

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL

INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS

YEARS ENDED JUNE 30, 2004 AND 2003

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL

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SHELBY COUNTY
 MYRTUE MEMORIAL HOSPITAL
 Officials
 June 30, 2004

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Carmen Hosack, Chairman	Harlan, Iowa	2008
Cheryl Chipman, Vice-Chairman	Harlan, Iowa	2004
Allan Hjelle, Secretary/Treasurer	Elk Horn, Iowa	2004
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Rob Hall	Harlan, Iowa	2006
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Stephen Goeser (Resigned June, 2004)	Harlan, Iowa
Robert Mason (Interim)	Harlan, Iowa

Assistant Administrators:

<u>Fiscal Services</u>	<u>Patient Services</u>
Barry Jacobsen	Janelle Nielsen

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Shelby County Myrtue Memorial Hospital
Harlan, Iowa

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

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

As explained in Note A, the operations of 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 exclusion of two 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 Shelby County Myrtue Memorial Hospital as of June 30, 2004 and 2003, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule on pages 4 through 4e and 23 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Shelby County Myrtue Memorial Hospital

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2002 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying information (shown on pages 24 through 29) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2004, on our consideration of Shelby County Myrtue Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Georgerwald, Bell, Kybur & Co. P.C.
Atlantic, Iowa
August 13, 2004



SHELBY COUNTY MYRTUE MEMORIAL HOSPITAL
Management's Discussion and Analysis

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

FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years with a \$1,265,000 or 5.1 percent increase in 2004 and a \$1,065,000 or 4.5 percent increase in 2003.

In 2004 the Hospital reported an increase in Operating Income of \$84,000 when compared to the previous year. Conversely, in 2003, the Hospital reported a decrease in Operating Income of \$33,000 compared to the previous year.

Non-operating revenues decreased by \$62,000 or 9.3 percent in 2004 compared to 2003. Non-operating revenues also decreased in 2003 by \$107,000 or 13.8 percent compared to 2002.

USING THIS ANNUAL REPORT

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

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

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

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

SHELBY COUNTY MYRTUE MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

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

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5.

Table 1: Assets, Liabilities, and Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current assets	\$ 5,053,274	\$ 4,462,805	\$ 4,306,942
Capital assets, net	12,296,799	9,517,548	9,186,210
Other noncurrent assets	<u>12,916,695</u>	<u>15,010,529</u>	<u>14,047,816</u>
Total assets	<u>\$ 30,266,768</u>	<u>\$ 28,990,882</u>	<u>\$ 27,540,968</u>
Liabilities:			
Long-term debt outstanding	\$ 1,060,000	\$ 1,200,000	\$ 1,330,000
Other current and noncurrent liabilities	<u>3,289,267</u>	<u>3,138,610</u>	<u>2,623,846</u>
Total liabilities	<u>\$ 4,349,267</u>	<u>\$ 4,338,610</u>	<u>\$ 3,953,846</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 11,236,799	\$ 8,317,548	\$ 7,856,210
Restricted for debt service	416,923	412,788	408,093
Restricted expendable net assets	45,799	38,098	34,456
Unrestricted	<u>14,217,980</u>	<u>15,883,838</u>	<u>15,288,363</u>
	<u>\$ 25,917,501</u>	<u>\$ 24,652,272</u>	<u>\$ 23,587,122</u>

Total assets of the Hospital increased by \$1,276,000. The Hospital is nearing the end of a \$4.4 million construction project. This project required the use of approximately \$3.4 million in Hospital investments to fund during the 2004 year. Overall investments decreased by \$2.5 million and property, equipment and construction in progress in total increased by \$2.8 million. Net patient receivables and related organization receivables increased by \$512,000 and \$477,000 respectively.

Total liabilities of the Hospital remained essentially unchanged from last year.

SHELBY COUNTY MYRTUE MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2004, the Hospital's net assets increased by \$1,265,000 or 5.1 percent, as shown in Table 2. Net assets increased by \$1,065,000 or 4.5 percent in 2003.

Table 2: Operating Results and Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues:			
Net patient service revenue	\$ 13,867,465	\$ 13,245,650	\$ 12,794,303
Other operating revenues	<u>132,886</u>	<u>147,783</u>	<u>149,018</u>
Total operating revenues	14,000,351	13,393,433	12,943,321
Operating Expenses:			
Salaries and benefits	6,971,869	6,674,773	6,154,932
Professional fees	1,385,367	1,350,791	1,284,292
Depreciation	952,840	934,846	977,677
Other operating expenses	<u>4,237,542</u>	<u>4,064,156</u>	<u>4,124,540</u>
Total operating expenses	<u>13,547,618</u>	<u>13,024,566</u>	<u>12,541,441</u>
Operating income	452,733	368,867	401,880
Nonoperating Revenues and Expenses:			
County taxes	476,746	483,612	480,800
Investment income	309,298	418,590	557,104
Noncapital grants and contributions	35,271	61,737	25,536
Other nonoperating revenues and expenses, net	<u>(213,999)</u>	<u>(294,320)</u>	<u>(286,457)</u>
Nonoperating revenues (expenses), net	<u>607,316</u>	<u>669,619</u>	<u>776,983</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions, and Endowments	1,060,049	1,038,486	1,178,863
Grants, Contributions, and Endowments:			
Capital grants and contributions and endowments	<u>205,180</u>	<u>26,664</u>	<u>292,042</u>
Increase in net assets	1,265,229	1,065,150	1,470,905
Net Assets Beginning of Year	<u>24,652,272</u>	<u>23,587,122</u>	<u>22,116,217</u>
Net Assets End of Year	<u>\$ 25,917,501</u>	<u>\$ 24,652,272</u>	<u>\$ 23,587,122</u>

SHELBY COUNTY MYRTUE MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

OPERATING INCOME

The first component of the overall change in the Hospital's net assets is its operating income—generally, the difference between net patient service revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported a positive operating income. This is consistent with the Hospital's previous ten years.

