

SHELBY COUNTY
MYRTUE MEMORIAL HOSPITAL
D/B/A MYRTUE MEDICAL CENTER

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

YEAR ENDED JUNE 30, 2006

MYRTUE MEDICAL CENTER

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MYRTUE MEDICAL CENTER
Officials
June 30, 2006

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Cheryl Chipman, Chairman	Harlan, Iowa	2010
Allan Hjelle, Vice-Chairman	Elk Horn, Iowa	2010
Todd Langenfeld, Secretary/Treasurer	Earling, Iowa	2008
Carmen Hosack	Harlan, Iowa	2008
Mary Louise Peterson	Harlan, Iowa	2006
Robert Burton	Irwin, Iowa	2006
Rob Hall	Harlan, Iowa	2006

Administrator:

Mark Woodring	Harlan, Iowa
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Assistant Administrators:

Fiscal Services

Barry Jacobsen

Patient Services

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
Myrtue Medical Center
Harlan, Iowa

We have audited the accompanying balance sheet of Myrtue Medical Center as of June 30, 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year 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 audit.

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. 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 audit provides a reasonable basis for our opinion.

As explained in Note A, the first four months of 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 combined with these financial statements.

In our opinion, except for the effects of exclusion of four months of operations 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 Myrtue Medical Center as of June 30, 2006, and the results of its operations, changes in net assets, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2006, on our consideration of Myrtue Medical Center'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
Myrtue Medical Center

The management's discussion and analysis and the budgetary comparison schedule on pages 4 through 4f and 22 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 audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information (shown on pages 23 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 audit 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, Kyburz & Co. P.C.
Atlantic, Iowa
October 23, 2006



1213 Garfield Ave
Harlan, IA 51537
712.755.5161

www.myrtuemedical.org

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, 2006 and 2005. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The Hospital was involved in several changes during the 2006 fiscal year which have significantly improved the income statement of the organization. These changes were necessitated by declining Medicare and Medicaid reimbursement both on the Hospital and physician services side. On October 1, 2005 the Hospital converted to Critical Access status. Critical Access designation allows for cost based reimbursement for Medicare and Medicaid services for all Inpatient and most Outpatient services. Prior to this designation on October 1, 2005, the Hospital was reimbursed by Medicare and Medicaid based on a prospective payment system that did not cover the costs of providing those services. This change resulted in additional reimbursement of approximately \$500,000 over the nine month period ended June 30, 2006.

In addition on November 1, 2005 the Hospital began to operate four provider based Rural Health Clinics located in Harlan, Avoca, Elk Horn, and Shelby. This resulted in additional gross revenues of approximately \$4.6 million, increased contractual adjustments of \$1.2 million, and additional operating expenses of \$3.4 million over that eight month period.

Under the operation of Shelby County Medical Clinic prior to November 1, 2005, the Harlan Clinic was reimbursed by Medicare and Medicaid under a fee for service arrangement. The satellite clinics in Avoca, Elk Horn, and Shelby were reimbursed based on costs but capped at \$73 per visit. This reimbursement was significantly less than the cost to provide those services. Operation of the four clinics by the Hospital as a provider based Rural Health Clinic allows for Medicare and Medicaid reimbursement that approximates the cost of providing those services. It is estimated that Medicare and Medicaid reimbursement for the Physician Services increased by approximately \$350,000 as a result of the November 1, 2005 reorganization.

In 2006 the Hospital reported an increase in Operating Income of \$382,400 when compared to the previous year. Conversely, in 2005, the Hospital reported a decrease in Operating Income of \$405,000 compared to the previous year.

CLINIC LOCATIONS

1220 Chatham Ave
Harlan, IA 51537
712.755.5130

501 East
Shelby, IA 51570
712.755.2511

516 North Elm
Avoca, IA 51521
712.755.5155

622 North Main
Elk Horn, IA 51531
712.755.5142

1305 South 10th Ave
Harlan, IA 51537
712.755.5056

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

Non-operating revenues increased by \$280,500 or 52.3 percent in 2006 compared to 2005. The increase was due to improved interest rates, which increased interest income by \$108,000. Also the new Behavioral Health Department received county tax support of \$60,000. Non-operating revenues decreased in 2005 by \$71,000 or 11.8 percent compared to 2004.

