

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, 2008 AND 2007

CASS COUNTY MEMORIAL HOSPITAL

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CASS COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2008

<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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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, 2008 and 2007, 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, 2008 and 2007, 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 5, 2008 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, 2006 (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.

Gronwald, Beer, Kuhn & Co. P.C.

Atlantic, Iowa
November 5, 2008



PATRICIA MARKHAM
Administrator

Cass County Memorial Hospital

1501 East 10th Street

Atlantic, Iowa 50022

712-243-3250

CASS COUNTY MEMORIAL HOSPITAL Atlantic, Iowa 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, 2008, 2007, and 2006. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

The major difference in financial activity from FY 2007 and FY 2008 is that the Hospital merged in and obtained Rural Health Clinic status for four area physician clinics in October, 2007. This was done so the clinics in our service area could receive "cost based" reimbursement from Medicare and Medicaid.

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 gives 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 increased utilization in Acute Care (12%), Skilled Care (21%), Psychiatric Services (10%), and Nursery (12%), Outpatient Occasions of Service (11%) compared to FY 2007 and summarized in Table 1.

Table 1: Statistics

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Acute Care:			
Discharges	1,058	944	1,037
Patient Days	3,168	3,061	3,224
Skilled Care:			
Discharges	346	286	297
Patient Days	2,208	2,065	1,833
Psychiatric Unit:			
Discharges	227	207	223
Patient Days	1,118	1,014	1,406
Nursery:			
Patient Days	325	291	311
Outpatient Occasions of Service	61,527	55,640	54,571
Rural Health Clinic Visits	32,354	0	0

BALANCE SHEET

Net assets decreased 4% from \$21,807,194 to \$21,040,676. Total Current Assets increased by 28% with Cash increasing 44%. Net Patient Receivables increased 45% with the addition of the Rural Health Clinic. Cash position improved due to better reimbursement from the Medicare and Medicaid programs for the Rural Health Clinic. Current Liabilities increased 24% due to an increase in accrued employee compensation and estimated third-party payor settlements. The long-term portion of Capital Lease Obligations decreased 28% with no new capital lease obligations. The long-term portion of Bonds Payable decreased 40%.

Table 2: Assets, Liabilities, Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current assets	\$ 13,040,867	\$ 10,216,164	\$ 9,766,964
Capital assets, net	9,876,362	10,573,153	11,083,160
Other noncurrent assets	<u>4,678,576</u>	<u>7,001,881</u>	<u>5,611,361</u>
Total assets	<u>\$ 27,595,805</u>	<u>\$ 27,791,198</u>	<u>\$ 26,461,485</u>
Liabilities:			
Long-term debt outstanding	\$ 970,528	\$ 1,481,850	\$ 1,488,187
Other current and noncurrent liabilities	<u>5,584,601</u>	<u>4,502,154</u>	<u>4,594,859</u>
Total liabilities	<u>\$ 6,555,129</u>	<u>\$ 5,984,004</u>	<u>\$ 6,083,046</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 8,335,563	\$ 8,528,206	\$ 8,949,210
Restricted	493,249	472,351	449,382
Unrestricted	<u>12,211,864</u>	<u>12,806,637</u>	<u>10,979,847</u>
Total net assets	<u>\$ 21,040,676</u>	<u>\$ 21,807,194</u>	<u>\$ 20,378,439</u>

STATEMENT OF REVENUES, EXPENSES, & CHANGES IN NET ASSETS

Patient Service Revenue increased 21% from last fiscal year. 11% increase was due to the addition of the Rural Health Clinic and 10% was due to increased volume and charge increases.

Contractual adjustments to Patient Service Revenue increased by 26% due to increased Medicare and Medicaid utilization and the addition of the Rural Health Clinic. Adjustments for bad debt (20%) and uncompensated care (41%) had significant increases.

Expenses increased 20% with 12% of that increase coming from the Rural Health Clinic. Salaries increased 24% and employee benefits increased 15% due to an increase in IPERS (21%) and Worker's Compensation Insurance (17%). Professional fees increased 75% due to contracting Physicians for the Rural Health Clinic. Supplies and other expense increased 12%.

The Hospital had a net operating loss of \$654,818 compared to a net operating loss of \$333,458 in FY 2007. 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 increase in the operating loss is directly proportional to the increase in utilization from Medicare and Medicaid patients. Nonoperating revenue (which includes County tax support) increased by 39%. The excess of revenue over expense increased from a positive \$1,428,755 to \$1,801,469.

Table 3: Revenues, Expenses & Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Revenues:			
Patient service revenue	\$ 44,042,242	\$ 36,357,236	\$ 35,392,009
Adjustments to patient service revenue	<u>(16,348,067)</u>	<u>(13,045,084)</u>	<u>(13,916,819)</u>
Net patient service revenue	27,694,175	23,312,152	21,475,190
Other operating revenue	<u>477,608</u>	<u>429,657</u>	<u>379,229</u>
Total operating revenues	28,171,783	23,741,809	21,854,419
Operating Expenses:			
Salaries	13,932,673	11,266,503	10,587,304
Employee benefits	3,464,769	3,021,873	2,879,977
Professional fees	2,608,552	1,488,444	1,537,624
Supplies and other expense	7,423,964	6,951,148	6,392,065
Depreciation	<u>1,396,643</u>	<u>1,347,299</u>	<u>1,398,216</u>
Total operating expenses	<u>28,826,601</u>	<u>24,075,267</u>	<u>22,795,186</u>
Operating loss	(654,818)	(333,458)	(940,767)
Nonoperating Revenue and Expense:			
Property taxes	1,696,144	1,563,691	1,551,134
Other nonoperating revenue and expense	<u>760,143</u>	<u>198,522</u>	<u>264,893</u>
Total nonoperating revenue and expense	<u>2,456,287</u>	<u>1,762,213</u>	<u>1,816,027</u>
Excess of Revenues Over Expenses	1,801,469	1,428,755	875,260
Net Assets Beginning of Year	21,807,194	20,378,439	19,503,179
Change in Net Assets Resulting from Merging of Physician Clinics	<u>(2,567,987)</u>	<u>--</u>	<u>--</u>
Net Assets End of Year	<u>\$ 21,040,676</u>	<u>\$ 21,807,194</u>	<u>\$ 20,378,439</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 \$654,818. Cash in current assets on the balance sheet increased from \$1,179,749 to \$1,693,315 due to better Medicare and Medicaid reimbursement. The Hospital had a negative cash flow from operations of \$88,826, compared to a positive operating cash flow of \$1,074,506 in FY 2007.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2008 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 13% above budget. Other Operating Revenue was 25% above budget, which made Total Operating Revenue 5% below budget. Total Operating expense was 4% below budget and Income from Operations was 24% above budget. The excess of revenue over expense was 11% under budget.