The primary components of the operating income are:

An increase in net revenue of \$607,000 or 4.5 percent in 2004 compared to an increase of \$450,000 in net revenue in 2003.

The increase in salary and benefit costs for the Hospital's employees was \$297,000 or 4.4 percent in 2004 compared to \$520,000 or 8.4 percent in 2003.

An increase in professional fee costs of \$35,000 in 2004 compared to an increase of \$66,000 in 2003.

An increase in other operating costs of \$173,000 in 2004 compared to a decrease of \$60,000 in 2003.

Overall expenses increased 4.0 percent or \$523,000 in 2004 compared to 3.9 percent or \$483,000 in 2003.

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

The Hospital's expenses continue to increase due to a number of environmental issues. The current shortage of professional care givers and technologists continues to drive up salary costs. The Hospital must keep pace with the industry to compete for the highly sought after professionals. The advent of new technology and medicines requires additional capital and operating expense to provide current standard of care for our patients. The Hospital works closely with its purchasing partner VHA Inc. to purchase medicines and supplies at the most economical rate possible for an organization of our size.

The Hospital routinely provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Hospital when it was established in 1954. The level of services provided to these patients has increased by \$20,000 each of the last two years. Because there is no expectation of repayment, charity care is not reported as net patient service revenues of the Hospital.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital and interest revenue and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1. The Hospital has held steady its tax asking at \$.92 cents per thousand dollars valuation for the past four years. Variation in the revenue is a result in changing valuations and actual tax collection for the year. The Hospital's investment income is down \$109,000 or 26.1 percent in 2004 compared to a decrease of \$138,000 or 24.9 percent in 2003. This decrease over the past two years is due to declining interest rates and a \$4.4 million construction project in process that is being funded internally.

SHELBY COUNTY MYRTUE MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

During the current year, the Hospital received capital contributions of \$205,180 mainly consisting of funds received from the Shelby County Health Foundation. The Foundation provided \$120,000 for the construction project and \$70,000 for ultrasound equipment. The Hospital Auxiliary provided \$6,606 for the purchase of emergency room equipment. In 2003 the Hospital received \$26,664 in capital contributions mainly from the Hospital Auxiliary.

The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in detail in Note A13 and Note I. The Small Rural Hospital Improvement Grant from the Iowa Department of Public Health was \$13,908 and was mainly used for a medication dispensing system. The Hospital also received \$5,124 through the Iowa Department of Public Health for equipment and supplies for bioterrorism and disaster planning. In addition, Tobacco Settlement Grant money received in 2004 and 2003 was \$11,067 and \$28,111 respectively.

THE HOSPITAL'S CASH FLOWS

The purpose of the statement of cash flows is to show the readers where cash was generated and how it was spent on a cash basis. Net cash provided by operating activities was \$1,459,000 in 2004 and \$2,017,000 in 2003. Net cash used in capital and related financing activities were \$3,832,000 in 2004 and \$1,181,000 in 2003. Capital expenditures were \$3,883,000 in 2004 and \$986,000 in 2003. Investing activities during 2004 provided \$2,196,000 in additional cash. Designated and restricted assets of \$2,744,000 were provided mainly to pay for construction costs. In 2003, \$1,282,000 was used in investing activities. Non-capital financing activities provided in 2004 was \$490,000 (\$515,000 in 2003) mainly from county tax revenues of \$476,476 (\$483,612 in 2003).

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of 2004, the Hospital had \$12.3 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2004, the Hospital purchased new equipment and construction costing \$3,911,000. In 2003, \$1,429,000 was spent to acquire new equipment and renovations.

In March 2003, the Hospital's Board of Trustees approved a bid for the expansion and renovation of this facility setting aside \$4.0 million of its unrestricted net assets. The project started in May of 2003 and is scheduled for completion January of 2005.

DEBT

At year-end, the Hospital had \$1,060,000 in Revenue Capital Improvement Notes outstanding. The Hospital issued no new debt in 2004 or 2003. There have been no changes in the Hospital's debt ratings in the past two years.

SHELBY COUNTY MYRTUE MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2004 was prepared on a modified accrual basis. As indicated on page 23, actual expenditures were approximately \$560,000 lower than budgeted.

OTHER ECONOMIC FACTORS

The Hospital is a rural hospital in west central Iowa. Nearly 75% of the revenues come from third party payors that have predetermined payment based on diagnosis or fixed fee schedules. The Medicare program represents about 65% of the revenues the Hospital receives and represents the greatest risk to our revenues. Payment changes and revamping of the Program by Congress can have a much larger effect on the Hospital due to its high percentage of Medicare patients. This past year the Hospital had contractual adjustments to third party payors of \$7.2 million compared to \$6.4 million the previous year on revenues of \$22.5 million in 2004 and \$20.8 million in 2003.

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 the Hospital Financial Director's Office, Myrtue Memorial Hospital, 1213 Garfield Avenue, Harlan, Iowa 51537.