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

Our analysis of the Hospital finances begins on page 4b. 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.

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?"

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

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>2006</u>	<u>2005</u>	<u>2004</u>
Assets:			
Current assets	\$ 7,803,628	\$ 4,836,617	\$ 5,053,274
Capital assets, net	12,444,209	12,544,794	12,296,799
Other noncurrent assets	<u>10,297,391</u>	<u>13,005,371</u>	<u>12,916,695</u>
Total assets	<u>\$ 30,545,228</u>	<u>\$ 30,386,782</u>	<u>\$ 30,266,768</u>
Liabilities:			
Long-term debt outstanding	\$ 525,650	\$ 910,000	\$ 1,060,000
Other current and noncurrent liabilities	<u>2,942,709</u>	<u>2,829,524</u>	<u>3,289,267</u>
Total liabilities	<u>\$ 3,468,359</u>	<u>\$ 3,739,524</u>	<u>\$ 4,349,267</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 11,918,559	\$ 11,634,794	\$ 11,236,799
Restricted for debt service	--	421,839	416,923
Restricted expendable net assets	62,728	56,440	45,799
Unrestricted	<u>15,095,582</u>	<u>14,534,185</u>	<u>14,217,980</u>
	<u>\$ 27,076,869</u>	<u>\$ 26,647,258</u>	<u>\$ 25,917,501</u>

Current assets increased by approximately \$2,967,000. The majority of this increase was due to increases in patient receivables which was largely related to absorbing \$1.8 million in patient receivables of Shelby County Medical Corporation on November 1, 2005.

In addition several obstacles were encountered for billing and accounts receivable as a result of the many changes taking place. The least disruption came from the move to Critical Access. The change of ownership to the clinics required the application for new billing numbers from our fiscal intermediary and carrier for Medicare. The Medicare Carrier in particular created a major problem, as we had to submit claims through two different electronic billing systems with the same provider numbers which took several months to resolve. In March we transitioned the clinic to the Hospital's patient accounting software which required hours of training and setting up new files to handle the billing requirements of the clinic. This slowdown in collections will be temporary as the business office has and will continue to adjust to these changes and, as a result, patient receivables will be converted to cash more timely.

Other noncurrent assets decreased by \$2,708,000. Investments dropped by \$787,000, which was due to the payoff of revenue capital notes of \$750,000. Also related organization receivables of \$1,951,000 from Shelby County Medical Corporation and Prairie Rose Mental Health Center were eliminated as a result of the reorganization.

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

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2006, the Hospital's net assets increased by \$430,000 or 1.6 percent, as shown in Table 2. Net assets increased by \$729,000 or 2.8 percent in 2005.

Table 2: Operating Results and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues:			
Net patient service revenue	\$ 19,136,037	\$ 14,710,140	\$ 13,867,465
Other operating revenues	<u>230,025</u>	<u>157,575</u>	<u>132,886</u>
Total operating revenues	19,366,062	14,867,715	14,000,351
Operating Expenses:			
Salaries and benefits	9,955,500	7,916,665	6,971,869
Professional fees	3,054,314	1,470,496	1,394,881
Depreciation	1,250,353	1,062,276	952,840
Other operating expenses	<u>4,675,922</u>	<u>4,370,697</u>	<u>4,228,028</u>
Total operating expenses	<u>18,936,089</u>	<u>14,820,134</u>	<u>13,547,618</u>
Operating income	429,973	47,581	452,733
Nonoperating Revenues and Expenses:			
County taxes	481,671	423,311	476,746
Investment income	392,042	283,893	309,298
Noncapital grants and contributions	48,123	39,013	35,271
Other nonoperating revenues and expenses, net	<u>(105,472)</u>	<u>(210,319)</u>	<u>(213,999)</u>
Nonoperating revenues (expenses), net	<u>816,364</u>	<u>535,898</u>	<u>607,316</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions, and Endowments	1,246,337	583,479	1,060,049
Grants, Contributions, and Endowments:			
Capital grants and contributions and endowments	<u>185,795</u>	<u>146,278</u>	<u>205,180</u>
Excess of Revenues over Expenses	1,432,132	729,757	1,265,229
Merger of Component Units	(1,002,521)	--	--
Net Assets Beginning of Year	<u>26,647,258</u>	<u>25,917,501</u>	<u>24,652,272</u>
Net Assets End of Year	<u>\$ 27,076,869</u>	<u>\$ 26,647,258</u>	<u>\$ 25,917,501</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 \$4,425,900 or 30 percent in 2006 compared to an increase of \$843,000 in net revenue in 2005.

