

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, 2005 AND 2004

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL

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SHELBY COUNTY
 MYRTUE MEMORIAL HOSPITAL
 Officials
 June 30, 2005

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Carmen Hosack, Chairman	Harlan, Iowa	2008
Cheryl Chipman, Vice-Chairman	Harlan, Iowa	2010
Allan Hjelle, Secretary/Treasurer	Elk Horn, Iowa	2010
Mary Louise Peterson	Harlan, Iowa	2006
Robert Burton	Irwin, Iowa	2006
Rob Hall	Harlan, Iowa	2006
Todd Langenfeld	Earling, Iowa	2008

Administrator:

Mark Woodring	Harlan, Iowa
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Assistant Administrators:

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

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
Shelby County Myrtue Memorial Hospital
Harlan, Iowa

We have audited the accompanying balance sheets of Shelby County Myrtue Memorial Hospital as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As explained in Note A, the operations of two component units are excluded from these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that such entities be discreetly presented with these financial statements.

In our opinion, except for the effects of 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, 2005 and 2004, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2005, 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, 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. The 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
Shelby County Myrtue Memorial Hospital

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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. 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.

Gronewald, Bell, Kghun + Co. P.C.
Atlantic, Iowa
August 10, 2005



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

FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years with a \$730,000 or 2.8 percent increase in 2005 and a \$1,265,000 or 5.1 percent increase in 2004.

In 2005 the Hospital reported a decrease in Operating Income of \$405,000 when compared to the previous year. Conversely, in 2004, the Hospital reported an increase in Operating Income of \$84,000 compared to the previous year.

Non-operating revenues decreased by \$71,000 or 11.8 percent in 2005 compared to 2004. Non-operating revenues also decreased in 2004 by \$62,000 or 9.3 percent compared to 2003.

USING THIS ANNUAL REPORT

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

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

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

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

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>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 4,729,152	\$ 5,053,274	\$ 4,462,805
Capital assets, net	12,544,794	12,296,799	9,517,548
Other noncurrent assets	<u>13,112,836</u>	<u>12,916,695</u>	<u>15,010,529</u>
 Total assets	 <u>\$ 30,386,782</u>	 <u>\$ 30,266,768</u>	 <u>\$ 28,990,882</u>
Liabilities:			
Long-term debt outstanding	\$ 910,000	\$ 1,060,000	\$ 1,200,000
Other current and noncurrent liabilities	<u>2,829,524</u>	<u>3,289,267</u>	<u>3,138,610</u>
 Total liabilities	 <u>\$ 3,739,524</u>	 <u>\$ 4,349,267</u>	 <u>\$ 4,338,610</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 11,634,794	\$ 11,236,799	\$ 8,317,548
Restricted for debt service	421,839	416,923	412,788
Restricted expendable net assets	56,440	45,799	38,098
Unrestricted	<u>14,534,185</u>	<u>14,217,980</u>	<u>15,883,838</u>
	 <u>\$ 26,647,258</u>	 <u>\$ 25,917,501</u>	 <u>\$ 24,652,272</u>

Total assets of the Hospital increased by \$120,000. The Hospital completed a \$4.7 million construction project in 2005. This project was financed by internally generated funds and solicitation of restricted gifts. Capital assets increased by \$381,000 during the 2005 year and \$2.8 million in 2004. Investments decreased by \$120,000 in 2005 and by \$2.5 million in 2004. Net patient receivables increased by \$142,000 and related organization receivables decreased by \$84,000 in 2005.

Payment of all liabilities related to construction resulted in a decrease in accounts payable of approximately \$233,000. Estimated third party payor settlements were reduced by \$200,000 as a result of the settlement of several prior year cost reports. Other 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 2005, the Hospital's net assets increased by \$729,000 or 2.8 percent, as shown in Table 2. Net assets increased by \$1,265,000 or 5.1 percent in 2004.