* * *

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL
Balance Sheets
June 30,

ASSETS

	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash	\$ 1,294,795	\$ 1,193,955
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$1,381,000 in 2004, \$1,312,000 in 2003)	2,426,770	1,914,957
Other receivables	36,931	58,575
Inventory	149,760	181,054
Prepaid expense	109,781	94,881
Succeeding year property tax receivable	406,000	463,000
Internally designated assets	<u>629,237</u>	<u>556,383</u>
Total current assets	5,053,274	4,462,805
Designated and Restricted Assets:		
Internally designated assets	10,584,008	13,129,913
Restricted assets	<u>462,722</u>	<u>450,886</u>
	11,046,730	13,580,799
Less amounts required to meet current liabilities	<u>629,237</u>	<u>556,383</u>
	10,417,493	13,024,416
Capital Assets:		
Depreciable capital assets	8,837,530	6,508,583
Non-depreciable capital assets	<u>1,249,668</u>	<u>748,332</u>
	10,087,198	7,256,915
Other Assets:		
Clinic property, net	2,209,601	2,260,633
Notes receivable	177,261	172,185
Related organization receivables	2,066,724	1,589,531
Deferred costs	13,236	15,680
Other	<u>241,981</u>	<u>208,717</u>
	4,708,803	4,246,746
Total assets	<u>\$ 30,266,768</u>	<u>\$ 28,990,882</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2004</u>	<u>2003</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 150,000	\$ 140,000
Accounts payable	743,736	654,179
Accrued employee compensation	581,268	524,112
Payroll taxes withheld and accrued	140,516	130,623
Accrued interest	6,419	7,235
Estimated third-party payor settlements	1,170,000	1,181,000
Other current liabilities	229,017	163,007
Deferred revenue for succeeding year property tax receivable	<u>406,000</u>	<u>463,000</u>
Total current liabilities	3,426,956	3,263,156
Long-Term Debt, less current maturities	910,000	1,060,000
Deferred Grant Revenue	<u>12,311</u>	<u>15,454</u>
Total liabilities	4,349,267	4,338,610
Net Assets:		
Invested in capital assets, net of related debt	11,236,799	8,317,548
Restricted expendable	462,722	450,886
Unrestricted	<u>14,217,980</u>	<u>15,883,838</u>
Total net assets	<u>25,917,501</u>	<u>24,652,272</u>
Total liabilities and net assets	<u>\$ 30,266,768</u>	<u>\$ 28,990,882</u>

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

	<u>2004</u>	<u>2003</u>
Revenue:		
Net patient service revenue	\$ 13,867,465	\$ 13,245,650
Other revenue	<u>132,886</u>	<u>147,783</u>
Total revenue	14,000,351	13,393,433
Expenses:		
Salaries and wages	5,610,681	5,338,448
Employee benefits	1,361,188	1,336,325
Professional fees	1,385,367	1,350,791
Supplies and other expense	4,237,542	4,064,156
Provision for depreciation	<u>952,840</u>	<u>934,846</u>
Total expenses	<u>13,547,618</u>	<u>13,024,566</u>
Operating Income	452,733	368,867
Non-Operating Revenues (Expenses):		
Investment income	309,298	418,590
Noncapital grants and contributions	35,271	61,737
County taxes	476,746	483,612
Healthcare education loans, net	7,700	3,568
Interest expense	(81,108)	(90,563)
Contracted ambulance service	(29,000)	(32,000)
Income (loss) on disposal of assets	33,255	(24,737)
Clinic buildings cost, net	<u>(144,846)</u>	<u>(150,588)</u>
Non-operating revenues (expenses), net	<u>607,316</u>	<u>669,619</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,060,049	1,038,486

(continued next page)

The accompanying notes are an integral part of these statements.

SHELBY COUNTY
 MYRTUE MEMORIAL HOSPITAL
 Statements of Revenues, Expenses and Changes in Net Assets - Continued
 Year ended June 30,

	<u>2004</u>	<u>2003</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	\$ 1,060,049	\$ 1,038,486
Capital Grants and Contributions	<u>205,180</u>	<u>26,664</u>
Increase in Net Assets	1,265,229	1,065,150
Net Assets Beginning of Year	<u>24,652,272</u>	<u>23,587,122</u>
Net Assets End of Year	<u>\$ 25,917,501</u>	<u>\$ 24,652,272</u>

The accompanying notes are an integral part of these statements.

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

	2004	2003
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 13,566,296	\$ 13,972,238
Cash paid to suppliers	(6,686,245)	(6,793,393)
Cash paid to employees	(5,553,525)	(5,309,084)
Other revenue	<u>132,886</u>	<u>147,783</u>
Net cash provided by operating activities	1,459,412	2,017,544
Cash flows from non-capital financing activities:		
County tax revenue	476,746	483,612
Contracted ambulance service	(29,000)	(32,000)
Noncapital grants and contributions	<u>42,128</u>	<u>62,949</u>
Net cash provided by non-capital financing activities	489,874	514,561
Cash flows from capital and related financing activities:		
Capital expenditures	(3,883,651)	(985,989)
Proceeds from disposal of equipment	68,352	--
Payments on long-term debt	(140,000)	(130,000)
Capital grants and contributions	205,180	26,664
Interest paid	<u>(81,924)</u>	<u>(91,311)</u>
Net cash used in capital and related financing activities	(3,832,043)	(1,180,636)
Cash flows from investing activities:		
Investment income	309,298	418,590
Change in designated and restricted assets	2,744,010	(1,142,992)
Clinic buildings cost, net	(1,250)	(12,349)
Clinic capital acquisitions	(92,564)	(132,853)
Increase in notes receivable	(53,199)	(44,256)
Related organization receivables, net	(677,193)	(315,198)
Increase in other assets	<u>(33,264)</u>	<u>(53,403)</u>
Net cash provided by (used in) investing activities	<u>2,195,838</u>	<u>(1,282,461)</u>
Net increase in cash and cash equivalents	313,081	69,008
Cash and cash equivalents, beginning of year	<u>1,387,410</u>	<u>1,318,402</u>
Cash and cash equivalents, end of year	<u>\$ 1,700,491</u>	<u>\$ 1,387,410</u>

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

	<u>2004</u>	<u>2003</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,294,795	\$ 1,193,955
Cash in designated and restricted assets	<u>405,696</u>	<u>193,455</u>
Total cash and cash equivalents	<u>\$ 1,700,491</u>	<u>\$ 1,387,410</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 452,733	\$ 368,867
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	952,840	934,846
Provision for bad debts	440,889	260,337
Amortization	50,567	21,611
Change in assets and liabilities		
Accounts receivable	(731,058)	276,251
Inventory	31,294	(48,179)
Prepaid expense	(14,900)	(3,171)
Accounts payable, trade	154,988	(15,448)
Accrued employee compensation	57,156	29,364
Estimated third-party payor settlements	(11,000)	190,000
Payroll taxes withheld and accrued	9,893	6,259
Other current liabilities	<u>66,010</u>	<u>(3,193)</u>
Total adjustments	<u>1,006,679</u>	<u>1,648,677</u>
Net cash provided by operating activities	<u>\$ 1,459,412</u>	<u>\$ 2,017,544</u>

The accompanying notes are an integral part of these statements.