The increase in salary and benefit costs for the Hospital's employees was \$2,038,800 or 25.7 percent in 2006 compared to \$945,000 or 13.6 percent in 2005.

An increase in professional fee costs of \$1,583,800 in 2006 compared to an increase of \$75,000 in 2005.

Other operating costs increased by \$305,200 in 2006 while depreciation expense increased by 17.7 percent or \$188,000.

Overall expenses increased 27.8 percent or \$4,116,000 in 2006 compared to 9.4 percent or \$1,272,000 in 2005.

The obvious large increases in all areas in 2006 again are due to the addition of the four rural health clinics and the outpatient mental health center.

In addition, the Hospital's expenses continue to increase due to a number of environmental issues. The current shortage of professional caregivers 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 remained consistent from 2004 to 2006.

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 maintained its tax asking at \$.98 cents per thousand dollars valuation this year for the second year in a row, after maintaining it at \$.92 for the previous four years. Variation in the revenue is a result of changing valuations and actual tax collection for the year, but as a whole the Hospital is less reliant upon county tax revenue than it was ten years ago (\$421,671 in 2006 vs. \$620,320 in 1996). The Hospital's investment income is up \$108,000 or 38 percent in 2006 compared to a decrease of \$25,000 or 8.2 percent in 2005. The increase in 2006 is due to improving interest rates.

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

CONTRIBUTIONS AND ENDOWMENTS

During the current year, the Hospital received capital contributions of \$186,000 mainly consisting of funds received from the Shelby County Health Foundation. The Foundation provided \$120,000 for the construction project completed in 2005 and \$50,000 for equipment purchases. The Hospital Auxiliary provided \$16,000 for the purchase of equipment. In 2005 the Hospital received \$146,000 in capital contributions.

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. The 2006 net cash provided by operating activities was \$336,000. In 2005, net cash was provided by operating activities in the amount of \$1,056,000.

Net cash used in capital and related financing activities in 2006 was \$1,337,500. This was due to the purchase of capital equipment of \$550,000 and the payoff of long-term debt of \$937,000. In 2005, net cash used in capital and related financing activities was \$1,718,300.

Cash flows provided by investing activities was \$890,000 in 2006. This was mainly due to investment income of \$392,000 and the redemption of certificates of deposit of \$1,194,600 used to pay off long-term debt. In 2005, net cash provided by investing activities was \$46,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of 2006, the Hospital had \$12.4 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. During 2006, the Hospital spent \$1,198,000 on equipment and building improvements. In 2005, \$1,459,000 was spent on new equipment, remodeling, and construction.

DEBT

During 2006 the Hospital paid off \$910,000 in Revenue Capital Improvement Notes. The Hospital issued \$552,000 in new debt in 2006 to purchase a CT scanner.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2006 was prepared on a modified accrual basis. As indicated on page 22, actual expenditures were approximately \$1,039,000 lower than budgeted due to timing of capital items.

OTHER ECONOMIC FACTORS

The Hospital is a rural hospital in west central Iowa. 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.

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

The Hospital has been designated as a Critical Access Hospital. This designation has resulted in Medicare and Medicaid paying 101% of defined costs for services provided to eligible patients, thereby increasing reimbursement.

The Hospital's rural health clinics in Harlan, Avoca, Shelby, and Elk Horn, Iowa also receive cost-based reimbursement from Medicare and Medicaid, which has substantially increased reimbursement to the clinics.

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 Chief Financial Officer, Myrtue Medical Center, 1213 Garfield Avenue, Harlan, Iowa 51537.