CAPITAL ASSETS

At the end of FY 2008, the Hospital had \$9,876,362 invested in capital assets, net of accumulation depreciation. In FY 2008 the Hospital purchased new equipment costing \$722,030. New equipment purchased in FY 2007 was \$1,028,591.

DEBT

The Hospital has three capital leases for the purchase of equipment (CT Scan, Ultrasound, & Omnicell). These leases carry 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 total debt service payments by approximately \$131,850.

Total Long Term Debt and Capital Leases at the end of FY 2008 totaled \$1,540,799.

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>2008</u>	<u>2007</u>
Current Assets:		
Cash	\$ 1,693,315	\$ 1,179,749
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$2,828,416 in 2008, \$2,220,000 in 2007)	7,412,879	5,129,144
Other receivables	657,036	374,128
Inventory	702,678	617,445
Prepaid expense	366,436	343,526
Estimated third-party payor settlements	--	265,000
Succeeding year property tax receivable	1,593,000	1,711,000
Internally designated assets	<u>615,523</u>	<u>596,172</u>
Total current assets	13,040,867	10,216,164
Designated and Restricted Assets:		
Internally designated assets	3,876,314	3,641,084
Restricted assets	<u>493,249</u>	<u>472,351</u>
	4,369,563	4,113,435
Less amounts required to meet current liabilities	<u>615,523</u>	<u>596,172</u>
	3,754,040	3,517,263
Capital Assets:		
Depreciable capital assets, net	9,312,676	9,881,100
Non-depreciable capital assets	<u>563,686</u>	<u>692,053</u>
	9,876,362	10,573,153
Investment in Cass County Medical Clinics, Inc.	305,841	3,001,090
Other Noncurrent Assets	<u>618,695</u>	<u>483,528</u>
Total assets	<u>\$ 27,595,805</u>	<u>\$ 27,791,198</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 528,502	\$ 504,148
Accounts payable	742,663	738,704
Accrued employee compensation	1,517,896	1,135,090
Payroll taxes withheld and accrued	280,895	278,211
Accrued interest payable	3,645	5,001
Other current liabilities	150,000	130,000
Estimated third-party payor settlements	768,000	--
Deferred revenue for succeeding year property tax receivable	<u>1,593,000</u>	<u>1,711,000</u>
Total current liabilities	5,584,601	4,502,154
Long-Term Debt:		
Capital lease obligations, less current maturities	509,362	709,577
Bonds payable, less unamortized debt issue costs and current maturities	<u>461,166</u>	<u>772,273</u>
Total long-term debt	<u>970,528</u>	<u>1,481,850</u>
Total liabilities	6,555,129	5,984,004
Net Assets:		
Invested in capital assets, net of related debt	8,335,563	8,528,206
Restricted - expendable	493,249	472,351
Unrestricted	<u>12,211,864</u>	<u>12,806,637</u>
	<u>21,040,676</u>	<u>21,807,194</u>
Total liabilities and net assets	<u>\$ 27,595,805</u>	<u>\$ 27,791,198</u>

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

	2008	2007
Revenues:		
Net patient service revenue	\$ 27,694,175	\$ 23,312,152
Other revenue	477,608	429,657
Total revenue	28,171,783	23,741,809
Expenses:		
Nursing service	6,309,300	5,658,621
Other professional service	12,175,925	8,722,612
General service	2,274,712	2,194,819
Fiscal and administrative service	6,670,021	6,151,916
Provision for depreciation	1,396,643	1,347,299
Total expenses	28,826,601	24,075,267
Operating Loss	(654,818)	(333,458)
Non-Operating Revenues (Expenses):		
County taxes	1,696,144	1,563,691
Home health care county revenue	85,000	83,000
Investment income	261,232	343,468
Noncapital grants and contributions	496,158	343,704
Medical office building rent, net	(18,575)	(280,346)
Southwest Iowa Mental Health Center services, net	122,566	(88,920)
Loss on disposal of assets	--	(6,788)
Retail pharmacy loss, net	(138,013)	(141,734)
Other rental income (loss), net	(5,980)	1,979
Interest expense	(109,424)	(123,170)
Non-operating revenue, net	2,389,108	1,694,884
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,734,290	1,361,426
Capital Grants and Contributions	67,179	67,329
Excess of Revenues Over Expenses and Increase in Net Assets	1,801,469	1,428,755
Net Assets Beginning of Year	21,807,194	20,378,439
Change in Net Assets Resulting from Merging of Physician Clinics (Note M)	(2,567,987)	--
Net Assets End of Year	\$ 21,040,676	\$ 21,807,194

The accompanying notes are an integral part of these statements.

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

	2008	2007
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 27,087,809	\$ 23,166,254
Cash paid to suppliers	(13,699,043)	(11,386,252)
Cash paid to employees	(13,924,609)	(11,106,174)
Other revenue	447,017	400,678
Net cash provided by (used in) operating activities	(88,826)	1,074,506
Cash flows from noncapital financing activities:		
County tax revenue	1,781,144	1,646,691
Noncapital grants and contributions	496,158	343,704
Net cash provided by noncapital financing activities	2,277,302	1,990,395
Cash flows from capital and related financing activities:		
Capital expenditures	(376,474)	(437,724)
Computer system expenditures	(354,905)	(150,240)
Capital grants and contributions	67,179	67,329
Proceeds from disposal of assets	4,000	2,400
Principal paid on long-term debt	(504,148)	(627,601)
Interest paid	(93,600)	(128,781)
Net cash used in capital and related financing activities	(1,257,948)	(1,274,617)
Cash flows from investing activities:		
Investment income	332,359	316,817
Investment in Cass County Medical Clinics, Inc.	(243,889)	(162,278)
Increase in designated and restricted assets	(283,887)	(685,082)
Rental income, net	93,764	21,910
Southwest Iowa Mental Health Center services, net	(24,597)	(49,846)
Retail pharmacy loss, net	(138,013)	(141,734)
Change in other noncurrent assets	(139,922)	35,462
Net cash used in investing activities	(404,185)	(664,751)
Net increase in cash and cash equivalents	526,343	1,125,533
Cash and cash equivalents at beginning of year	1,729,711	604,178
Cash and cash equivalents at end of year	\$ 2,256,054	\$ 1,729,711