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

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

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

2. Enterprise Fund Accounting

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

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

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

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

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

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

6. Investments

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

7. Capital Assets

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

8. Costs of Borrowing

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

9. Compensated Absences

Hospital employees earn paid time off (PTO) hours at varying rates depending on years of service. PTO time accumulates to a maximum of 360 hours. Any excess over 360 hours is lost. Employees have the option to receive salary in lieu of PTO for hours accumulated in excess of 200 at two specified dates each year. The computed amount of PTO 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.

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

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

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

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

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organization. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Hospital has no endowment funds.

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.

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

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

16. Net Assets

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

17. Charity Care

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

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

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

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

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

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

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

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2004</u>	<u>2003</u>
Healthcare education loans	\$ 45,799	\$ 38,098
Long-term debt	<u>416,923</u>	<u>412,788</u>
Total expendable restricted net assets	<u>\$ 462,722</u>	<u>\$ 450,886</u>

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

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	<u>2004</u>	<u>2003</u>
Purchase of property and equipment	\$ 205,180	\$ 26,664
Education loans forgiven	<u>2,300</u>	<u>2,432</u>
	<u>\$ 207,480</u>	<u>\$ 29,096</u>

NOTE D - DESIGNATED NET ASSETS

Of the \$14,217,980 (\$15,883,838 in 2003) of unrestricted net assets, \$10,584,008 (\$13,129,913 in 2003) 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.

	<u>2004</u>	<u>2003</u>
Capital acquisitions	\$ 10,275,074	\$ 13,029,248
Employee health insurance	<u>308,934</u>	<u>100,665</u>
	<u>\$ 10,584,008</u>	<u>\$ 13,129,913</u>

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

NOTE E - DEPOSITS AND INVESTMENTS

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

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; 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.

The composition of designated and restricted assets is as follows:

	<u>2004</u>	<u>2003</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 308,934	\$ 100,665
Certificates of deposit	9,387,815	12,982,055
U.S. Treasury obligations	850,013	--
Interest receivable	<u>37,246</u>	<u>47,193</u>
	<u>\$ 10,584,008</u>	<u>\$ 13,129,913</u>
Restricted Assets:		
Cash and cash equivalents	\$ 96,762	\$ 92,790
Certificates of deposit	320,000	320,000
Education loans	44,983	36,903
Interest receivable	<u>977</u>	<u>1,193</u>
	<u>\$ 462,722</u>	<u>\$ 450,886</u>

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

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

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

	2004	2003
Receivable from:		
Patients	\$ 1,167,989	\$ 1,034,042
Medicare	1,384,712	1,031,485
Medicaid	278,130	436,874
Blue Cross	314,439	306,779
Other commercial insurance carriers	629,681	403,260
Others	32,819	14,517
	3,807,770	3,226,957
Less allowances for doubtful accounts and contractual adjustments	(1,381,000)	(1,312,000)
	\$ 2,426,770	\$ 1,914,957

NOTE G - CAPITAL ASSETS

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

<u>Cost</u>	Balance 2003	Additions	Disposals	Balance 2004
Land Improvements	\$ 229,404	\$ --	\$ --	\$ 229,404
Buildings	6,734,625	2,764,179	--	9,498,804
Fixed Equipment	2,540,645	13,517	--	2,554,162
Major Movable Equipment	5,726,573	539,188	97,289	6,168,472
	15,231,247	3,316,884	97,289	18,450,842
<u>Depreciation</u>				
Land Improvements	205,835	3,632	--	209,467
Buildings	3,060,078	254,392	--	3,314,470
Fixed Equipment	2,177,286	59,482	--	2,236,768
Major Movable Equipment	3,279,465	635,334	62,192	3,852,607
Total Depreciation	8,722,664	952,840	62,192	9,613,312
Depreciable Capital Assets, Net	\$ 6,508,583	\$2,364,044	\$ 35,097	\$ 8,837,530
Construction in Progress	\$ 657,745	\$3,416,100	\$2,914,764	\$ 1,159,081
Land	90,587	--	--	90,587
Total Non-depreciable Capital Assets	\$ 748,332	\$3,416,100	\$2,914,764	\$ 1,249,668

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

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance</u> <u>2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>2003</u>
Land Improvements	\$ 229,404	\$ --	\$ --	\$ 229,404
Buildings	6,736,719	--	2,094	6,734,625
Fixed Equipment	2,513,807	48,019	21,181	2,540,645
Major Movable Equipment	<u>7,812,904</u>	<u>606,666</u>	<u>2,692,997</u>	<u>5,726,573</u>
	17,292,834	654,685	2,716,272	15,231,247
<u>Depreciation</u>				
Land Improvements	199,696	6,139	--	205,835
Buildings	2,829,202	232,917	2,041	3,060,078
Fixed Equipment	2,129,352	69,115	21,181	2,177,286
Major Movable Equipment	<u>5,322,436</u>	<u>626,675</u>	<u>2,669,646</u>	<u>3,279,465</u>
Total Depreciation	<u>10,480,686</u>	<u>934,846</u>	<u>2,692,868</u>	<u>8,722,664</u>
Depreciable Capital Assets, Net	<u>\$ 6,812,148</u>	<u>\$(280,161)</u>	<u>\$ 23,404</u>	<u>\$ 6,508,583</u>
Construction in Progress	\$ 16,123	\$ 641,622	\$ --	\$ 657,745
Land	<u>90,587</u>	<u>--</u>	<u>--</u>	<u>90,587</u>
Total Non-depreciable Capital Assets	<u>\$ 106,710</u>	<u>\$ 641,622</u>	<u>\$ --</u>	<u>\$ 748,332</u>

