Radiology	1,790,170	1,761,934
CT scanning	2,696,280	1,653,685
MRI scanning	1,238,045	1,068,000
Nuclear medicine and ultrasound	1,286,797	1,208,748
Pharmacy	5,356,300	5,254,074
Anesthesia	905,005	1,187,245
Respiratory care	1,418,974	1,291,396
Physical therapy	878,194	810,360
Speech therapy	27,065	23,231
Occupational therapy	168,955	85,022
Home Health Care	1,481,313	1,334,217
Hospice	497,617	565,591
Cardiac rehabilitation	145,231	155,811
Diabetic center	41,883	49,385
Sleep study	248,194	258,938
	25,220,496	23,404,153
	\$ 36,357,236	\$ 35,392,009

(continued next page)

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

	<u>2007</u>	<u>2006</u>
SUMMARY		
Inpatient	\$ 6,577,262	\$ 7,382,756
Swing Bed	2,241,670	1,740,950
Distinct Skilled Unit	23,106	93,399
Psychiatric Services	1,690,183	2,158,397
Outpatient	23,846,088	22,116,699
Home Health Care	1,481,311	1,334,217
Hospice	<u>497,616</u>	<u>565,591</u>
	<u>\$ 36,357,236</u>	<u>\$ 35,392,009</u>

See Independent Auditor's Report.

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

	2007	2006
Net Patient Service Revenue:		
Patient service revenue	\$ 36,357,236	\$ 35,392,009
Contractual adjustments	( 11,238,934)	( 12,411,359)
Provision for bad debts	( 1,595,165)	( 1,296,410)
Uncompensated care	( 210,985)	( 209,050)
	<u>\$ 23,312,152</u>	<u>\$ 21,475,190</u>
Other Revenue:		
Interest income on operating funds	\$ 28,979	\$ 13,004
Meals sold to employees and guests	150,211	148,978
Meals on wheels	42,982	38,487
Medical record transcripts	7,927	9,178
VHA participation	90,997	47,281
Biomedical service	28,025	24,378
Nursing education	2,885	2,221
Wellness program	1,024	643
Other	76,627	95,059
	<u>\$ 429,657</u>	<u>\$ 379,229</u>

See Independent Auditor's Report.

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

	2007	2006
Administrative:		
Salaries and wages	\$ 122,376	\$ 127,596
Supplies and other expense	<u>7,735</u>	<u>10,361</u>
	130,111	137,957
In-Service Training:		
Salaries and wages	69,515	63,815
Supplies and other expense	<u>15,526</u>	<u>19,634</u>
	85,041	83,449
Quality Assurance:		
Salaries and wages	54,682	44,418
Supplies and other expense	<u>767</u>	<u>1,381</u>
	55,449	45,799
Nursing Supervision:		
Salaries and wages	230,884	215,063
Supplies and other expense	<u>1,750</u>	<u>922</u>
	232,634	215,985
Medical and Surgical:		
Salaries and wages	1,027,030	1,038,551
Supplies and other expense	<u>132,551</u>	<u>42,404</u>
	1,159,581	1,080,955
Psychiatric Services:		
Salaries and wages	750,226	822,168
Professional fees	280,709	254,448
Supplies and other expense	<u>17,793</u>	<u>16,446</u>
	1,048,728	1,093,062
Intensive Care:		
Salaries and wages	349,376	401,619
Supplies and other expense	<u>69,626</u>	<u>33,617</u>
	419,002	435,236
Obstetric:		
Salaries and wages	259,746	251,219
Supplies and other expense	<u>71,214</u>	<u>13,998</u>
	330,960	265,217
Distinct Skilled Unit:		
Salaries and wages	5,104	8,886
Supplies and other expense	<u>171</u>	<u>18</u>
	5,275	8,904

(continued next page)