Table 2: Operating Results and Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues:			
Net patient service revenue	\$ 14,710,140	\$ 13,867,465	\$ 13,245,650
Other operating revenues	<u>157,575</u>	<u>132,886</u>	<u>147,783</u>
Total operating revenues	14,867,715	14,000,351	13,393,433
Operating Expenses:			
Salaries and benefits	7,916,665	6,971,869	6,674,773
Professional fees	1,470,496	1,394,881	1,350,791
Depreciation	1,062,276	952,840	934,846
Other operating expenses	<u>4,370,697</u>	<u>4,228,028</u>	<u>4,064,156</u>
Total operating expenses	<u>14,820,134</u>	<u>13,547,618</u>	<u>13,024,566</u>
Operating income	47,581	452,733	368,867
Nonoperating Revenues and Expenses:			
County taxes	423,311	476,746	483,612
Investment income	283,893	309,298	418,590
Noncapital grants and contributions	39,013	35,271	61,737
Other nonoperating revenues and expenses, net	<u>(210,319)</u>	<u>(213,999)</u>	<u>(294,320)</u>
Nonoperating revenues (expenses), net	<u>535,898</u>	<u>607,316</u>	<u>669,619</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions, and Endowments	583,479	1,060,049	1,038,486
Grants, Contributions, and Endowments:			
Capital grants and contributions and endowments	<u>146,278</u>	<u>205,180</u>	<u>26,664</u>
Increase in net assets	729,757	1,265,229	1,065,150
Net Assets Beginning of Year	<u>25,917,501</u>	<u>24,652,272</u>	<u>23,587,122</u>
Net Assets End of Year	<u>\$ 26,647,258</u>	<u>\$ 25,917,501</u>	<u>\$ 24,652,272</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 \$867,000 or 6.2 percent in 2005 compared to an increase of \$607,000 in net revenue in 2004.

The increase in salary and benefit costs for the Hospital's employees was \$945,000 or 13.6 percent in 2005 compared to \$297,000 or 4.4 percent in 2004.

An increase in professional fee costs of \$75,000 in 2005 compared to an increase of \$35,000 in 2004.

Other operating costs increased by \$143,000 in 2005 while depreciation expense increased by 11.5 percent or \$109,000.

Overall expenses increased 9.4 percent or \$1,272,000 in 2005 compared to 4.0 percent or \$523,000 in 2004.

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. 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 increased by \$20,000 between 2003 and 2004 and remained consistent with 2004 in 2005. Because there is no expectation of repayment, charity care is removed before reporting net patient service revenue of the Hospital.

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Hospital 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 increased its tax asking to \$.98 cents per thousand dollars valuation this year after maintaining it at \$.92 for the past four years. Variation in the revenue is a result of changing valuations and actual tax collection for the year. The Hospital's investment income is down \$25,000 or 8.2 percent in 2005 compared to a decrease of \$109,000 or 26.1 percent in 2004. This decrease over the past two years is due to declining interest rates and a \$4.7 million construction project completed in 2005 that was 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 \$146,000 mainly consisting of funds received from the Shelby County Health Foundation. The Foundation provided \$120,000 for the construction project. The Hospital Auxiliary provided \$25,000 for the purchase of equipment. In 2004 the Hospital received \$205,000 in capital contributions.

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 \$8,996 and was used for a medication dispensing system. The Hospital also received \$13,447 through the Iowa Department of Public Health for equipment and supplies for bioterrorism and disaster planning. In addition, Tobacco Settlement Grant money received in 2005 and 2004 was \$8,997 and \$11,067 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 \$1,056,000 in 2005 and \$1,459,000 in 2004. Net cash used in capital and related financing activities was \$1,718,000 in 2005 and \$3,925,000 in 2004. Capital expenditures were \$1,633,000 in 2005 and \$3,883,000 in 2004. Investing activities during 2005 provided \$46,000 in additional cash. In 2004, \$2,288,000 was provided from investing activities mainly due to the provision of \$2,744,000 of designated and restricted assets to pay for construction costs. Non-capital financing activities provided \$441,000 in 2005 (\$490,000 in 2004) mainly from county tax revenues of \$423,311 (\$476,746 in 2004).

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

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 was completed in June of 2005.

At the end of 2005, the Hospital had \$12.5 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. During 2005, the Hospital incurred \$1,459,000 of costs for new equipment and completion of the renovation program. In 2004, \$3,911,000 was spent on new equipment, remodeling, and construction.

DEBT

At year-end, the Hospital had \$910,000 in Revenue Capital Improvement Notes outstanding. The Hospital issued no new debt in 2005 or 2004.

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, 2005 was prepared on a modified accrual basis. As indicated on page 23, actual expenditures were approximately \$1,169,000 lower than budgeted due to timing of capital items.

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 \$7.7 million compared to \$7.2 million the previous year on revenues of \$24 million in 2005 and \$22.5 million in 2004.

The Hospital has applied to be designated as a Critical Access Hospital. If approved, this designation would result in Medicare and Medicaid paying 101% of defined costs for services provided to eligible patients, thereby reducing the amount of the contractual adjustments.

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.