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

<u>Cost</u>	<u>Balance</u> <u>2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>2004</u>
Land	\$ 366,950	\$ --	\$ --	\$ 366,950
Buildings and Improvements	2,452,086	26,473	--	2,478,559
Equipment	<u>1,261,380</u>	<u>66,091</u>	<u>--</u>	<u>1,327,471</u>
	4,080,416	92,564	--	4,172,980
<u>Depreciation</u>				
Buildings and Improvements	958,472	75,653	--	1,034,125
Equipment	<u>861,311</u>	<u>67,943</u>	<u>--</u>	<u>929,254</u>
Total Depreciation	<u>1,819,783</u>	<u>143,596</u>	<u>--</u>	<u>1,963,379</u>
Clinic Property and Equipment, Net	<u>\$ 2,260,633</u>	<u>\$(51,032)</u>	<u>\$ --</u>	<u>\$ 2,209,601</u>

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

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2003</u>
Land	\$ 366,950	\$ --	\$ --	\$ 366,950
Buildings and Improvements	2,360,488	91,598	--	2,452,086
Equipment	<u>1,338,340</u>	<u>41,255</u>	<u>118,215</u>	<u>1,261,380</u>
	4,065,778	132,853	118,215	4,080,416
 <u>Depreciation</u>				
Buildings and Improvements	881,292	77,180	--	958,472
Equipment	<u>917,133</u>	<u>61,059</u>	<u>116,881</u>	<u>861,311</u>
Total Depreciation	<u>1,798,425</u>	<u>138,239</u>	<u>116,881</u>	<u>1,819,783</u>
Clinic Property and Equipment, Net	<u>\$ 2,267,353</u>	<u>\$(5,386)</u>	<u>\$ 1,334</u>	<u>\$ 2,260,633</u>

Total depreciation expense for the year was \$1,096,436 (\$1,073,085 in 2003).

NOTE H - NON-CURRENT LIABILITIES

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

	<u>Balance 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2004</u>	<u>Current Portion</u>
Long-Term Debt:					
Revenue notes	\$1,200,000	\$ --	\$ 140,000	\$1,060,000	\$ 150,000
Other Liabilities:					
Deferred grant revenue	<u>15,454</u>	<u>--</u>	<u>3,143</u>	<u>12,311</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$1,215,454</u>	<u>\$ --</u>	<u>\$ 143,143</u>	<u>\$1,072,311</u>	<u>\$ 150,000</u>

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

NOTE H - NON-CURRENT LIABILITIES - Continued

	<u>Balance</u> 2002	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 2003	<u>Current</u> <u>Portion</u>
Long-Term Debt:					
Revenue notes	\$1,330,000	\$ --	\$ 130,000	\$1,200,000	\$ 140,000
Other Liabilities:					
Deferred grant revenue	<u>20,242</u>	<u>--</u>	<u>4,788</u>	<u>15,454</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$1,350,242</u>	<u>\$ --</u>	<u>\$ 134,788</u>	<u>\$1,215,454</u>	<u>\$ 140,000</u>

Hospital Revenue Capital Improvement Notes are payable exclusively from the revenues generated from the operations of the Hospital. The notes mature in increasing amounts ranging up to \$200,000 in December, 2009. Interest rates range from 6.0% to 7.5%.

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

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 150,000	\$ 71,775
2006	160,000	60,845
2007	175,000	48,865
2008	185,000	35,813
2009	190,000	21,850
2010	<u>200,000</u>	<u>7,500</u>
	<u>\$ 1,060,000</u>	<u>\$ 246,648</u>

NOTE I - DEFERRED GRANT REVENUE

Deferred grant revenue as of June 30, 2004 is the unamortized portion of an energy conservation grant from the federal government, which was used for the purchase of capital assets. The grant revenue is being reported as income over the useful lives of the related assets (15-20 years). Deferred grant revenue of \$3,143 (\$4,788 in 2003) is included in non-operating revenue on the statement of revenues, expenses and changes in net assets.

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

NOTE J - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002, were approximately \$318,700, \$299,500, and \$270,100, respectively, equal to the required contributions for each year.

NOTE K - COMMITMENTS AND CONTINGENCIES

Shelby County Ambulance Commission

The Hospital has committed to participate in the support of the Shelby County Ambulance Commission along with Shelby County and the City of Harlan. The Commission is a private corporation which provides ambulance services to Shelby County and surrounding communities. The Hospital has agreed to provide financial support totaling \$29,000 in 2004-05.

Self Funded Health/Disability Insurance

The Hospital has established an employee health and disability insurance fund. Under the self-insured plan, the Hospital pays health claims from this fund up to maximum limits and carries stop loss insurance for health claims in excess of the limits. In addition, the Hospital pays sixty percent of a disabled employee's salary for up to six months, and carries long-term disability insurance for claims longer than a six month period. At June 30, 2004 and 2003 the Hospital had accumulated funds in excess of actual claims paid of approximately \$308,900 and \$100,700, respectively. These funds, shown under designated and restricted assets, are designated by the Board to pay claims as they are filed in the future. An allowance for unpaid claims at June 30, 2004 of approximately \$229,000 (\$163,000 in 2003) is included in current liabilities.

Notes Receivable

The Hospital has provided financial aid to several medical occupation students enabling them to complete their education. In exchange for the aid, the Hospital receives promissory notes and the commitment of the students to pursue their medical occupation in the Harlan area for a specified period of time upon graduation from the programs. The promissory notes contain clauses indicating they will be forgiven on a pro rata basis as the commitments are fulfilled. If the students fail to fulfill the commitments, the notes are to be repaid, including interest.