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MYRTUE MEDICAL CENTER
Balance Sheet
June 30, 2006

ASSETS

Current Assets:	
Cash	\$ 1,269,595
Patient receivables, less allowances for doubtful accounts and for contractual adjustments of \$2,330,000	5,440,411
Other receivables	88,790
Inventory	132,798
Prepaid expense	132,129
Succeeding year property tax receivable	440,000
Internally designated assets	299,905
Total current assets	<u>7,803,628</u>
Designated and Restricted Assets:	
Internally designated assets	10,047,936
Restricted assets	62,728
	<u>10,110,664</u>
Less amounts required to meet current liabilities	299,905
	<u>9,810,759</u>
Capital Assets:	
Depreciable capital assets, net	11,986,672
Non-depreciable capital assets	457,537
	<u>12,444,209</u>
Other Assets:	
Notes receivable	117,969
Related organization receivable	31,146
Deferred costs	75,842
Other	261,675
	<u>486,632</u>
Total assets	<u>\$ 30,545,228</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

Current Liabilities:	
Current maturities of long-term debt	\$ 102,000
Accounts payable	604,325
Accrued employee compensation	657,349
Payroll taxes withheld and accrued	115,711
Accrued interest	1,300
Estimated third-party payor settlements	925,000
Other current liabilities	193,000
Deferred revenue for succeeding year property tax receivable	<u>440,000</u>
Total current liabilities	3,038,685
Long-Term Debt, less current maturities	423,650
Deferred Grant Revenue	<u>6,024</u>
Total liabilities	3,468,359
Net Assets:	
Invested in capital assets, net of related debt	11,918,559
Restricted expendable	62,728
Unrestricted	<u>15,095,582</u>
Total net assets	<u>27,076,869</u>
Total liabilities and net assets	<u>\$ 30,545,228</u>

MYRTUE MEDICAL CENTER
Statement of Revenues and Expenses
Year ended June 30, 2006

Revenue:	
Net patient service revenue	\$ 19,136,037
Other revenue	<u>230,025</u>
Total revenue	19,366,062
Expenses:	
Salaries and wages	8,040,991
Employee benefits	1,914,509
Professional fees	3,054,314
Supplies and other expenses	4,675,922
Provision for depreciation	<u>1,250,353</u>
Total expenses	<u>18,936,089</u>
Operating Income	429,973
Non-Operating Revenues (Expenses):	
Investment income	392,042
Noncapital grants and contributions	48,123
County taxes	421,671
Behavioral health county revenue	60,000
Healthcare education loans, net	6,287
Interest expense	(32,924)
Contracted ambulance service	(29,000)
Income on disposal of assets	513
Clinic buildings cost, net	<u>(50,348)</u>
Non-operating revenues (expenses), net	<u>816,364</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,246,337
Capital Grants and Contributions	<u>185,795</u>
Increase in Net Assets	<u>\$ 1,432,132</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Statement of Changes in Net Assets
Year ended June 30, 2006

Net Assets Beginning of Year	\$ 26,647,258
Change in Net Assets as a Result of Merging Previously Separate Component Units (Note L)	(1,002,521)
Increase in Net Assets	<u>1,432,132</u>
Net Assets End of Year	<u>\$ 27,076,869</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Statement of Cash Flows
Year ended June 30, 2006

Cash flows from operating activities:	
Cash received from patients and third-party payors	\$ 17,706,070
Cash paid to suppliers	(9,516,785)
Cash paid to employees	(8,083,340)
Other revenue	<u>230,025</u>
Net cash provided by operating activities	335,970
Cash flows from non-capital financing activities:	
County tax revenue	481,671
Contracted ambulance service	(29,000)
Noncapital grants and contributions	54,979
Merger of SCMC and PRMHC	<u>12,580</u>
Net cash provided by non-capital financing activities	520,230
Cash flows from capital and related financing activities:	
Capital expenditures	(549,873)
Proceeds from disposal of assets	513
Payments on long-term debt	(936,804)
Capital grants and contributions	185,795
Interest paid	<u>(37,168)</u>
Net cash used in capital and related financing activities	(1,337,537)
Cash flows from investing activities:	
Investment income	392,042
Change in designated and restricted assets	1,194,618
Clinic buildings cost, net	(1,853)
Increase in notes receivable	(9,925)
Related organization receivables, net	(602,339)
Deferred costs incurred	(87,510)
Decrease in other assets	<u>5,557</u>
Net cash provided by investing activities	<u>890,590</u>
Net increase in cash and cash equivalents	409,253
Cash and cash equivalents, beginning of year	<u>1,524,583</u>
Cash and cash equivalents, end of year	<u>\$ 1,933,836</u>