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SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL
Balance Sheets
June 30,

ASSETS

	2005	2004
Current Assets:		
Cash	\$ 1,243,184	\$ 1,294,795
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$1,357,000 in 2005, \$1,381,000 in 2004)	2,568,818	2,426,770
Other receivables	42,650	36,931
Inventory	117,519	149,760
Prepaid expense	129,708	109,781
Succeeding year property tax receivable	406,000	406,000
Internally designated assets	328,738	629,237
Total current assets	4,836,617	5,053,274
Designated and Restricted Assets:		
Internally designated assets	10,447,874	10,584,008
Restricted assets	478,279	462,722
	10,926,153	11,046,730
Less amounts required to meet current liabilities	328,738	629,237
	10,597,415	10,417,493
Hospital Capital Assets:		
Depreciable capital assets	10,378,086	8,837,530
Non-depreciable capital assets	90,587	1,249,668
	10,468,673	10,087,198
Clinic Capital Assets:		
Depreciable capital assets	1,709,171	1,842,651
Non-depreciable capital assets	366,950	366,950
	2,076,121	2,209,601
Other Assets:		
Notes receivable	147,389	177,261
Related organization receivables	1,982,542	2,066,724
Deferred costs	10,793	13,236
Other	267,232	241,981
	2,407,956	2,499,202
Total assets	\$ 30,386,782	\$ 30,266,768

The accompanying notes are an integral part of these statements.

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

	2005	2004
Revenue:		
Net patient service revenue	\$ 14,710,140	\$ 13,867,465
Other revenue	157,575	132,886
Total revenue	14,867,715	14,000,351
Expenses:		
Salaries and wages	6,246,657	5,610,681
Employee benefits	1,670,008	1,361,188
Professional fees	1,470,496	1,394,881
Supplies and other expenses	4,370,697	4,228,028
Provision for depreciation	1,062,276	952,840
Total expenses	14,820,134	13,547,618
Operating Income	47,581	452,733
Non-Operating Revenues (Expenses):		
Investment income	283,893	309,298
Noncapital grants and contributions	39,013	35,271
County taxes	423,311	476,746
Healthcare education loans, net	10,642	7,700
Interest expense	(70,900)	(81,108)
Contracted ambulance service	(29,000)	(29,000)
Income on disposal of assets	5,080	33,255
Clinic buildings cost, net	(126,141)	(144,846)
Non-operating revenues (expenses), net	535,898	607,316
Excess of Revenues Over Expenses Before Capital Grants and Contributions	583,479	1,060,049

(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>2005</u>	<u>2004</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	\$ 583,479	\$ 1,060,049
Capital Grants and Contributions	<u>146,278</u>	<u>205,180</u>
Increase in Net Assets	729,757	1,265,229
Net Assets Beginning of Year	<u>25,917,501</u>	<u>24,652,272</u>
Net Assets End of Year	<u>\$ 26,647,258</u>	<u>\$ 25,917,501</u>

The accompanying notes are an integral part of these statements.

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

	2005	2004
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 14,662,373	\$ 13,566,296
Cash paid to suppliers	(7,616,371)	(6,686,245)
Cash paid to employees	(6,147,910)	(5,553,525)
Other revenue	157,575	132,886
Net cash provided by operating activities	1,055,667	1,459,412
Cash flows from non-capital financing activities:		
County tax revenue	423,311	476,746
Contracted ambulance service	(29,000)	(29,000)
Noncapital grants and contributions	46,512	42,128
Net cash provided by non-capital financing activities	440,823	489,874
Cash flows from capital and related financing activities:		
Capital expenditures	(1,632,765)	(3,883,651)
Clinic capital acquisitions	(15,160)	(92,564)
Proceeds from disposal of equipment	5,080	68,352
Payments on long-term debt	(150,000)	(140,000)
Capital grants and contributions	146,278	205,180
Interest paid	(71,775)	(81,924)
Net cash used in capital and related financing activities	(1,718,342)	(3,924,607)
Cash flows from investing activities:		
Investment income	283,893	309,298
Change in designated and restricted assets	(3,720)	2,744,010
Clinic buildings cost, net	22,499	(1,250)
Increase in notes receivable	(15,659)	(53,199)
Related organization receivables, net	(215,818)	(677,193)
Increase in other assets	(25,251)	(33,264)
Net cash provided by investing activities	45,944	2,288,402
Net increase (decrease) in cash and cash equivalents	(175,908)	313,081
Cash and cash equivalents, beginning of year	1,700,491	1,387,410
Cash and cash equivalents, end of year	\$ 1,524,583	\$ 1,700,491

(continued next page)

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

	2005	2004
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,243,184	\$ 1,294,795
Cash in designated and restricted assets	281,399	405,696
Total cash and cash equivalents	\$ 1,524,583	\$ 1,700,491
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 47,581	\$ 452,733
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,062,276	952,840
Provision for bad debts	321,091	440,889
Amortization	47,974	50,567
Change in assets and liabilities		
Accounts receivable	(168,858)	(731,058)
Inventory	32,241	31,294
Prepaid expense	(19,927)	(14,900)
Accounts payable, trade	(44,458)	154,988
Accrued employee compensation	98,747	57,156
Estimated third-party payor settlements	(200,000)	(11,000)
Payroll taxes withheld and accrued	552	9,893
Other current liabilities	(121,552)	66,010
Total adjustments	1,008,086	1,006,679
Net cash provided by operating activities	\$ 1,055,667	\$ 1,459,412

The accompanying notes are an integral part of these statements.