(continued next page)

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

	2008	2007
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,693,315	\$ 1,179,749
Cash and cash equivalents in designated and restricted assets	562,739	549,962
	\$ 2,256,054	\$ 1,729,711
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$(654,818)	\$(333,458)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Provision for depreciation	1,396,643	1,347,299
Amortization	7,755	45,000
Component of operating revenue reclassified for purposes of reporting cash flows		
Interest income on operating funds	(30,591)	(28,979)
Change in assets and liabilities		
Accounts receivable	(1,639,366)	452,102
Inventory	(85,233)	(32,876)
Prepaid expense	(22,910)	2,067
Accounts payable, trade	(1,044)	62,453
Accrued employee compensation	382,806	160,329
Payroll taxes withheld and accrued	2,684	(1,431)
Estimated third-party payor settlements	1,033,000	(598,000)
Other current liabilities	20,000	--
Beginning RHC net liabilities	(497,752)	--
Total adjustments	565,992	1,407,964
Net cash provided by (used in) operating activities	\$(88,826)	\$ 1,074,506

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:

	2008	2007
Purchase of assets through capital leases	\$ --	\$ 538,598
Book value of CCMC equipment transferred	\$ 63,051	\$ --

The accompanying notes are an integral part of these statements.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

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. (CCMC) 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.

Effective October 1, 2007 the physician clinics of CCMC became designated as Rural Health Clinics. As Rural Health Clinics, the physician clinics assets and liabilities of CCMC were combined with the Hospital's assets and liabilities, and the related receivable and payable were offset. The physician clinic operations became a department of the Hospital (See Note M).

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, 2008 and 2007

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 2008 or 2007.

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, 2008 and 2007

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, 2008 and 2007

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

16. Net Assets

Net assets of the Hospital are classified in three 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 net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, 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. *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 June 30, 2006. The Medicaid cost reports have been audited through October 31, 2005. 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, 2008 and 2007

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	2008	2007
Long-term debt	\$ 493,249	\$ 472,351

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2008 or 2007.

NOTE D - DESIGNATED NET ASSETS

Of the \$12,211,864 (\$12,806,637 as of June 30, 2007) of unrestricted net assets as of June 30, 2008, \$3,876,314 (\$3,641,084 for 2007) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

	2008	2007
Capital acquisitions and payment of long-term debt	\$ 3,876,314	\$ 3,641,084

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2008 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, 2008 and 2007

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	2008	2007
Internally Designated Assets:		
Cash and cash equivalents	\$ 540,837	\$ 528,202
Certificates of deposit	3,163,458	2,888,330
Donated stock	149,714	190,251
Interest receivable	22,305	34,301
	\$ 3,876,314	\$ 3,641,084
Restricted Assets:		
Cash and cash equivalents	\$ 21,902	\$ 21,760
Certificate of deposit	466,424	442,796
Accrued interest	4,923	7,795
	\$ 493,249	\$ 472,351

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, 2008 and 2007, was as follows:

	2008	2007
Receivable from:		
Patients	\$ 2,619,010	\$ 2,108,764
Medicare	3,922,152	2,563,945
Medicaid	1,852,430	1,124,369
Blue Cross	765,234	635,139
Other commercial insurance carriers	920,803	848,763
Others	161,666	68,164
	10,241,295	7,349,144
Less allowances for doubtful accounts and contractual adjustments	2,828,416	2,220,000
	\$ 7,412,879	\$ 5,129,144

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE G - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2008 and 2007 were as follows:

<u>Cost</u>	<u>Balance 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2008</u>
Land Improvements	\$ 1,851,292	\$ 32,123	\$ --	\$ 1,883,415
Buildings	7,091,704	31,162	--	7,122,866
Building Services Equipment	4,214,216	98,343	--	4,312,559
Medical Office Building	4,287,186	--	--	4,287,186
Fixed Equipment	2,721,962	31,843	--	2,753,805
Major Movable Equipment	9,621,539	656,926	17,425	10,261,040
Rural Health Clinic Equipment	<u>--</u>	<u>418,649</u>	<u>--</u>	<u>418,649</u>
	29,787,899	1,269,046	17,425	31,039,520
 <u>Depreciation</u>				
Land Improvements	1,277,264	103,451	--	1,380,715
Buildings	4,110,979	231,584	--	4,342,563
Building Services Equipment	3,114,880	158,769	--	3,273,649
Medical Office Building	2,007,667	152,584	--	2,160,251
Fixed Equipment	2,304,166	91,313	--	2,395,479
Major Movable Equipment	7,091,843	722,318	13,425	7,800,736
Rural Health Clinic Equipment	<u>--</u>	<u>373,451</u>	<u>--</u>	<u>373,451</u>
Total Depreciation	<u>19,906,799</u>	<u>1,833,470</u>	<u>13,425</u>	<u>21,726,844</u>
Depreciable Capital Assets, Net	<u>\$ 9,881,100</u>	<u>\$ (564,424)</u>	<u>\$ 4,000</u>	<u>\$ 9,312,676</u>
Construction in Progress	\$ 2,294	\$ 15,504	\$ --	\$ 17,798
Computer System Projects`	254,196	354,905	498,776	110,325
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>\$ 692,053</u>	<u>\$ 370,409</u>	<u>\$ 498,776</u>	<u>\$ 563,686</u>

The rural health clinic equipment cost of \$418,649 and accumulated depreciation of \$355,598 were combined with the hospital's 2008 additions as part of combining of the Cass County Medical Clinics and Hospital, effective October 1, 2007 (See Note M).