(continued next page)

MYRTUE MEDICAL CENTER
Statement of Cash Flows - Continued
Year ended June 30, 2006

Reconciliation of cash and cash equivalents to the balance sheet:	
Cash in current assets	\$ 1,269,595
Cash in designated and restricted assets	<u>664,241</u>
Total cash and cash equivalents	<u>\$ 1,933,836</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 429,973
Adjustments to reconcile operating income to net cash provided by operating activities	
Provision for depreciation	1,250,353
Provision for bad debts	703,226
Amortization	61,806
Change in assets and liabilities	
Accounts receivable	(2,088,193)
Inventory	(15,279)
Prepaid expense	494
Accounts payable, trade	42,741
Accrued employee compensation	(42,349)
Estimated third-party payor settlements	(45,000)
Payroll taxes withheld and accrued	(25,357)
Other current liabilities	<u>63,555</u>
Total adjustments	<u>(94,003)</u>
Net cash provided by operating activities	<u>\$ 335,970</u>
Non-Cash Transactions:	
The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating income to net cash used in operating activities:	
Purchase of Asset through Capital Lease	\$ 552,454
Merger of SCMC and PRMHC with MMC	<u>989,941</u>
	<u>\$ 1,542,395</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

The organization is a county hospital with related healthcare ancillary, outpatient, and physician clinic 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 had two component units, Shelby County Medical Corporation (SCMC) and Prairie Rose Mental Health Center (PRMHC). Through October of 2005, the Hospital elected to exclude the assets, liabilities and operations of these component units from their financial statements. As of November 1, 2005, PRMHC was merged with the Hospital. Also at November 1, 2005, the Hospital merged in the physician clinic operations, assets and liabilities of SCMC. SCMC was reformed as an organization which contracts physician services to the Hospital's physician clinics (See Note L). The new SCMC is a component unit, however, including the net assets and operations would not result in a material change to the MMC financial statements.

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.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

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

5. Inventory Valuation

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

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 \$3,000 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 2006.

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.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

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

11. Net Patient Service Revenue

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

12. Property Tax Levy

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

13. Grants and Contributions

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

14. Endowments

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

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

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

16. Net Assets

Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 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 and Medicaid - Inpatient acute services, inpatient nonacute services, certain outpatient services, and defined capital costs related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare and Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2004. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

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

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Expendable restricted net assets are available for the following purposes at June 30, 2006:

Healthcare education loans	\$ <u>62,728</u>
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The Hospital has no nonexpendable restricted net assets or endowments at June 30, 2006.

Following is a summary of the use of temporarily restricted net assets during the year ended June 30, 2006:

Purchase of property and equipment	\$ 185,795
Education loans forgiven	3,713
Pay long-term debt	<u>421,838</u>
	<u>\$ 611,346</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 \$15,095,582 of unrestricted net assets, \$10,047,936 has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule at June 30, 2006.

Capital acquisitions	\$ 9,390,353
Employee health insurance	<u>657,583</u>
	<u>\$ 10,047,936</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2006 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

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

The composition of designated and restricted assets is as follows at June 30, 2006:

Internally Designated Assets:

Cash and cash equivalents	\$ 657,583
Certificates of deposit	8,452,055
U.S. Treasury obligations	850,013
Interest receivable	<u>88,285</u>
	<u>\$ 10,047,936</u>

Restricted Assets:

Cash and cash equivalents	\$ 6,658
Education loans	<u>56,070</u>
	<u>\$ 62,728</u>

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.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2006, was as follows:

Receivable from:		
Patients	\$	2,050,628
Medicare		2,414,652
Medicaid		734,483
Blue Cross		967,288
Other commercial insurance carriers		1,575,446
Others		<u>27,914</u>
		7,770,411
Less allowances for doubtful accounts and contractual adjustments		<u>(2,330,000)</u>
	\$	<u>5,440,411</u>

NOTE G - CAPITAL ASSETS

Hospital capital assets, additions, disposals and balances for the year ended June 30, 2006 were as follows:

<u>Cost</u>	<u>Balance</u> 2005	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 2006
Land Improvements	\$ 354,269	\$ 46,290	\$ --	\$ 400,559
Buildings	13,828,113	89,574	--	13,917,687
Fixed Equipment	3,273,814	--	--	3,273,814
Major Movable Equipment	<u>7,348,817</u>	<u>1,062,399</u>	<u>430,196</u>	<u>7,981,020</u>
	24,805,013	1,198,263	430,196	25,573,080
<u>Depreciation</u>				
Land Improvements	299,462	14,410	--	313,872
Buildings	4,558,942	507,710	--	5,066,652
Fixed Equipment	2,761,462	93,845	--	2,855,307
Major Movable Equipment	<u>5,097,890</u>	<u>682,883</u>	<u>430,196</u>	<u>5,350,577</u>
Total Depreciation	<u>12,717,756</u>	<u>1,298,848</u>	<u>430,196</u>	<u>13,586,408</u>
Depreciable Capital Assets, Net	<u>\$ 12,087,257</u>	<u>\$(100,585)</u>	<u>\$ --</u>	<u>\$ 11,986,672</u>
Non-depreciable Capital Assets:				
Land	<u>\$ 457,537</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 457,537</u>

Of the total depreciation, \$48,495 was included in Clinic buildings cost, net on the statement of revenues and expenses.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

NOTE H - LEASES

Assets recorded under capital leases consist of the following at June 30, 2006:

Medical Equipment	\$ 552,454
Less: Accumulated Amortization	<u>27,623</u>
Net Book Value	<u>\$ 524,831</u>

NOTE I - NON-CURRENT LIABILITIES

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

	<u>Balance 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2006</u>	<u>Current Portion</u>
Long-Term Debt:					
Revenue notes	\$ 910,000	\$ --	\$ 910,000	\$ --	\$ --
Capital lease	--	552,454	26,804	525,650	102,000
Other Liabilities:					
Deferred grant revenue	<u>9,168</u>	<u>--</u>	<u>3,144</u>	<u>6,024</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$ 919,168</u>	<u>\$ 552,454</u>	<u>\$ 939,948</u>	<u>\$ 531,674</u>	<u>\$ 102,000</u>

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

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

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

NOTE I - NON-CURRENT LIABILITIES - Continued

Scheduled principal and interest repayments on the capital lease are as follows:

Year Ending June 30,	Capital Lease	
	Principal	Interest
2007	\$ 102,000	\$ 19,981
2008	106,734	15,637
2009	111,067	11,109
2010	115,789	6,388
2011	90,060	1,572
	<u>\$ 525,650</u>	<u>\$ 54,687</u>

Deferred grant revenue as of June 30, 2006 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 \$3,144 is included in non-operating revenue on the statement of revenues and expenses.

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, 2006, 2005, and 2004, were approximately \$463,700, \$355,300, and \$318,700, respectively, equal to the required contributions for each year.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

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 \$58,000 in 2006-07.

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, 2006 the Hospital had accumulated funds in excess of actual claims paid of approximately \$657,600. 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, 2006 of approximately \$193,000 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.

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.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

NOTE L - RELATED ORGANIZATIONS

Merger of Component Units

Through October of 2005 the Hospital had two component units which operated, and were reported, as separate entities - Shelby County Medical Corporation (SCMC) and Prairie Rose Mental Health Center (PRMHC). The Hospital provided start up and operating capital for these organizations over many years, for the benefit of the community. As of November 1, 2005 the operations, assets and liabilities of SCMC and PRMHC were combined with those of the Hospital, resulting in a reduction in Hospital net assets of \$1,002,521. At that time, PRMHC operations were discontinued and SCMC was reorganized as an organization to contract physician services to the Hospital's physician clinics.