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

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization is a county hospital with related healthcare ancillary and outpatient services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has two component units 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, 2005 and 2004

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. Capital assets with lives in excess of four years and cost in excess of \$1,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in either 2005 or 2004.

9. Compensated Absences

Hospital employees earn paid time off (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, 2005 and 2004

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

11. Net Patient Service Revenue

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

12. Property Tax Levy

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

13. Grants and Contributions

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

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. 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, 2005 and 2004

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

16. Net Assets

Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 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, 2005 and 2004

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Expendable restricted net assets are available for the following purposes:

	<u>2005</u>	<u>2004</u>
Healthcare education loans	\$ 56,441	\$ 45,799
Long-term debt	<u>421,838</u>	<u>416,923</u>
Total expendable restricted net assets	<u>\$ 478,279</u>	<u>\$ 462,722</u>

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

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

	<u>2005</u>	<u>2004</u>
Purchase of property and equipment	\$ 146,278	\$ 205,180
Education loans forgiven	<u>--</u>	<u>2,300</u>
	<u>\$ 146,278</u>	<u>\$ 207,480</u>

NOTE D - DESIGNATED NET ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$14,534,185 (\$14,217,980 in 2004) of unrestricted net assets, \$10,447,874 (\$10,584,008 in 2004) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	<u>2005</u>	<u>2004</u>
Capital acquisitions	\$ 10,270,395	\$ 10,275,074
Employee health insurance	<u>177,479</u>	<u>308,934</u>
	<u>\$ 10,447,874</u>	<u>\$ 10,584,008</u>

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

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2005 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	2005	2004
Internally Designated Assets:		
Cash and cash equivalents	\$ 177,479	\$ 308,934
Certificates of deposit	9,382,055	9,387,815
U.S. Treasury obligations	850,013	850,013
Interest receivable	38,327	37,246
	\$ 10,447,874	\$ 10,584,008
Restricted Assets:		
Cash and cash equivalents	\$ 103,920	\$ 96,762
Certificates of deposit	320,000	320,000
Education loans	52,959	44,983
Interest receivable	1,400	977
	\$ 478,279	\$ 462,722

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.

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

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2005 and 2004, was as follows:

	<u>2005</u>	<u>2004</u>
Receivable from:		
Patients	\$ 1,259,782	\$ 1,167,989
Medicare	1,384,256	1,384,712
Medicaid	292,007	278,130
Blue Cross	362,771	314,439
Other commercial insurance carriers	607,013	629,681
Others	<u>19,989</u>	<u>32,819</u>
	3,925,818	3,807,770
Less allowances for doubtful accounts and contractual adjustments	<u>(1,357,000)</u>	<u>(1,381,000)</u>
	<u>\$ 2,568,818</u>	<u>\$ 2,426,770</u>

NOTE G - CAPITAL ASSETS

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

<u>Cost</u>	<u>Balance</u> <u>2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>2005</u>
Land Improvements	\$ 229,404	\$ --	\$ --	\$ 229,404
Buildings	9,498,804	2,081,423	107,333	11,472,894
Fixed Equipment	2,554,162	22,029	--	2,576,191
Major Movable Equipment	<u>6,168,472</u>	<u>499,380</u>	<u>--</u>	<u>6,667,852</u>
	18,450,842	2,602,832	107,333	20,946,341
<u>Depreciation</u>				
Land Improvements	209,467	3,542	--	213,009
Buildings	3,314,470	329,867	107,333	3,537,004
Fixed Equipment	2,236,768	61,384	--	2,298,152
Major Movable Equipment	<u>3,852,607</u>	<u>667,483</u>	<u>--</u>	<u>4,520,090</u>
Total Depreciation	<u>9,613,312</u>	<u>1,062,276</u>	<u>107,333</u>	<u>10,568,255</u>
Depreciable Capital Assets, Net	<u>\$ 8,837,530</u>	<u>\$1,540,556</u>	<u>\$ --</u>	<u>\$ 10,378,086</u>
Construction in Progress	\$ 1,159,081	\$ 915,071	\$2,074,152	\$ --
Land	<u>90,587</u>	<u>--</u>	<u>--</u>	<u>90,587</u>
Total Non-depreciable Capital Assets	<u>\$ 1,249,668</u>	<u>\$ 915,071</u>	<u>\$2,074,152</u>	<u>\$ 90,587</u>