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE G - CAPITAL ASSETS - Continued

<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
Medical Office Building	4,287,186	--	--	4,287,186
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>
	29,405,443	1,516,751	1,134,295	29,787,899
 <u>Depreciation</u>				
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
Medical Office Building	1,825,556	182,111	--	2,007,667
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>19,502,496</u>	<u>1,529,410</u>	<u>1,125,107</u>	<u>19,906,799</u>
Depreciable Capital Assets, Net	<u>\$ 9,902,947</u>	<u>\$ (12,659)</u>	<u>\$ 9,188</u>	<u>\$ 9,881,100</u>
Construction in Progress	\$ 2,294	\$ --	\$ --	\$ 2,294
Computer System Projects	742,356	150,240	638,400	254,196
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>\$ 1,180,213</u>	<u>\$ 150,240</u>	<u>\$ 638,400</u>	<u>\$ 692,053</u>

The Hospital rents a portion of the medical office building. Depreciation expense related to the rented space was \$81,229 for the year ended June 30, 2008 (\$182,111 for 2007).

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE H - LEASES

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

	2008	2007
Medical Equipment	\$ 1,090,870	\$ 1,090,870
Less: Accumulated Amortization	378,788	173,369
Net Book Value	\$ 712,082	\$ 917,501

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2008 and 2007 follows:

	Balance 2007	Additions	Reductions	Balance 2008	Current Portion
Long-Term Debt:					
Note payable	\$1,145,148	\$ --	\$ 313,926	\$ 831,222	\$ 328,287
Debt issue and refunding costs	(58,949)	--	(17,180)	(41,769)	--
Total Long-Term Debt	1,086,199	--	296,746	789,453	328,287
Capital Lease Obligations	899,799	--	190,222	709,577	200,215
Total Non-Current Liabilities	\$1,985,998	\$ --	\$ 486,968	\$1,499,030	\$ 528,502
	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

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

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%. The Hospital has pledged its future revenues (net of certain expenses) to repay the note. The annual debt service on the note is expected to require less than 15% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$361,900 and \$2,908,700 respectively.

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		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 328,287	\$ 33,573	\$ 200,215	\$ 35,674	\$ 528,502	\$ 69,247
2010	343,096	18,764	210,864	25,023	553,960	43,787
2011	159,839	3,610	191,787	13,774	351,626	17,384
2012	--	--	86,757	5,429	86,757	5,429
2013	--	--	19,954	293	19,954	293
	<u>\$ 831,222</u>	<u>\$ 55,947</u>	<u>\$ 709,577</u>	<u>\$ 80,193</u>	<u>\$1,540,799</u>	<u>\$ 136,140</u>

NOTE J - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.90% (4.10% July 1, 2008) of their annual salary and the Hospital is required to contribute 6.05% (6.35% July 1, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006, were approximately \$870,000, \$659,000, and \$649,000, respectively, equal to the required contributions for each year.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE K - DEFERRED COMPENSATION PLAN

The Hospital offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows Hospital employees to defer a portion of their current salary until future years. The Hospital matches a portion of employee contributions to the employees' accounts. The Hospital's contribution expense totaled \$188,092 and \$146,142 for the years ended June 30, 2008 and 2007, 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, 2008 was approximately \$7,130,000 (\$6,419,000 at June 30, 2007). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE L - RELATED PARTIES

Southwest Iowa Mental Health Center

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

The Hospital has agreed to provide operating capital and fund operating deficits of the Center. During the years ended June 30, 2008 and 2007, the Hospital provided \$70,000 of operating capital. The Center had net income in 2008 of \$77,161 (\$109,074 deficit in 2007) without the Hospital's funding.

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE L - RELATED PARTIES - Continued

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

	<u>2008</u>	<u>2007</u>
Hospital expense to Mental Health Center for physicians	\$ <u>211,817</u>	\$ <u>280,709</u>
Support passed through from Hospital to Mental Health Center	\$ <u>67,282</u>	\$ <u>72,644</u>
Hospital revenue for Mental Health Center personnel costs and insurance	\$ <u>778,588</u>	\$ <u>757,060</u>
Owed to Hospital by the Mental Health Center	\$ <u>380,448</u>	\$ <u>137,401</u>

The financial arrangements for the 2008-2009 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$342,600, which includes financial support and payment for physician services. The Center agreed to pay the Hospital approximately \$679,400 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.

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

	<u>2008</u>	<u>2007</u>
Services purchased from HPSI	\$ <u>116,420</u>	\$ <u>88,572</u>
Services and supplies provided to HPSI	\$ <u>150,921</u>	\$ <u>143,146</u>
Amount due from HPSI	\$ <u>70,800</u>	\$ <u>27,865</u>
Member share of net assets	\$ <u>272,435</u>	\$ <u>261,213</u>

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE L - RELATED PARTIES - Continued

The member share of net assets is included in other noncurrent 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, 2008, contributions received from this organization were approximately \$54,000 (\$53,000 for 2007).

NOTE M - CASS COUNTY MEDICAL CLINICS

The Hospital and local physicians developed a not-for-profit corporation, Cass County Medical Clinics, Inc. (CCMC), to operate three local medical practices (Atlantic Medical Center, Eye Associates and Southwest Iowa Surgery). 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. The Hospital provided start up and operating capital to CCMC over several years, for the benefit of the community. During the year ended June 30, 2008, the Hospital recorded an allowance of \$79,034 against the advances (\$316,312 for 2007). 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.

Effective October 1, 2007, the operations of CCMC-Atlantic Medical Center were designated as Rural Health Clinics and merged with the Hospital. The operations of the Rural Health Clinics are recorded as departments of the Hospital. The assets and liabilities of CCMC-Atlantic Medical Center were combined with the Hospital's assets and liabilities, and the related receivable and payable were offset. The combining of Clinic's and Hospital's assets and liabilities resulted in a reduction to the Hospital's net assets of \$2,567,987. Under the new agreement, the Hospital employed CCMC-Atlantic Medical Center's non-physician staff, and the physicians remained employees of CCMC-Atlantic Medical Center. The Hospital purchases the physician services based on a budgeted amount, set prior to the start of each year. After the completion of the year, an analysis is prepared to determine any net settlement.

Transactions between the Hospital and CCMC are listed below:

	2008	2007
<u>CCMC purchases from Hospital</u>		
Rent of medical office space	\$ 97,920	\$ 231,400
Medical services and supplies	5,651	271,115
Health insurance	155,091	239,747
	\$ 258,662	\$ 742,262
<u>Hospital purchases from CCMC</u>		
Physician services	\$ 1,214,601	\$ --

CASS COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2008 and 2007

NOTE M - CASS COUNTY MEDICAL CLINICS - Continued

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

	2008	2007
Purchases of physician practices	\$ 84,944	\$ 915,292
Advances of operating capital, and unpaid rent and insurance	220,897	2,085,798
	\$ 305,841	\$ 3,001,090

NOTE N - COMMITMENTS AND CONTINGENCIES

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, 2008 is \$150,000 (\$130,000 at June 30, 2007), which is reported in other current liabilities.