Under the new agreement, the Hospital purchases the physician services based on a cost per unit, set prior to the start of each year. The Hospital pays SCMC at an interim monthly rate, with a net settlement determined at year end, based on total units provided. The Hospital provides limited administrative services to assist SCMC in its operations.

Below, and in the following section is information about transactions between the Hospital, SCMC, and PRMHC:

Between SCMC and MMH After November 1, 2005

Purchase of services from SCMC	<u>\$ 1,469,162</u>
Sale of services to SCMC	<u>\$ 16,000</u>
Amount receivable from SCMC at year end	<u>\$ 31,146</u>

Pre-Merger Activity with SCMC and PRMHC

Transactions between the Hospital and SCMC and PRMHC prior to November 1, 2005 are listed below:

Between SCMC and MMH

Sale of medical and other services to SCMC	<u>\$ 192,714</u>
Services and supplies purchased from SCMC	<u>\$ 12,979</u>

Between PRMHC and MMH

Sale of services to PRMHC	<u>\$ 7,512</u>
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MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2006

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:

Services purchased from HPSI	\$ <u>103,944</u>
Services sold to HPSI	\$ <u>49,307</u>
Amount due to HPSI	\$ <u>410</u>
Member share of net assets	\$ <u>261,675</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.

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REQUIRED SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER
Budgetary Comparison Schedule
Year Ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the 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	\$ 481,671	\$ --	\$ 481,671
Other revenues	19,806,740	192,082	19,998,822
Transfers in (out)	<u>(394,888)</u>	<u>(607,633)</u>	<u>(1,002,521)</u>
	19,893,523	(415,551)	19,477,972
Expenses	<u>19,048,361</u>	<u>--</u>	<u>19,048,361</u>
Net	845,162	(415,551)	429,611
Balance beginning of year	<u>26,168,979</u>	<u>478,279</u>	<u>26,647,258</u>
Balance end of year	<u>\$ 27,014,141</u>	<u>\$ 62,728</u>	<u>\$ 27,076,869</u>

	Total Financial Statements	Budget Adjustments	Budget Basis	Amended Budget
Amount raised by taxation	\$ 481,671	\$(60,000)	\$ 421,671	\$ 405,688
Other revenues	19,998,822	60,000	20,058,822	20,174,524
Transfers in (out)	<u>(1,002,521)</u>	<u>--</u>	<u>(1,002,521)</u>	<u>--</u>
	19,477,972	--	19,477,972	20,580,212
Expenses	<u>19,048,361</u>	<u>--</u>	<u>19,048,361</u>	<u>20,087,200</u>
Net	429,611	--	429,611	493,012
Balance beginning of year	<u>26,647,258</u>	<u>(182,938)</u>	<u>26,464,320</u>	<u>26,464,320</u>
Balance end of year	<u>\$ 27,076,869</u>	<u>\$(182,938)</u>	<u>\$ 26,893,931</u>	<u>\$ 26,957,332</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MYRTUE MEDICAL CENTER
Patient Receivables
June 30, 2006

Analysis of Aging:

<u>Days Since Last Transaction</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 3,389,302	43.6%
31 - 90	1,807,538	23.3
91 - 180	1,039,949	13.4
181 - 365	1,359,687	17.5
Over 365	<u>173,935</u>	<u>2.2</u>
	<u>7,770,411</u>	<u>100.0%</u>

Less:

Allowance for doubtful accounts	914,000
Allowance for contractual adjustments	<u>1,416,000</u>
	<u>\$ 5,440,411</u>

Allowance for Doubtful Accounts:

Balance, beginning	\$ 277,000
Provision for bad debts	703,226
Recoveries of accounts previously written off	<u>156,954</u>
	1,137,180
Accounts written off	<u>223,180</u>
Balance, ending	<u>\$ 914,000</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Patient Service Revenue
Year ended June 30, 2006