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

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2004</u>
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
	<u>15,231,247</u>	<u>3,316,884</u>	<u>97,289</u>	<u>18,450,842</u>
<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
	<u>8,722,664</u>	<u>952,840</u>	<u>62,192</u>	<u>9,613,312</u>
Total Depreciation				
Depreciable Capital Assets, Net	<u>\$ 6,508,583</u>	<u>\$2,364,044</u>	<u>\$ 35,097</u>	<u>\$ 8,837,530</u>
Construction in Progress	\$ 657,745	\$3,416,100	\$2,914,764	\$ 1,159,081
Land	<u>90,587</u>	<u>--</u>	<u>--</u>	<u>90,587</u>
Total Non-depreciable Capital Assets	<u>\$ 748,332</u>	<u>\$3,416,100</u>	<u>\$2,914,764</u>	<u>\$ 1,249,668</u>

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

<u>Cost</u>	<u>Balance 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2005</u>
Buildings and Improvements	\$ 2,478,559	\$ 1,525	\$ --	\$ 2,480,084
Equipment	<u>1,327,471</u>	<u>13,635</u>	<u>--</u>	<u>1,341,106</u>
	3,806,030	15,160	--	3,821,190
<u>Depreciation</u>				
Buildings and Improvements	1,034,125	74,265	--	1,108,390
Equipment	<u>929,254</u>	<u>74,375</u>	<u>--</u>	<u>1,003,629</u>
Total Depreciation	<u>1,963,379</u>	<u>148,640</u>	<u>--</u>	<u>2,112,019</u>
Depreciable Capital Assets, Net	<u>\$ 1,842,651</u>	<u>\$ (133,480)</u>	<u>\$ --</u>	<u>\$ 1,709,171</u>
Land	<u>\$ 366,950</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 366,950</u>

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

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2003</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2004</u>
Buildings and Improvements	\$ 2,452,086	\$ 26,473	\$ --	\$ 2,478,559
Equipment	1,261,380	66,091	--	1,327,471
	<u>3,713,466</u>	<u>92,564</u>	<u>--</u>	<u>3,806,030</u>
 <u>Depreciation</u>				
Buildings and Improvements	958,472	75,653	--	1,034,125
Equipment	861,311	67,943	--	929,254
	<u>1,819,783</u>	<u>143,596</u>	<u>--</u>	<u>1,963,379</u>
Total Depreciation	<u>1,819,783</u>	<u>143,596</u>	<u>--</u>	<u>1,963,379</u>
Depreciable Capital Assets, Net	<u>\$ 1,893,683</u>	<u>\$ (51,032)</u>	<u>\$ --</u>	<u>\$ 1,842,651</u>
Land	<u>\$ 366,950</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 366,950</u>

Total depreciation expense for the year was \$1,210,916 (\$1,096,436 in 2004).

NOTE H - NON-CURRENT LIABILITIES

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

	<u>Balance 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2005</u>	<u>Current Portion</u>
Long-Term Debt:					
Revenue notes	\$1,060,000	\$ --	\$ 150,000	\$ 910,000	\$ 160,000
Other Liabilities:					
Deferred grant revenue	<u>12,311</u>	<u>--</u>	<u>3,143</u>	<u>9,168</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$1,072,311</u>	<u>\$ --</u>	<u>\$ 153,143</u>	<u>\$ 919,168</u>	<u>\$ 160,000</u>

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

NOTE H - NON-CURRENT LIABILITIES - Continued

	<u>Balance</u> <u>2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>2004</u>	<u>Current</u> <u>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>

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>
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>\$ 910,000</u>	<u>\$ 174,873</u>

NOTE I - DEFERRED GRANT REVENUE

Deferred grant revenue as of June 30, 2005 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 (\$3,143 in 2004) 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, 2005 and 2004

NOTE J - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003, were approximately \$355,300, \$318,700, and \$299,500, respectively, equal to the required contributions for each year.

NOTE K - COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENT

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 2005-06.

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, 2005 and 2004 the Hospital had accumulated funds in excess of actual claims paid of approximately \$177,500 and \$308,900, 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, 2005 of approximately \$107,000 (\$229,000 in 2004) 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.

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

NOTE K - COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENT - Continued

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.

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 \$2,732,542 by June 30, 2005. 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 \$750,000 (\$450,000 at June 30, 2004) reducing the recorded asset value to \$1,982,542 (\$2,066,724 at June 30, 2004).