Construction in Progress

As of June 30, 2008, the Hospital incurred planning costs of \$17,798 for possible future renovations to the existing facility and expansion of a parking lot. As of the date of this report, no commitments have been made on renovations to the existing facility. The total remaining cost of the parking lot expansion is approximately \$190,000. The parking lot project is being financed through the use of internally generated funds.

Computer System Project and Equipment

As of June 30, 2008, the Hospital incurred fees of \$110,325 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 \$351,000, which is being financed through the use of internally generated funds.

Risk Management

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

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REQUIRED SUPPLEMENTARY INFORMATION

CASS COUNTY MEMORIAL HOSPITAL
 Budgetary Comparison Schedule
 Year Ended June 30, 2008

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	\$ 1,781,144	\$ --	\$ 1,781,144
Other revenues	28,846,926	--	28,846,926
Transfers in (out)	(20,898)	20,898	--
	30,607,172	20,898	30,628,070
Expenses	28,826,601	--	28,826,601
Net	1,780,571	20,898	1,801,469
Balance beginning of year	21,334,843	472,351	21,807,194
Adjustment to net assets	(2,567,987)	--	(2,567,987)
Balance end of year	\$ 20,547,427	\$ 493,249	\$ 21,040,676

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,781,144	\$(85,000)	\$ 1,696,144	\$ 1,580,889
Other revenues	28,846,926	194,424	29,041,350	31,067,821
	30,628,070	109,424	30,737,494	32,648,710
Expenses	28,826,601	840,803	29,667,404	31,446,481
Net	1,801,469	(731,379)	1,070,090	1,202,229
Balance beginning of year	21,807,194	(14,290,621)	7,516,573	7,516,573
Adjustments to net assets	(2,567,987)	--	(2,567,987)	--
Balance end of year	\$ 21,040,676	\$(15,022,000)	\$ 6,018,676	\$ 8,718,802

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

CASS COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,194,980	11.7%	\$ 1,431,430	19.5%
31 - 60	1,365,699	13.3	873,934	11.9
61 - 90	831,302	8.1	772,267	10.5
91 - 120	510,007	5.0	392,238	5.3
121 and over	<u>2,067,253</u>	<u>20.2</u>	<u>2,346,635</u>	<u>31.9</u>
	5,969,241	58.3	5,816,504	79.1
In hospital	<u>2,270,840</u>	<u>22.2</u>	<u>1,532,640</u>	<u>20.9</u>
Total hospital	<u>8,240,081</u>	<u>80.5</u>	<u>7,349,144</u>	<u>100.0</u>
Rural Health Clinic	<u>2,001,214</u>	<u>19.5</u>	<u>--</u>	<u>--</u>
	<u>10,241,295</u>	<u>100.0%</u>	<u>7,349,144</u>	<u>100.0%</u>

Less:

Allowance for doubtful accounts - hospital	700,000	720,000
Allowance for doubtful accounts - RHC	628,416	--
Allowance for contractual adjustments - hospital	<u>1,500,000</u>	<u>1,500,000</u>
	<u>\$ 7,412,879</u>	<u>\$ 5,129,144</u>

Hospital Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Balance, beginning	\$ 720,000	\$ 775,000
Provision for bad debts	1,908,885	1,595,165
Recoveries of accounts previously written off	<u>350,041</u>	<u>342,274</u>
	<u>2,978,926</u>	<u>2,712,439</u>
Accounts written off	<u>2,278,926</u>	<u>1,992,439</u>
Balance, ending	<u>\$ 700,000</u>	<u>\$ 720,000</u>

See Independent Auditor's Report.

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

	2008	2007
<u>Other Receivables</u>		
Shared services	\$ 87,493	\$ 81,683
Health Partners of Southwest Iowa	70,800	27,865
Lifeline	43,984	76,094
Southwest Iowa Mental Health Center	380,448	137,401
Other	74,311	51,085
	\$ 657,036	\$ 374,128
 <u>Inventory</u>		
General stores	\$ 55,573	\$ 62,348
Pharmacy	524,490	445,633
Radiology	10,649	14,085
Laboratory	54,912	61,502
Rural Health Clinic	15,000	--
Dietary	6,684	5,311
Fuel oil	10,066	3,630
Information system	25,304	24,936
	\$ 702,678	\$ 617,445
 <u>Prepaid Expense</u>		
Dues	\$ 15,084	\$ 14,568
Insurance	85,733	48,654
Maintenance agreements and other	265,619	280,304
	\$ 366,436	\$ 343,526

See Independent Auditor's Report.

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

	2008	2007
Daily Patient Services:		
Medical and surgical	\$ 1,933,568	\$ 1,666,975
Obstetric	259,821	256,712
Intensive care	1,025,197	764,238
Nursery	119,715	111,528
Psychiatric services	1,739,430	1,408,774
Distinct Skilled Unit	21,242	9,733
	5,098,973	4,217,960
Other Nursing Services:		
Operating room	1,990,806	1,822,575
Recovery room	267,434	280,006
Delivery and labor rooms	156,689	186,715
Central services and supply	2,017,609	1,733,312
Intravenous therapy	413,085	373,716
Emergency service	2,338,947	2,030,208
Oncology service	423,848	364,473
Enterstomal therapy	131,780	127,775
	7,740,198	6,918,780
Other Professional Services:		
Laboratory	6,701,862	6,398,944
Blood bank	246,036	238,916
Electrocardiology	208,604	183,160
Cardiac stress testing	141,755	150,447
Ambulatory electrocardiology	92,814	69,006
Radiology	1,994,294	1,790,170
CT scanning	2,931,229	2,696,280
MRI scanning	1,251,579	1,238,045
Nuclear medicine and ultrasound	1,536,729	1,286,797
Pharmacy	5,274,284	5,356,300
Anesthesia	915,524	905,005
Respiratory care	1,858,851	1,418,974
Physical therapy	942,108	878,194
Speech therapy	44,666	27,065
Occupational therapy	174,727	168,955
Home Health Care	1,759,631	1,481,313
Hospice	678,894	497,617
Cardiac rehabilitation	151,756	145,231
Diabetic center	48,284	41,883
Sleep study	215,452	248,194
Rural Health Clinics	4,033,992	--
	31,203,071	25,220,496
	\$ 44,042,242	\$ 36,357,236