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

	2007	2006
Nursery:		
Salaries and wages	\$ 117,027	\$ 115,223
Supplies and other expense	--	403
	117,027	115,626
Operating Room:		
Salaries and wages	363,270	369,036
Professional fees	182,214	51,600
Supplies and other expense	92,904	83,808
	638,388	504,444
Recovery Room:		
Salaries and wages	31,963	28,934
Supplies and other expense	491	--
	32,454	28,934
Delivery and Labor Rooms:		
Salaries and wages	51,403	50,920
Supplies and other expense	--	460
	51,403	51,380
Central Services and Supply:		
Salaries and wages	39,148	36,936
Supplies sold to patients	328,583	376,713
Supplies and other expense	2,255	4,894
	369,986	418,543
Intravenous Therapy:		
Solutions	13,772	13,637
Supplies and other expense	90,532	78,862
	104,304	92,499
Emergency and Outpatient Services:		
Salaries and wages	540,883	489,059
Professional fees	271,173	276,978
Supplies and other expense	66,222	38,345
	878,278	804,382
	\$ 5,658,621	\$ 5,382,372

See Independent Auditor's Report.

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

	2007	2006
Laboratory:		
Salaries and wages	\$ 584,593	\$ 595,975
Professional fees	281,684	267,160
Supplies and other expense	287,903	209,491
Cost of chemistry reagents	<u>291,654</u>	<u>263,665</u>
	1,445,834	1,336,291
Blood Bank:		
Cost of blood	136,938	102,817
Electrocardiology:		
Supplies and other expense	304	439
Cardiac Stress Testing:		
Salaries and wages	8,059	7,325
Professional fees	2,240	1,428
Supplies and other expense	<u>849</u>	<u>874</u>
	11,148	9,627
Ambulatory Electrocardiology:		
Salaries and wages	7,107	7,252
Supplies and other expense	<u>776</u>	<u>652</u>
	7,883	7,904
Radiology:		
Salaries and wages	262,181	252,695
Professional fees	2,908	2,358
Cost of film	1,812	6,249
Supplies and other expense	<u>100,161</u>	<u>115,260</u>
	367,062	376,562
CT and MRI Scanning:		
Salaries and wages	95,169	74,540
Purchased services	153,750	133,375
Supplies and other expense	<u>65,974</u>	<u>126,251</u>
	314,893	334,166

(continued next page)

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

	<u>2007</u>	<u>2006</u>
Nuclear Medicine and Ultrasound:		
Salaries and wages	\$ 71,861	\$ 66,215
Purchased services	131,986	116,186
Supplies and other expense	<u>15,225</u>	<u>18,891</u>
	219,072	201,292
Pharmacy:		
Salaries and wages	499,195	472,334
Drugs	1,770,639	1,732,523
Supplies and other expense	<u>89,391</u>	<u>85,039</u>
	2,359,225	2,289,896
Anesthesia:		
Salaries and wages	348,140	44,142
Professional fees	70,364	376,548
Supplies and other expense	<u>37,874</u>	<u>30,243</u>
	456,378	450,933
Respiratory Care:		
Salaries and wages	210,335	187,363
Oxygen	13,708	13,381
Supplies and other expense	<u>17,110</u>	<u>19,450</u>
	241,153	220,194
Physical Therapy:		
Salaries and wages	239,818	226,452
Supplies and other expense	<u>11,894</u>	<u>10,226</u>
	251,712	236,678
Occupational Therapy:		
Salaries and wages	51,437	34,400
Professional fees	35,584	--
Supplies and other expense	<u>2,458</u>	<u>1,308</u>
	89,479	35,708
Speech Therapy:		
Professional fees	10,879	11,086
Supplies and other expense	<u>3,256</u>	<u>3,656</u>
	14,135	14,742

(continued next page)