Subsequent Event

Subsequent to year end, the Hospital began a process to combine the activities of SCMC and PRMHC under one organization with the Hospital. SCMC will change to a corporation which employs only the physicians. MMH will operate several rural health clinics as departments of the Hospital, and will contract with SCMC to obtain physician services. A tentative date of November, 2005 has been set for the combination.

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>2005</u>	<u>2004</u>
<u>Between SCMC and MMH</u>		
Sale of medical and other services to SCMC	\$ 540,459	\$ 536,771
Services and supplies purchased from SCMC	\$ 119,269	\$ 235,120
Amount receivable from SCMC at year end	\$ 1,860,103	\$ 1,966,118

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

NOTE L - RELATED ORGANIZATIONS - Continued

	2005	2004
<u>Between PRMHC and MMH</u>		
Sale of services to PRMHC	\$ 28,182	\$ 26,254
Purchase of services and supplies from PRMHC	\$ --	\$ 90
Amount receivable from PRMHC at year end	\$ 122,439	\$ 100,606

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:

	2005	2004
Services purchased from HPSI	\$ 103,480	\$ 98,785
Services sold to HPSI	\$ 54,548	\$ 58,790
Amount due to HPSI	\$ 4,915	\$ 10,509
Member share of net assets	\$ 267,232	\$ 241,981

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.

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REQUIRED SUPPLEMENTARY INFORMATION

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

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 423,311	\$ --	\$ 423,311
Other revenues	<u>15,195,701</u>	<u>156,920</u>	<u>15,352,621</u>
	15,619,012	156,920	15,775,932
Expenses	<u>15,046,175</u>	<u>--</u>	<u>15,046,175</u>
Net	572,837	156,920	729,757
Balance beginning of year	25,454,779	462,722	25,917,501
Transfer in (out)	<u>141,363</u>	<u>(141,363)</u>	<u>--</u>
Balance end of year	<u>\$ 26,168,979</u>	<u>\$ 478,279</u>	<u>\$ 26,647,258</u>

	Total Financial Statements	Budget Adjustments	Budget Basis	Amended Budget
Amount raised by taxation	\$ 423,311	\$ --	\$ 423,311	\$ 417,710
Other revenues	<u>15,352,621</u>	<u>--</u>	<u>15,352,621</u>	<u>16,474,309</u>
	15,775,932	--	15,775,932	16,892,019
Expenses	<u>15,046,175</u>	<u>--</u>	<u>15,046,175</u>	<u>16,215,200</u>
Net	729,757	--	729,757	676,819
Balance beginning of year	<u>25,917,501</u>	<u>(314,430)</u>	<u>25,603,071</u>	<u>25,603,071</u>
Balance end of year	<u>\$ 26,647,258</u>	<u>\$ (314,430)</u>	<u>\$ 26,332,828</u>	<u>\$ 26,279,890</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>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 2,437,963	62.1%	\$ 2,283,812	60.0%
31 - 90	1,008,558	25.7	799,430	21.0
91 - 180	255,580	6.5	356,827	9.4
181 - 365	102,602	2.6	208,846	5.5
Over 365	121,115	3.1	158,855	4.1
	<u>3,925,818</u>	<u>100.0%</u>	<u>3,807,770</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	277,000		305,000	
Allowance for contractual adjustments	<u>1,080,000</u>		<u>1,076,000</u>	
	<u>\$ 2,568,818</u>		<u>\$ 2,426,770</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Balance, beginning	\$ 305,000	\$ 385,000
Provision for bad debts	321,091	440,889
Recoveries of accounts previously written off	<u>161,749</u>	<u>208,984</u>
	<u>787,840</u>	<u>1,034,873</u>
Accounts written off	<u>510,840</u>	<u>729,873</u>
Balance, ending	<u>\$ 277,000</u>	<u>\$ 305,000</u>

See Independent Auditor's Report.

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

	<u>Inpatient</u>	
	<u>2005</u>	<u>2004</u>
<u>Daily Patient Services</u>		
Medical, surgical and obstetrical	\$ 1,802,788	\$ 1,643,865
Nursery	75,202	77,936
	<u>1,877,990</u>	<u>1,721,801</u>
<u>Other Nursing Services</u>		
Observation beds	--	--
Clinic room	343	47
Operating and recovery room	268,105	281,654
Delivery and labor room	154,987	164,973
Emergency service	220,970	217,658
Medical supplies	176,037	293,220
Intravenous therapy	317,814	335,892
	<u>1,138,256</u>	<u>1,293,444</u>
<u>Other Professional Services</u>		
Laboratory	1,004,789	892,220
Electrocardiology	84,781	69,129
Electroencephalography	--	576
Cardiac rehabilitation	400	--
Radiology	225,493	209,960
CT scanning	373,115	340,761
Nuclear imaging	6,053	6,497
Ultrasound	170,516	148,322
MRI	58,086	52,861
Pharmacy	952,532	982,878
Chemotherapy	18,638	48,017
Anesthesia	127,953	130,095
Respiratory therapy	372,937	334,541
Physical therapy	69,518	62,580
Occupational therapy	18,700	15,199
Speech therapy	11,045	8,456
Home Health	--	--
Hospice	--	--
Family Planning	--	--
Public Health	--	--
Fitness Center	--	--
Occupational Health Outreach	--	--
Other	--	--
	<u>3,494,556</u>	<u>3,302,092</u>
	<u>\$ 6,510,802</u>	<u>\$ 6,317,337</u>