(continued next page)

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

	2008	2007
SUMMARY		
Inpatient	\$ 8,137,451	\$ 6,577,262
Swing Bed	2,470,846	2,241,670
Distinct Skilled Unit	49,839	23,106
Psychiatric Services	2,049,094	1,690,183
Outpatient	24,862,497	23,846,088
Home Health Care	1,759,629	1,481,311
Hospice	678,894	497,616
Rural Health Clinics	4,033,992	--
	\$ 44,042,242	\$ 36,357,236

See Independent Auditor's Report.

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

	2008	2007
Net Patient Service Revenue:		
Patient service revenue	\$ 44,042,242	\$ 36,357,236
Contractual adjustments - hospital	(13,272,836)	(11,238,934)
Provision for bad debts - hospital	(1,908,885)	(1,595,165)
Provision for contractual adjustments and bad debts - RHC	(867,437)	--
Uncompensated care	(298,909)	(210,985)
	<u>\$ 27,694,175</u>	<u>\$ 23,312,152</u>
Other Revenue:		
Interest income on operating funds	\$ 30,591	\$ 28,979
Meals sold to employees and guests	170,819	150,211
Meals on wheels	41,688	42,982
Medical record transcripts	9,474	7,927
VHA participation	108,990	90,997
Biomedical service	30,524	28,025
Nursing education	2,971	2,885
Wellness program	66	1,024
Other	82,485	76,627
	<u>\$ 477,608</u>	<u>\$ 429,657</u>

See Independent Auditor's Report.

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

	2008	2007
Administrative:		
Salaries and wages	\$ 119,704	\$ 122,376
Supplies and other expense	4,767	7,735
	124,471	130,111
In-Service Training:		
Salaries and wages	77,193	69,515
Supplies and other expense	20,765	15,526
	97,958	85,041
Quality Assurance:		
Salaries and wages	57,027	54,682
Supplies and other expense	1,025	767
	58,052	55,449
Nursing Supervision:		
Salaries and wages	263,014	230,884
Supplies and other expense	577	1,750
	263,591	232,634
Medical and Surgical:		
Salaries and wages	1,084,250	1,027,030
Supplies and other expense	77,768	132,551
	1,162,018	1,159,581
Psychiatric Services:		
Salaries and wages	902,317	750,226
Professional fees	214,686	280,709
Supplies and other expense	51,168	17,793
	1,168,171	1,048,728
Intensive Care:		
Salaries and wages	382,129	349,376
Supplies and other expense	79,802	69,626
	461,931	419,002
Obstetric:		
Salaries and wages	296,545	259,746
Supplies and other expense	52,255	71,214
	348,800	330,960
Distinct Skilled Unit:		
Salaries and wages	12,117	5,104
Supplies and other expense	100	171
	12,217	5,275

(continued next page)

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

	2008	2007
Nursery:		
Salaries and wages	\$ 132,754	\$ 117,027
Operating Room:		
Salaries and wages	453,236	363,270
Professional fees	207,134	182,214
Supplies and other expense	96,143	92,904
	756,513	638,388
Recovery Room:		
Salaries and wages	34,751	31,963
Supplies and other expense	--	491
	34,751	32,454
Delivery and Labor Rooms:		
Salaries and wages	58,310	51,403
Central Services and Supply:		
Salaries and wages	49,587	39,148
Supplies sold to patients	440,641	328,583
Supplies and other expense	3,609	2,255
	493,837	369,986
Intravenous Therapy:		
Solutions	12,685	13,772
Supplies and other expense	105,275	90,532
	117,960	104,304
Emergency and Outpatient Services:		
Salaries and wages	666,485	540,883
Professional fees	294,663	271,173
Supplies and other expense	56,818	66,222
	1,017,966	878,278
	\$ 6,309,300	\$ 5,658,621

See Independent Auditor's Report.

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

	2008	2007
Laboratory:		
Salaries and wages	\$ 662,221	\$ 584,593
Professional fees	306,575	281,684
Supplies and other expense	282,610	287,903
Cost of chemistry reagents	274,909	291,654
	1,526,315	1,445,834
Blood Bank:		
Cost of blood	176,784	136,938
Electrocardiology:		
Salaries and wages	8,483	--
Supplies and other expense	1,359	304
	9,842	304
Cardiac Stress Testing:		
Salaries and wages	7,910	8,059
Professional fees	1,204	2,240
Supplies and other expense	457	849
	9,571	11,148
Ambulatory Electrocardiology:		
Salaries and wages	9,227	7,107
Supplies and other expense	302	776
	9,529	7,883
Radiology:		
Salaries and wages	283,742	262,181
Professional fees	3,003	2,908
Cost of film	4,273	1,812
Supplies and other expense	123,323	100,161
	414,341	367,062
CT and MRI Scanning:		
Salaries and wages	98,235	95,169
Purchased services	159,100	153,750
Supplies and other expense	128,089	65,974
	385,424	314,893

(continued next page)

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

	<u>2008</u>	<u>2007</u>
Nuclear Medicine and Ultrasound:		
Salaries and wages	\$ 77,895	\$ 71,861
Purchased services	154,682	131,986
Supplies and other expense	<u>20,223</u>	<u>15,225</u>
	252,800	219,072
Pharmacy:		
Salaries and wages	566,193	499,195
Drugs	1,504,675	1,770,639
Supplies and other expense	<u>51,864</u>	<u>89,391</u>
	2,122,732	2,359,225
Anesthesia:		
Salaries and wages	376,938	348,140
Professional fees	17,873	70,364
Supplies and other expense	<u>21,263</u>	<u>37,874</u>
	416,074	456,378
Respiratory Care:		
Salaries and wages	209,521	210,335
Oxygen	15,776	13,708
Supplies and other expense	<u>17,547</u>	<u>17,110</u>
	242,844	241,153
Physical Therapy:		
Salaries and wages	235,512	239,818
Supplies and other expense	<u>10,076</u>	<u>11,894</u>
	245,588	251,712
Occupational Therapy:		
Salaries and wages	82,283	51,437
Professional fees	--	35,584
Supplies and other expense	<u>3,170</u>	<u>2,458</u>
	85,453	89,479
Speech Therapy:		
Salaries and wages	23,260	--
Professional fees	4,938	10,879
Supplies and other expense	<u>1,531</u>	<u>3,256</u>
	29,729	14,135