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

	2007	2006
Home Health Care:		
Salaries and wages	\$ 1,385,839	\$ 1,203,365
Professional fees	46,111	17,264
Supplies and other expense	281,730	211,585
	1,713,680	1,432,214
Hospice:		
Salaries and wages	157,748	150,989
Professional fees	1,273	527
Supplies and other expense	135,606	152,918
	294,627	304,434
Cardiac Rehabilitation:		
Salaries and wages	149,191	131,126
Supplies and other expense	7,738	20,398
	156,929	151,524
Diabetic Center:		
Salaries and wages	87,082	83,967
Supplies and other expense	907	3,142
	87,989	87,109
Business Health:		
Supplies and other expense	3,734	1,294
Medical Records:		
Salaries and wages	258,977	248,502
Supplies and other expense	31,264	29,593
Microfilming services purchased	23,917	28,787
	314,158	306,882
Medical Education - Community Orientation Program:		
Supplies and other expense	5,920	2,191

(continued next page)

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

	2007	2006
Utilization Review:		
Salaries and wages	\$ 164,330	\$ 205,234
Supplies and other expense	2,389	1,907
	166,719	207,141
 Sleep Studies:		
Salaries and wages	467	--
Purchased services	63,085	72,343
Supplies and other expense	88	465
	63,640	72,808
	\$ 8,722,612	\$ 8,182,846

See Independent Auditor's Report.

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

	<u>2007</u>	<u>2006</u>
Dietary:		
Salaries and wages	\$ 396,093	\$ 378,914
Food	202,853	197,481
Supplies and other expense	<u>49,426</u>	<u>50,369</u>
	648,372	626,764
Operation of Plant:		
Salaries and wages	283,543	248,274
Electricity	107,245	109,733
Natural gas and fuel oil	128,154	139,605
Water	19,573	20,683
Supplies and other expense	<u>227,988</u>	<u>189,273</u>
	766,503	707,568
Clinical Equipment:		
Contracted services	86,376	84,587
Supplies and other expense	<u>4,897</u>	<u>4,805</u>
	91,273	89,392
Housekeeping:		
Salaries and wages	300,250	309,429
Contracted management services	198,067	117,755
Supplies and other expense	<u>54,272</u>	<u>52,447</u>
	552,589	479,631
Laundry and Linen:		
Salaries and wages	32,319	33,861
Contracted management services	--	42,910
Supplies and other expense	98,603	103,998
Linens	<u>5,160</u>	<u>3,040</u>
	<u>136,082</u>	<u>183,809</u>
	<u>\$ 2,194,819</u>	<u>\$ 2,087,164</u>

See Independent Auditor's Report.

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

	2007	2006
<b>Administrative Services:</b>		
Salaries and wages	\$ 244,211	\$ 237,292
Dues and subscriptions	35,216	36,042
Legal publications and advertising	6,874	7,322
Purchased services	--	102
Consulting fees	168,731	163,704
Supplies and other expense	<u>32,022</u>	<u>34,141</u>
	487,054	478,603
<b>Fiscal Services:</b>		
Salaries and wages	306,878	310,328
Telephone	41,866	38,094
Freight and postage	18,365	18,385
Professional fees	31,731	23,780
Supplies and other expense	<u>105,344</u>	<u>91,634</u>
	504,184	482,221
<b>Admissions:</b>		
Salaries and wages	221,311	187,108
Supplies and other expense	<u>14,726</u>	<u>12,638</u>
	236,037	199,746
<b>Credit and Collections:</b>		
Salaries and wages	154,124	153,975
Supplies and other expense	115,774	92,955
Collection expense	<u>97,363</u>	<u>87,370</u>
	367,261	334,300
<b>Information Systems:</b>		
Salaries and wages	360,072	328,574
Professional fees	102,843	85,643
Supplies and other expense	<u>337,231</u>	<u>187,208</u>
	800,146	601,425
<b>Human Resources:</b>		
Salaries and wages	166,903	158,233
Supplies and other expense	<u>99,416</u>	<u>143,649</u>
	266,319	301,882
<b>Public Relations:</b>		
Salaries and wages	44,314	37,217
Supplies and other expense	<u>53,554</u>	<u>55,289</u>
	97,868	92,506
<b>Purchasing:</b>		
Salaries and wages	92,013	91,690
Supplies and other expense	<u>19,951</u>	<u>18,135</u>
	111,964	109,825

(continued next page)