See Independent Auditor's Report.

Swing-Bed		Outpatient		Total	
2005	2004	2005	2004	2005	2004
\$ 460,955	\$ 434,526	\$ 48,305	\$ 45,999	\$ 2,312,048	\$ 2,124,390
--	--	--	43	75,202	77,979
<u>460,955</u>	<u>434,526</u>	<u>48,305</u>	<u>46,042</u>	<u>2,387,250</u>	<u>2,202,369</u>
--	--	28,560	30,080	28,560	30,080
--	--	151,075	146,683	151,418	146,730
15,608	12,346	1,234,351	1,145,729	1,518,064	1,439,729
--	--	18,613	19,311	173,600	184,284
776	878	827,699	804,162	1,049,445	1,022,698
16,175	32,473	355,199	484,236	547,411	809,929
<u>63,817</u>	<u>53,507</u>	<u>307,092</u>	<u>298,669</u>	<u>688,723</u>	<u>688,068</u>
<u>96,376</u>	<u>99,204</u>	<u>2,922,589</u>	<u>2,928,870</u>	<u>4,157,221</u>	<u>4,321,518</u>
155,758	128,584	3,599,504	3,122,976	4,760,051	4,143,780
3,567	2,916	225,311	178,007	313,659	250,052
--	288	924	3,168	924	4,032
--	--	183,124	144,365	183,524	144,365
45,871	31,492	1,248,026	1,091,995	1,519,390	1,333,447
43,666	33,849	1,280,556	1,007,860	1,697,337	1,382,470
6,133	2,222	131,802	114,038	143,988	122,757
20,501	20,878	818,327	676,547	1,009,344	845,747
18,643	8,702	753,922	585,335	830,651	646,898
530,084	515,358	806,500	818,011	2,289,116	2,316,247
6,944	7,096	724,463	1,101,880	750,045	1,156,993
1,890	3,835	267,057	251,812	396,900	385,742
206,160	169,024	145,200	133,959	724,297	637,524
207,233	222,984	662,901	610,402	939,652	895,966
99,752	101,809	73,428	57,643	191,880	174,651
20,869	10,827	23,376	22,941	55,290	42,224
--	--	609,112	504,379	609,112	504,379
--	--	352,890	317,171	352,890	317,171
--	--	138,290	158,371	138,290	158,371
--	--	317,641	311,157	317,641	311,157
--	--	52,531	48,767	52,531	48,767
--	--	149,814	150,606	149,814	150,606
--	--	1,068	1,286	1,068	1,286
<u>1,367,071</u>	<u>1,259,864</u>	<u>12,565,767</u>	<u>11,412,676</u>	<u>17,427,394</u>	<u>15,974,632</u>
<u>\$ 1,924,402</u>	<u>\$ 1,793,594</u>	<u>\$ 15,536,661</u>	<u>\$ 14,387,588</u>	<u>\$ 23,971,865</u>	<u>\$ 22,498,519</u>

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

	2005	2004
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 23,971,865	\$ 22,498,519
Contractual adjustment estimate, Medicare and Medicaid	(6,911,720)	(6,363,771)
Other contractual adjustments	(801,135)	(799,791)
Provision for bad debts	(321,091)	(440,889)
Administrative adjustments	<u>(1,227,779)</u>	<u>(1,026,603)</u>
	<u>\$ 14,710,140</u>	<u>\$ 13,867,465</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 66,177	\$ 60,165
Other dietary services	27,517	21,919
Other	<u>63,881</u>	<u>50,802</u>
	<u>\$ 157,575</u>	<u>\$ 132,886</u>

See Independent Auditor's Report.