Construction Program

The Hospital construction and remodeling program is an ongoing project spread over several years. Financing for the project is being provided through funds generated internally and solicitation of restricted gifts. By June 30, 2004, construction program expenditures approximated \$4,074,000 with \$2,915,000 capitalized, leaving \$1,159,000 in Construction in Progress. As of June 30, estimated costs to complete the project were \$1,170,000.

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

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Related Organization Receivable

The Hospital has committed to the role of being the center for health care in the community. In doing so, it has participated in the development and operation of Shelby County Medical Corporation (SCMC) and Prairie Rose Mental Health Center (PRMHC). The process of developing these health service clinics has resulted in the use of large amounts of Hospital funds to provide start up and operating capital totaling \$2,516,724 by June 30, 2004. Should problems develop which prevent SCMC or PRMHC from remaining viable entities, the value of this receivable would be considerably less than the face amount, and would result in a loss to the Hospital. The amount, if any, of such potential loss cannot be estimated, however, at year end, the Hospital had recorded an allowance of \$450,000 (\$250,000 at June 30, 2003) reducing the recorded asset value to \$2,066,724 (\$1,589,531 at June 30, 2003).

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. Shelby County Myrtue 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 any of the past three fiscal years.

NOTE L - RELATED ORGANIZATIONS

Shelby County Medical Corporation/Prairie Rose Mental Health Center

The Hospital (MMH) is related to Shelby County Medical Corporation (SCMC) and Prairie Rose Mental Health Center (PRMHC) through shared board members and administration and through 28E agreements which provide for the coordination of outpatient health services and mental health services to the public. The activities of SCMC and PRMHC are conducted in facilities owned by MMH in Harlan and in surrounding communities. In addition, SCMC purchases medical services from MMH. MMH has provided working capital to and has shared certain costs with both SCMC and PRMHC. The amounts for the year ended June 30 are set forth below:

	<u>2004</u>	<u>2003</u>
<u>Between SCMC and MMH</u>		
Sale of medical and other services to SCMC	\$ <u>536,771</u>	\$ <u>421,891</u>
Services and supplies purchased from SCMC	\$ <u>235,120</u>	\$ <u>166,104</u>
Amount receivable from SCMC at year end	\$ <u>2,066,118</u>	\$ <u>1,477,531</u>
<u>Between PRMHC and MMH</u>		
Sale of services to PRMHC	\$ <u>26,254</u>	\$ <u>12,615</u>
Purchase of services and supplies from PRMHC	\$ <u>90</u>	\$ <u>13</u>
Amount receivable from PRMHC at year end	\$ <u>100,606</u>	\$ <u>112,000</u>

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

NOTE L - RELATED ORGANIZATIONS - Continued

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic 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 medical services from the organization.

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

	<u>2004</u>	<u>2003</u>
Services purchased from HPSI	\$ <u>98,785</u>	\$ <u>90,024</u>
Services sold to HPSI	\$ <u>58,790</u>	\$ <u>40,671</u>
Amount due to HPSI	\$ <u>10,509</u>	\$ <u>8,964</u>
Member share of net assets	\$ <u>241,981</u>	\$ <u>208,717</u>

The member share of net assets is included in other assets and the amount due to HPSI is included in accounts payable 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.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

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

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustments result from accounting for amortization, debt payments, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 476,746	\$ --	\$ 476,746
Other revenues	<u>14,204,329</u>	<u>215,180</u>	<u>14,419,509</u>
	14,681,075	215,180	14,896,255
Expenses	<u>13,628,726</u>	<u>2,300</u>	<u>13,631,026</u>
Net	1,052,349	212,880	1,265,229
Balance beginning of year	24,201,386	450,886	24,652,272
Transfer in (out)	<u>201,044</u>	<u>(201,044)</u>	<u>--</u>
Balance end of year	<u>\$ 25,454,779</u>	<u>\$ 462,722</u>	<u>\$ 25,917,501</u>

	Total Financial Statements	Budget Adjustments	Budget Basis	Amended Budget
Amount raised by taxation	\$ 476,746	\$ --	\$ 476,746	\$ 462,757
Other revenues	<u>14,419,509</u>	<u>--</u>	<u>14,419,509</u>	<u>15,769,242</u>
	14,896,255	--	14,896,255	16,231,999
Expenses	<u>13,631,026</u>	<u>89,433</u>	<u>13,720,459</u>	<u>14,280,200</u>
Net	1,265,229	(89,433)	1,175,796	1,951,799
Balance beginning of year	<u>24,652,272</u>	<u>(9,990,519)</u>	<u>14,661,753</u>	<u>14,661,753</u>
Balance end of year	<u>\$ 25,917,501</u>	<u>\$(10,079,952)</u>	<u>\$ 15,837,549</u>	<u>\$ 16,613,552</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Last Transaction</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 2,283,812	60.0%	\$ 1,897,676	58.8%
31 - 90	799,430	21.0	814,326	25.2
91 - 180	356,827	9.4	266,384	8.3
181 - 365	208,846	5.5	161,010	5.0
Over 365	158,855	4.1	87,561	2.7
	<u>3,807,770</u>	<u>100.0%</u>	<u>3,226,957</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	305,000		385,000	
Allowance for contractual adjustments	<u>1,076,000</u>		<u>927,000</u>	
	<u>\$ 2,426,770</u>		<u>\$ 1,914,957</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Balance, beginning	\$ 385,000	\$ 453,000
Provision for bad debts	440,889	260,337
Recoveries of accounts previously written off	<u>208,984</u>	<u>292,778</u>
	1,034,873	1,006,115
Accounts written off	<u>729,873</u>	<u>621,115</u>
Balance, ending	<u>\$ 305,000</u>	<u>\$ 385,000</u>

See Independent Auditor's Report.