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

	2007	2006
Employee Welfare:		
Social Security tax	\$ 802,646	\$ 756,064
Iowa Public Employees' Retirement System	658,764	649,167
Group health insurance	1,180,978	1,117,504
Workers' compensation insurance	224,422	203,583
Deferred compensation	146,142	143,519
Other	8,921	10,140
	3,021,873	2,879,977
Insurance:		
Liability and property insurance	159,429	194,592
Quality Improvement:		
Salaries and wages	70,310	57,090
Supplies and other expense	3,122	1,886
	73,432	58,976
Compliance:		
Supplies and other expense	574	1,080
Customer Service:		
Professional fees	--	5,100
Supplies and other expense	25,775	4,355
	25,775	9,455
	\$ 6,151,916	\$ 5,744,588

Summary of Expenses

Salaries and wages	\$ 11,266,503	\$ 10,587,304
Employee benefits	3,021,873	2,879,977
Professional fees	1,488,444	1,537,624
Supplies and other expense	6,951,148	6,392,065
Provision for depreciation	1,347,299	1,398,216
	\$ 24,075,267	\$ 22,795,186

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Comparative Statistics  
Year ended June 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Acute Care:					
Admissions	936	1,041	1,283	1,167	1,307
Discharges	944	1,037	1,278	1,171	1,307
Patient Days	3,061	3,224	4,025	3,794	4,206
Average Length of Stay	3.24	3.11	3.15	3.24	3.22
Average Occupied Beds	8.4	8.8	11.0	10.4	11.5
Swing Bed:					
Admissions	284	281	390	384	436
Discharges	282	284	393	389	440
SNF Days	2,045	1,754	2,762	3,993	4,484
Average Occupied Beds	5.6	4.8	7.6	10.9	12.3
Skilled Nursing Facility:					
Admissions	5	13	--	--	--
Discharges	4	13	--	--	--
Patient Days	20	79	--	--	--
Combined Average Occupied Beds (Acute and Skilled)	14.0	13.9	18.5	21.3	23.8
Psychiatric Unit:					
Admissions	211	219	130	175	118
Discharges	207	223	127	179	116
Patient Days	1,014	1,406	804	1,103	870
Average Occupied Beds	2.8	3.9	2.2	3.0	2.4
Total Average Occupied Beds	16.8	17.7	20.8	24.3	26.2
Nursery Days	291	311	290	311	318
Outpatient Occasions of Service	55,640	54,571	45,468	42,208	43,431

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL  
Comparative Balance Sheets  
June 30,

	2007	2006
<b>Current Assets:</b>		
Cash	\$ 1,179,749	\$ 576,870
Patient receivables, net	5,129,144	5,651,770
Other receivables	374,128	342,678
Inventory	617,445	584,569
Prepaid expense	343,526	345,593
Estimated third-party payor settlements	265,000	--
Succeeding year property tax receivable	1,711,000	1,493,000
Internally designated assets	596,172	772,484
Total current assets	10,216,164	9,766,964
<b>Other Assets:</b>		
Designated and restricted assets, net	3,517,263	2,077,585
Capital assets, net	10,573,153	11,083,160
Other noncurrent assets	3,484,618	3,533,776
Total other assets	17,575,034	16,694,521
	\$ 27,791,198	\$ 26,461,485
<b>Current Liabilities:</b>		
Current maturities	\$ 504,148	\$ 569,681
Accounts payable	738,704	787,030
Accrued expenses	1,548,302	1,412,148
Estimated third-party payor settlements	--	333,000
Deferred revenue for succeeding year property tax receivable	1,711,000	1,493,000
Total current liabilities	4,502,154	4,594,859
Capital Lease Obligations, Net	709,577	419,121
Bonds Payable, Net	772,273	1,069,066
Net Assets	21,807,194	20,378,439
	\$ 27,791,198	\$ 26,461,485

See Independent Auditor's Report.