(continued next page)

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

	2008	2007
Home Health Care:		
Salaries and wages	\$ 1,719,112	\$ 1,385,839
Professional fees	5,729	46,111
Supplies and other expense	357,021	281,730
	2,081,862	1,713,680
Hospice:		
Salaries and wages	205,590	157,748
Professional fees	723	1,273
Supplies and other expense	234,055	135,606
	440,368	294,627
Cardiac Rehabilitation:		
Salaries and wages	157,836	149,191
Supplies and other expense	16,992	7,738
	174,828	156,929
Diabetic Center:		
Salaries and wages	96,934	87,082
Supplies and other expense	4,171	907
	101,105	87,989
Business Health:		
Supplies and other expense	5,520	3,734
Medical Records:		
Salaries and wages	297,175	258,977
Supplies and other expense	34,765	31,264
Microfilming services purchased	18,855	23,917
	350,795	314,158
Medical Education - Community Orientation Program:		
Supplies and other expense	4,810	5,920

(continued next page)

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

	2008	2007
Utilization Review:		
Salaries and wages	\$ 173,035	\$ 164,330
Supplies and other expense	1,703	2,389
	174,738	166,719
Sleep Studies:		
Salaries and wages	--	467
Purchased services	83,288	63,085
Supplies and other expense	36	88
	83,324	63,640
Rural Health Clinic - Atlantic:		
Salaries and wages	956,424	--
Employee benefits	268,510	--
Professional fees	1,134,759	--
Purchased services	28,596	--
Facility costs	54,500	--
Supplies and other expense	112,832	--
	2,555,621	--
Rural Health Clinic - Anita:		
Salaries and wages	50,907	--
Employee benefits	340	--
Professional fees	27,462	--
Facility costs	14,032	--
Supplies and other expense	6,417	--
	99,158	--
Rural Health Clinic - Massena:		
Salaries and wages	41,680	--
Employee benefits	269	--
Professional fees	23,724	--
Facility costs	6,540	--
Supplies and other expense	6,644	--
	78,857	--
Rural Health Clinic - Griswold:		
Salaries and wages	43,530	--
Employee benefits	372	--
Professional fees	28,656	--
Facility costs	15,710	--
Supplies and other expense	9,645	--
	97,913	--
	\$ 12,175,925	\$ 8,722,612

See Independent Auditor's Report.

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

	2008	2007
Dietary:		
Salaries and wages	\$ 422,852	\$ 396,093
Food	224,135	202,853
Supplies and other expense	62,069	49,426
	709,056	648,372
Operation of Plant:		
Salaries and wages	307,414	283,543
Electricity	105,284	107,245
Natural gas and fuel oil	132,606	128,154
Water	19,403	19,573
Supplies and other expense	220,799	227,988
	785,506	766,503
Clinical Equipment:		
Contracted services	89,404	86,376
Supplies and other expense	4,941	4,897
	94,345	91,273
Housekeeping:		
Salaries and wages	302,932	300,250
Contracted management services	192,887	198,067
Supplies and other expense	54,565	54,272
	550,384	552,589
Laundry and Linen:		
Salaries and wages	37,620	32,319
Contracted management services	20,051	--
Supplies and other expense	73,613	98,603
Linens	4,137	5,160
	135,421	136,082
	\$ 2,274,712	\$ 2,194,819

See Independent Auditor's Report.

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

	2008	2007
Administrative Services:		
Salaries and wages	\$ 246,568	\$ 244,211
Dues and subscriptions	35,675	35,216
Legal publications and advertising	7,356	6,874
Consulting fees	220,746	168,731
Supplies and other expense	33,093	32,022
	543,438	487,054
Fiscal Services:		
Salaries and wages	318,720	306,878
Telephone	41,873	41,866
Freight and postage	19,512	18,365
Professional fees	31,750	31,731
Supplies and other expense	118,134	105,344
	529,989	504,184
Admissions:		
Salaries and wages	255,457	221,311
Supplies and other expense	13,995	14,726
	269,452	236,037
Credit and Collections:		
Salaries and wages	166,267	154,124
Supplies and other expense	128,430	115,774
Collection expense	96,234	97,363
	390,931	367,261
Information Systems:		
Salaries and wages	476,147	360,072
Professional fees	84,927	102,843
Supplies and other expense	290,651	337,231
	851,725	800,146
Human Resources:		
Salaries and wages	176,928	166,903
Supplies and other expense	195,794	99,416
	372,722	266,319
Public Relations:		
Salaries and wages	47,241	44,314
Supplies and other expense	64,078	53,554
	111,319	97,868
Purchasing:		
Salaries and wages	102,890	92,013
Supplies and other expense	25,919	19,951
	128,809	111,964

(continued next page)

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

	2008	2007
Employee Welfare:		
Social Security tax	\$ 884,633	\$ 802,646
Iowa Public Employees' Retirement System	796,754	658,764
Group health insurance	1,068,012	1,180,978
Workers' compensation insurance	261,654	224,422
Deferred compensation	176,466	146,142
Other	7,759	8,921
	3,195,278	3,021,873
Insurance:		
Liability and property insurance	142,999	159,429
Quality Improvement:		
Salaries and wages	92,896	70,310
Supplies and other expense	2,606	3,122
	95,502	73,432
Compliance:		
Supplies and other expense	2,475	574
Customer Service:		
Supplies and other expense	29,703	25,775
Foundation:		
Salaries and wages	5,679	--
	\$ 6,670,021	\$ 6,151,916

Summary of Expenses

Salaries and wages	\$ 13,932,673	\$ 11,266,503
Employee benefits	3,464,769	3,021,873
Professional fees	2,608,552	1,488,444
Supplies and other expense	7,423,964	6,951,148
Provision for depreciation	1,396,643	1,347,299
	\$ 28,826,601	\$ 24,075,267