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

	2005		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing service	\$ 1,814,711	\$ 131,134	\$ 134,740
Special care	1,148	87	--
Total daily patient services	<u>1,815,859</u>	<u>131,221</u>	<u>134,740</u>
<u>Other Nursing Services</u>			
Clinic room	237,547	16,871	16,143
Operating and recovery room	276,854	20,300	101,999
Delivery and labor room	123,122	8,866	10,799
Emergency service	180,997	13,562	27,394
Medical supplies	47,674	3,114	281,600
Intravenous therapy	--	--	70,686
Total other nursing services	<u>866,194</u>	<u>62,713</u>	<u>508,621</u>
<u>Other Professional Services</u>			
Laboratory	410,286	30,829	434,626
Electrocardiology	24,719	1,848	1,401
Cardiac rehabilitation	37,662	2,622	1,657
Radiology	301,974	21,469	336,496
CT scanning	--	--	37,305
Nuclear imaging	--	--	49,046
MRI	--	--	159,363
Pharmacy	202,497	14,240	628,693
Chemotherapy	16,711	1,261	337,700
Anesthesia	--	--	11,561
Respiratory therapy	112,173	8,317	56,663
Physical therapy	--	--	6,252
Occupational therapy	--	--	(245)
Speech therapy	--	--	--
Home Health	348,838	24,978	29,688
Public Health	277,015	23,485	49,659
Hospice	108,763	7,784	104,748
Family Planning	14,057	--	42,735
Occupational Health Outreach	48,381	3,655	19,887
Fitness Center	47,983	3,510	7,350
Medical records	244,276	16,680	47,532
Total other professional services	<u>2,195,335</u>	<u>160,678</u>	<u>2,362,117</u>

(continued next page)

<u>2005</u>		<u>2004</u>
<u>Professional Fees</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
\$ 33,462	\$ 2,114,047	\$ 1,920,763
--	1,235	241
<u>33,462</u>	<u>2,115,282</u>	<u>1,921,004</u>
13,863	284,424	216,344
6,565	405,718	412,021
--	142,787	150,946
172,914	394,867	388,575
--	332,388	357,905
--	70,686	65,999
<u>193,342</u>	<u>1,630,870</u>	<u>1,591,790</u>
104,799	980,540	916,434
--	27,968	32,544
--	41,941	32,389
--	659,939	497,510
--	37,305	40,205
--	49,046	39,050
--	159,363	135,072
--	845,430	840,662
--	355,672	514,132
316,667	328,228	304,358
--	177,153	166,396
324,923	331,175	328,187
60,293	60,048	60,725
30,825	30,825	21,825
36,457	439,961	353,882
--	350,159	358,492
--	221,295	225,863
92,792	149,584	150,349
44,129	116,052	107,391
--	58,843	55,458
--	308,488	294,124
<u>1,010,885</u>	<u>5,729,015</u>	<u>5,475,048</u>

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

	2005		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>General Services</u>			
Dietary	\$ 319,802	\$ 21,704	\$ 206,467
Plant engineering	136,488	9,533	422,995
Housekeeping	206,264	14,732	70,670
Laundry and linen	28,179	2,004	79,574
Total general services	690,733	47,973	779,706
 <u>Fiscal and Administrative</u>	 678,536	 1,267,423	 585,513
Total all departments	\$ 6,246,657	\$ 1,670,008	\$ 4,370,697

See Independent Auditor's Report.

<u>2005</u>		<u>2004</u>
<u>Professional Fees</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
\$ --	\$ 547,973	\$ 515,661
--	569,016	454,570
--	291,666	265,656
--	109,757	102,792
--	<u>1,518,412</u>	<u>1,338,679</u>
<u>232,807</u>	<u>2,764,279</u>	<u>2,268,257</u>
<u>\$ 1,470,496</u>	<u>\$ 13,757,858</u>	<u>\$ 12,594,778</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Acute Care:					
Admissions	1,270	1,243	1,207	1,151	1,091
Discharges	1,273	1,240	1,207	1,150	1,089
Patient days	3,636	3,608	3,482	3,537	3,357
Average length of stay	2.9	2.9	2.9	3.1	3.1
Average daily census	10.0	9.9	9.5	9.7	9.2
Swing Bed:					
Admissions	425	438	395	447	343
Discharges	423	443	393	443	344
Patient days	2,722	2,745	2,906	4,326	3,542
Combined Average Daily Census	17.4	17.4	17.5	21.5	18.9
Nursery Days	209	264	301	260	214
Outpatient Visits	25,660	24,585	23,922	24,773	22,284

See Independent Auditor's Report.

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
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, 2005, and have issued our report thereon dated August 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 05-I-A is a material weakness.

To the Board of Trustees
Shelby County Myrtue Memorial Hospital

Compliance and Other Matters

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, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of 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, Kuhn + Co. P.C.
Atlantic, Iowa
August 10, 2005

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

PART I - REPORTABLE CONDITIONS

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

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

PART II - REQUIRED STATUTORY REPORTING

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

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

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

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

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

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

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

* * *