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL
Patient Service Revenue
Year ended June 30,

	Inpatient	
	2004	2003
<u>Daily Patient Services</u>		
Medical, surgical and obstetrical	\$ 1,643,865	\$ 1,495,706
Nursery	77,936	91,790
	<u>1,721,801</u>	<u>1,587,496</u>
<u>Other Nursing Services</u>		
Observation beds	--	--
Clinic room	47	88
Operating and recovery room	281,654	277,820
Delivery and labor room	164,973	187,897
Emergency service	217,658	274,156
Medical supplies	293,220	305,803
Intravenous therapy	335,892	370,698
	<u>1,293,444</u>	<u>1,416,462</u>
<u>Other Professional Services</u>		
Laboratory	892,220	727,465
Electrocardiology	69,129	68,371
Electroencephalography	576	538
Cardiac rehabilitation	--	360
Radiology	209,960	173,367
CT scanning	340,761	278,280
Nuclear imaging	6,497	7,538
Ultrasound	148,322	134,045
MRI	52,861	42,432
Pharmacy	982,878	756,016
Chemotherapy	48,017	50,092
Anesthesia	130,095	142,184
Respiratory therapy	334,541	272,768
Physical therapy	62,580	52,898
Occupational therapy	15,199	13,258
Speech therapy	8,456	5,078
Home Health	--	--
Hospice	--	--
Family Planning	--	--
Public Health	--	--
Fitness Center	--	--
Occupational Health Outreach	--	--
Other	--	--
	<u>3,302,092</u>	<u>2,724,690</u>
	<u>\$ 6,317,337</u>	<u>\$ 5,728,648</u>

See Independent Auditor's Report.

Swing-Bed		Outpatient		Total	
2004	2003	2004	2003	2004	2003
\$ 434,526	\$ 429,904	\$ 45,999	\$ 40,461	\$ 2,124,390	\$ 1,966,071
--	--	43	--	77,979	91,790
<u>434,526</u>	<u>429,904</u>	<u>46,042</u>	<u>40,461</u>	<u>2,202,369</u>	<u>2,057,861</u>
--	--	30,080	31,600	30,080	31,600
--	--	146,683	140,981	146,730	141,069
12,346	13,961	1,145,729	988,049	1,439,729	1,279,830
--	--	19,311	14,933	184,284	202,830
878	--	804,162	743,977	1,022,698	1,018,133
32,473	38,637	484,236	474,046	809,929	818,486
<u>53,507</u>	<u>97,133</u>	<u>298,669</u>	<u>354,077</u>	<u>688,068</u>	<u>821,908</u>
99,204	149,731	2,928,870	2,747,663	4,321,518	4,313,856
128,584	125,793	3,122,976	2,713,033	4,143,780	3,566,291
2,916	3,116	178,007	157,423	250,052	228,910
288	538	3,168	3,766	4,032	4,842
--	--	144,365	167,869	144,365	168,229
31,492	32,446	1,091,995	948,414	1,333,447	1,154,227
33,849	27,821	1,007,860	735,033	1,382,470	1,041,134
2,222	5,297	114,038	94,275	122,757	107,110
20,878	11,346	676,547	543,527	845,747	688,918
8,702	15,055	585,335	492,865	646,898	550,352
515,358	481,706	818,011	746,276	2,316,247	1,983,998
7,096	20,202	1,101,880	1,666,626	1,156,993	1,736,920
3,835	3,808	251,812	253,361	385,742	399,353
169,024	149,672	133,959	84,832	637,524	507,272
222,984	191,375	610,402	499,635	895,966	743,908
101,809	98,384	57,643	76,835	174,651	188,477
10,827	19,055	22,941	24,127	42,224	48,260
--	--	504,379	491,771	504,379	491,771
--	--	317,171	263,090	317,171	263,090
--	--	158,371	136,357	158,371	136,357
--	--	311,157	238,135	311,157	238,135
--	--	48,767	45,686	48,767	45,686
--	--	150,606	120,826	150,606	120,826
--	--	1,286	1,300	1,286	1,300
<u>1,259,864</u>	<u>1,185,614</u>	<u>11,412,676</u>	<u>10,505,062</u>	<u>15,974,632</u>	<u>14,415,366</u>
<u>\$ 1,793,594</u>	<u>\$ 1,765,249</u>	<u>\$ 14,387,588</u>	<u>\$ 13,293,186</u>	<u>\$ 22,498,519</u>	<u>\$ 20,787,083</u>

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

	2004	2003
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 22,498,519	\$ 20,787,083
Contractual adjustment estimate, Medicare and Medicaid	(6,363,771)	(5,757,190)
Other contractual adjustments	(799,791)	(685,883)
Provision for bad debts	(440,889)	(260,337)
Administrative adjustments	<u>(1,026,603)</u>	<u>(838,023)</u>
	<u>\$ 13,867,465</u>	<u>\$ 13,245,650</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 60,165	\$ 55,675
Other dietary services	21,919	40,902
Other	<u>50,802</u>	<u>51,206</u>
	<u>\$ 132,886</u>	<u>\$ 147,783</u>

See Independent Auditor's Report.