<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 1,027,984	\$ 815,075	\$ 403,676
3,412,310	2,797,539	3,473,501
438,240	506,713	816,594
599,789	410,868	450,090
233,550	174,273	400,798
801,000	992,000	185,000
1,489,000	1,482,000	1,486,000
<u>562,732</u>	<u>600,751</u>	<u>527,685</u>
8,564,605	7,779,219	7,743,344
2,469,878	3,292,408	4,056,733
11,282,226	12,008,633	12,612,045
<u>3,308,004</u>	<u>2,439,075</u>	<u>1,528,140</u>
<u>17,060,108</u>	<u>17,740,116</u>	<u>18,196,918</u>
<u>\$ 25,624,713</u>	<u>\$ 25,519,335</u>	<u>\$ 25,940,262</u>
\$ 453,151	\$ 456,823	\$ 433,223
877,309	635,150	576,941
1,737,772	1,617,544	1,621,095
--	--	--
<u>1,489,000</u>	<u>1,482,000</u>	<u>1,486,000</u>
4,557,232	4,191,517	4,117,259
9,094	197,245	404,068
1,555,208	1,813,551	2,057,294
<u>19,503,179</u>	<u>19,317,022</u>	<u>19,361,641</u>
<u>\$ 25,624,713</u>	<u>\$ 25,519,335</u>	<u>\$ 25,940,262</u>

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

	<u>2007</u>	<u>2006</u>
Patient Service Revenue	\$ 36,357,236	\$ 35,392,009
Adjustments to Patient Service Revenue	<u>( 13,045,084)</u>	<u>( 13,916,819)</u>
Net Patient Service Revenue	23,312,152	21,475,190
Other Revenue	<u>429,657</u>	<u>379,229</u>
Total Revenue	23,741,809	21,854,419
Expenses	<u>24,075,267</u>	<u>22,795,186</u>
Operating Loss	( 333,458)	( 940,767)
Non-Operating Revenue, Net	<u>1,762,213</u>	<u>1,816,027</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Unusual Item	1,428,755	875,260
Unusual Item	<u>--</u>	<u>--</u>
Excess of Revenues Over Expenses (Expenses Over Revenues)	<u>\$ 1,428,755</u>	<u>\$ 875,260</u>

See Independent Auditor's Report.

<u>2005</u>	<u>2004</u>	<u>2003</u>
\$ 33,320,020	\$ 30,602,992	\$ 31,122,314
<u>( 14,402,208)</u>	<u>( 13,210,361)</u>	<u>( 12,095,934)</u>
18,917,812	17,392,631	19,026,380
<u>388,473</u>	<u>402,231</u>	<u>412,380</u>
19,306,285	17,794,862	19,438,760
<u>20,996,214</u>	<u>20,693,122</u>	<u>20,686,397</u>
( 1,689,929)	( 2,898,260)	( 1,247,637)
<u>1,876,086</u>	<u>1,948,641</u>	<u>1,711,517</u>
186,157	( 949,619)	463,880
<u>--</u>	<u>905,000</u>	<u>--</u>
<u>\$ 186,157</u>	<u>\$( 44,619)</u>	<u>\$ 463,880</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, 2007, and have issued our report thereon dated October 10, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Cass County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood a misstatement of the Hospital's financial statements, that is more than inconsequential, will not be prevented or detected by the Hospital's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Trustees  
Cass County Memorial Hospital

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

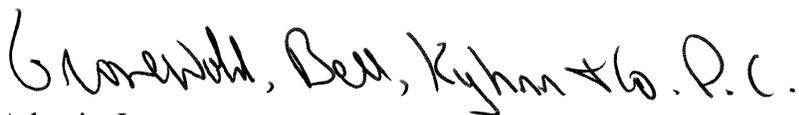
#### Compliance and Other Matters

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 or other matters 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, 2007 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.

Cass County Memorial Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Cass County Memorial Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

 Kenneth Bell, CPA

Atlantic, Iowa  
October 10, 2007

CASS COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2007

PART I - SIGNIFICANT DEFICIENCIES

07-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

07-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2007 did not exceed amounts budgeted.

07-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, 2007

PART II - REQUIRED STATUTORY REPORTING - Continued

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

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

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

07-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.

\* \* \*