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Acute Care:					
Admissions	1,059	936	1,041	1,283	1,167
Discharges	1,058	944	1,037	1,278	1,171
Patient Days	3,168	3,061	3,224	4,025	3,794
Average Length of Stay	2.99	3.24	3.11	3.15	3.24
Average Occupied Beds	8.7	8.4	8.8	11.0	10.4
Swing Bed:					
Admissions	340	284	281	390	384
Discharges	341	282	284	393	389
SNF Days	2,165	2,045	1,754	2,762	3,993
Average Occupied Beds	5.9	5.6	4.8	7.6	10.9
Skilled Nursing Facility:					
Admissions	4	5	13	--	--
Discharges	5	4	13	--	--
Patient Days	43	20	79	--	--
Combined Average Occupied Beds (Acute and Skilled)	14.7	14.0	13.9	18.5	21.3
Psychiatric Unit:					
Admissions	226	211	219	130	175
Discharges	227	207	223	127	179
Patient Days	1,118	1,014	1,406	804	1,103
Average Occupied Beds	3.1	2.8	3.9	2.2	3.0
Total Average Occupied Beds	17.8	16.8	17.7	20.8	24.3
Nursery Days	325	291	311	290	311
Outpatient Occasions of Service	61,527	55,640	54,571	45,468	42,208
Physician Clinic Visits	32,354	--	--	--	--

See Independent Auditor's Report.

CASS COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets
June 30,

	<u>2008</u>	<u>2007</u>
Current Assets:		
Cash	\$ 1,693,315	\$ 1,179,749
Patient receivables, net	7,412,879	5,129,144
Other receivables	657,036	374,128
Inventory	702,678	617,445
Prepaid expense	366,436	343,526
Estimated third-party payor settlements	--	265,000
Succeeding year property tax receivable	1,593,000	1,711,000
Internally designated assets	<u>615,523</u>	<u>596,172</u>
Total current assets	13,040,867	10,216,164
Other Assets:		
Designated and restricted assets, net	3,754,040	3,517,263
Capital assets, net	9,876,362	10,573,153
Other noncurrent assets	<u>924,536</u>	<u>3,484,618</u>
Total other assets	14,554,938	17,575,034
	<u>\$ 27,595,805</u>	<u>\$ 27,791,198</u>
Current Liabilities:		
Current maturities	\$ 528,502	\$ 504,148
Accounts payable	742,663	738,704
Accrued expenses	1,952,436	1,548,302
Estimated third-party payor settlements	768,000	--
Deferred revenue for succeeding year property tax receivable	<u>1,593,000</u>	<u>1,711,000</u>
Total current liabilities	5,584,601	4,502,154
Capital Lease Obligations, Net	509,362	709,577
Bonds Payable, Net	461,166	772,273
Net Assets	<u>21,040,676</u>	<u>21,807,194</u>
	<u>\$ 27,595,805</u>	<u>\$ 27,791,198</u>

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 576,870	\$ 1,027,984	\$ 815,075
5,651,770	3,412,310	2,797,539
342,678	438,240	506,713
584,569	599,789	410,868
345,593	233,550	174,273
--	801,000	992,000
1,493,000	1,489,000	1,482,000
772,484	562,732	600,751
<u>9,766,964</u>	<u>8,564,605</u>	<u>7,779,219</u>
2,077,585	2,469,878	3,292,408
11,083,160	11,282,226	12,008,633
3,533,776	3,308,004	2,439,075
<u>16,694,521</u>	<u>17,060,108</u>	<u>17,740,116</u>
<u>\$ 26,461,485</u>	<u>\$ 25,624,713</u>	<u>\$ 25,519,335</u>
\$ 569,681	\$ 453,151	\$ 456,823
787,030	877,309	635,150
1,412,148	1,737,772	1,617,544
333,000	--	--
1,493,000	1,489,000	1,482,000
<u>4,594,859</u>	<u>4,557,232</u>	<u>4,191,517</u>
419,121	9,094	197,245
1,069,066	1,555,208	1,813,551
<u>20,378,439</u>	<u>19,503,179</u>	<u>19,317,022</u>
<u>\$ 26,461,485</u>	<u>\$ 25,624,713</u>	<u>\$ 25,519,335</u>

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

	<u>2008</u>	<u>2007</u>
Patient Service Revenue	\$ 44,042,242	\$ 36,357,236
Adjustments to Patient Service Revenue	<u>(16,348,067)</u>	<u>(13,045,084)</u>
Net Patient Service Revenue	27,694,175	23,312,152
Other Revenue	<u>477,608</u>	<u>429,657</u>
Total Revenue	28,171,783	23,741,809
Expenses	<u>28,826,601</u>	<u>24,075,267</u>
Operating Loss	(654,818)	(333,458)
Non-Operating Revenue, Net	<u>2,456,287</u>	<u>1,762,213</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Unusual Item	1,801,469	1,428,755
Unusual Item	<u> --</u>	<u> --</u>
Excess of Revenues Over Expenses (Expenses Over Revenues)	<u>\$ 1,801,469</u>	<u>\$ 1,428,755</u>

See Independent Auditor's Report.

<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 35,392,009	\$ 33,320,020	\$ 30,602,992
(13,916,819)	(14,402,208)	(13,210,361)
21,475,190	18,917,812	17,392,631
<u>379,229</u>	<u>388,473</u>	<u>402,231</u>
21,854,419	19,306,285	17,794,862
<u>22,795,186</u>	<u>20,996,214</u>	<u>20,693,122</u>
(940,767)	(1,689,929)	(2,898,260)
<u>1,816,027</u>	<u>1,876,086</u>	<u>1,948,641</u>
875,260	186,157	(949,619)
<u>--</u>	<u>--</u>	<u>905,000</u>
<u>\$ 875,260</u>	<u>\$ 186,157</u>	<u>\$(44,619)</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, 2008, and have issued our report thereon dated November 5, 2008. 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, 2008 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.

Garrett, Bell, Kyhan & P.C.

Atlantic, Iowa
November 5, 2008

CASS COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2008

PART I - SIGNIFICANT DEFICIENCIES

08-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. This deficiency is common among most small rural Hospitals.

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

08-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2008 did not exceed amounts budgeted.

08-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, 2008

PART II - REQUIRED STATUTORY REPORTING - Continued

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

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

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

08-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.

* * *