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL
Schedule of Expenses
Year ended June 30,

	2004		
	<u>Salaries and Wages</u>	<u>Employee Benefits and Payroll Taxes</u>	<u>Supplies and Other Expenses</u>
<u>Daily Patient Services</u>			
Nursing service	\$ 1,638,140	\$ 119,549	\$ 120,273
Special care	224	17	--
Total daily patient services	<u>1,638,364</u>	<u>119,566</u>	<u>120,273</u>
<u>Other Nursing Services</u>			
Clinic room	169,067	13,976	11,992
Operating and recovery room	269,299	20,621	117,916
Delivery and labor room	127,310	9,358	14,278
Emergency service	174,007	12,839	35,491
Medical supplies	43,441	2,943	311,521
Intravenous therapy	--	--	65,999
Total other nursing services	<u>783,124</u>	<u>59,737</u>	<u>557,197</u>
<u>Other Professional Services</u>			
Laboratory	371,697	27,726	412,187
Electrocardiology	27,330	2,038	1,327
Electroencephalography	731	56	1,062
Cardiac rehabilitation	29,012	2,016	1,361
Radiology	289,277	21,894	186,339
CT scanning	--	--	40,205
Nuclear imaging	--	--	39,050
MRI	--	--	135,072
Pharmacy	193,251	13,855	633,556
Chemotherapy	14,257	1,076	498,799
Anesthesia	--	--	13,136
Respiratory therapy	103,322	7,723	55,351
Physical therapy	--	--	5,418
Occupational therapy	--	--	76
Speech therapy	--	--	--
Home Health	269,285	20,076	22,741
Public Health	280,876	23,218	54,398
Hospice	86,945	6,032	132,886
Family Planning	14,550	--	55,443
Occupational Health Outreach	43,522	3,236	17,127
Fitness Center	48,175	3,656	3,627
Medical records	212,880	14,647	66,597
Total other professional services	<u>1,985,110</u>	<u>147,249</u>	<u>2,375,758</u>

(continued next page)

<u>2004</u>		<u>2003</u>	
<u>Professional Fees</u>	<u>Total Expenses</u>	<u>Total Expenses</u>	
\$ 42,801	\$ 1,920,763	\$ 1,839,944	
--	241	1,453	
<u>42,801</u>	<u>1,921,004</u>	<u>1,841,397</u>	
21,309	216,344	188,566	
4,185	412,021	400,007	
--	150,946	144,538	
166,238	388,575	347,245	
--	357,905	292,594	
--	65,999	64,210	
<u>191,732</u>	<u>1,591,790</u>	<u>1,437,160</u>	
104,824	916,434	829,519	
--	30,695	28,185	
--	1,849	1,802	
--	32,389	36,315	
--	497,510	480,597	
--	40,205	40,408	
--	39,050	22,907	
--	135,072	131,297	
--	840,662	774,962	
--	514,132	798,368	
291,222	304,358	257,164	
--	166,396	154,371	
322,769	328,187	300,150	
60,649	60,725	77,555	
21,825	21,825	26,557	
41,780	353,882	346,556	
--	358,492	314,917	
--	225,863	151,371	
80,356	150,349	167,211	
43,506	107,391	81,195	
--	55,458	53,223	
--	294,124	248,641	
<u>966,931</u>	<u>5,475,048</u>	<u>5,323,271</u>	

SHELBY COUNTY
 MYRTUE MEMORIAL HOSPITAL
 Schedule of Expenses - continued
 Year ended June 30,

	2004		
	<u>Salaries and Wages</u>	<u>Employee Benefits and Payroll Taxes</u>	<u>Supplies and Other Expenses</u>
<u>General Services</u>			
Dietary	\$ 301,758	\$ 21,222	\$ 192,681
Plant engineering	135,784	9,342	309,444
Housekeeping	197,477	14,273	53,906
Laundry and linen	<u>25,226</u>	<u>1,786</u>	<u>75,780</u>
Total general services	660,245	46,623	631,811
 <u>Fiscal and Administrative</u>	 <u>543,838</u>	 <u>988,013</u>	 <u>552,503</u>
 Total all departments	 <u>\$ 5,610,681</u>	 <u>\$ 1,361,188</u>	 <u>\$ 4,237,542</u>

See Independent Auditor's Report.

<u>2004</u>		<u>2003</u>
<u>Professional Fees</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
\$ --	\$ 515,661	\$ 487,699
--	454,570	436,822
--	265,656	231,103
--	<u>102,792</u>	<u>97,634</u>
--	1,338,679	1,253,258
<u>183,903</u>	<u>2,268,257</u>	<u>2,234,634</u>
<u>\$ 1,385,367</u>	<u>\$ 12,594,778</u>	<u>\$ 12,089,720</u>

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Acute Care:					
Admissions	1,243	1,207	1,151	1,091	1,107
Discharges	1,240	1,207	1,150	1,089	1,111
Patient days	3,608	3,482	3,537	3,357	3,666
Average length of stay	2.9	2.9	3.1	3.1	3.3
Average daily census	9.9	9.5	9.7	9.2	10.0
Swing Bed:					
Admissions	438	395	447	343	427
Discharges	443	393	443	344	422
Patient days	2,745	2,906	4,326	3,542	4,179
Combined Average Daily Census	17.4	17.5	21.5	18.9	21.4
Nursery Days	264	301	260	214	270
Outpatient Visits	24,585	23,922	24,773	22,284	22,593

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

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

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

To the Board of Trustees
Shelby County Myrtue Memorial Hospital
Harlan, Iowa

We have audited the financial statements of Shelby County Myrtue Memorial Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Shelby County Myrtue Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

To the Board of Trustees
Shelby County Myrtue Memorial Hospital

Internal Control Over Financial Reporting

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

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

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

Gronewald, Bell, Klynn + Co. P.C.
Atlantic, Iowa
August 13, 2004

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

PART I - REPORTABLE CONDITIONS

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

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members 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.

04-I-B Accounts Payable and Disbursements: An example of the lack of segregation of duties exists in the accounts payable and invoice payment process. One person receives invoices, codes them, enters them into the computer for payment, orders the checks to be printed, activates the check signing process, and mails the payments. Invoices are not marked as paid (to prevent duplication of payment).

Recommendation: We recommend that all invoices be marked as paid when the checks are signed, and that a second person be involved in the process at some point, to add a control over cash disbursements.

Response: Subsequent to the audit, we have started to mark invoices as paid. The accounts payable system will be reviewed for possible improvements.

Conclusion: Response accepted.

* * *

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

PART II - REQUIRED STATUTORY REPORTING

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

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

04-II-C Questionable Expenses: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or board members.

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

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

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

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

* * *