	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Daily Patient Services</u>		
Medical, surgical and obstetrical	\$ 1,398,489	\$ 415,960
Nursery	<u>73,571</u>	<u>--</u>
	1,472,060	415,960
<u>Other Nursing Services</u>		
Observation beds	12,056	--
Clinic room	502	--
Operating and recovery room	224,299	8,487
Delivery and labor room	157,256	--
Emergency service	92,459	79
Medical supplies	128,340	13,365
Intravenous therapy	<u>248,973</u>	<u>55,185</u>
	863,885	77,116
<u>Other Professional Services</u>		
Laboratory	824,453	134,637
Electrocardiology	69,242	2,880
Cardiac rehabilitation	--	--
Radiology	150,878	33,803
CT scanning	365,358	55,390
Nuclear imaging	6,950	5,776
Ultrasound	194,057	24,536
MRI	71,149	11,407
Pharmacy	888,541	551,013
Chemotherapy	22,800	15,445
Anesthesia	108,868	4,012
Respiratory therapy	324,239	169,308
Physical therapy	72,395	196,124
Occupational therapy	21,500	84,651
Speech therapy	6,675	12,913
Home Health	--	--
Hospice	--	--
Family Planning	--	--
Public Health	--	--
Fitness Center	--	--
Occupational Health Outreach	--	--
Other	<u>--</u>	<u>--</u>
	3,127,105	1,301,895

(continued next page)

<u>Outpatient</u>	<u>Physician Services</u>	<u>Total</u>
\$ 90,486	\$ --	\$ 1,904,935
680	--	74,251
<u>91,166</u>		<u>1,979,186</u>
80,700	--	92,756
224,297	--	224,799
1,456,791	--	1,689,577
33,048	--	190,304
1,164,610	--	1,257,148
369,222	16,010	526,937
88,161	--	392,319
<u>3,416,829</u>	<u>16,010</u>	<u>4,373,840</u>
3,501,851	692,986	5,153,927
274,352	--	346,474
147,455	--	147,455
1,217,650	175,625	1,577,956
1,629,935	--	2,050,683
140,668	--	153,394
884,441	--	1,103,034
835,679	--	918,235
733,513	199,921	2,372,988
757,124	21	795,390
343,128	--	456,008
237,318	--	730,865
730,517	--	999,036
75,660	--	181,811
35,647	--	55,235
559,424	--	559,424
299,125	--	299,125
133,854	--	133,854
348,449	--	348,449
50,946	--	50,946
160,574	--	160,574
755	--	755
<u>13,098,065</u>	<u>1,068,553</u>	<u>18,595,618</u>

MYRTUE MEDICAL CENTER
 Patient Service Revenue - Continued
 Year ended June 30, 2006

	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Behavioral Health</u>	\$ --	\$ --
<u>Physician Clinic Services</u>		
Harlan	--	--
Avoca	--	--
Elk Horn	--	--
Shelby	--	--
	<u> --</u>	<u> --</u>
	<u> --</u>	<u> --</u>
Total All Services	<u>\$ 5,463,050</u>	<u>\$ 1,794,971</u>

See Independent Auditor's Report.

<u>Outpatient</u>	<u>Physician Services</u>	<u>Total</u>
\$ 251,078	\$ --	\$ 251,078
--	3,220,973	3,220,973
--	127,719	127,719
--	106,131	106,131
--	54,692	54,692
<u>--</u>	<u>3,509,515</u>	<u>3,509,515</u>
<u>\$ 16,857,138</u>	<u>\$ 4,594,078</u>	<u>\$ 28,709,237</u>

MYRTUE MEDICAL CENTER
Revenue and Related Adjustments
Year ended June 30, 2006

Net Patient Service Revenue

Patient service revenue	\$ 28,709,237
Contractual adjustment estimate, Medicare and Medicaid	(7,189,164)
Other contractual adjustments	(1,207,341)
Provision for bad debts	(703,226)
Charity care	(63,513)
Administrative adjustments	<u>(409,956)</u>
	<u>\$ 19,136,037</u>

Other Revenue

Cafeteria	\$ 72,127
Other dietary services	27,437
Rental income	62,058
Other	<u>68,403</u>
	<u>\$ 230,025</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Schedule of Expenses
Year ended June 30, 2006

	<u>Salaries and Wages</u>	<u>Employee Benefits</u>	<u>Supplies and Other Expenses</u>
<u>Daily Patient Services</u>			
Nursing service	\$ 1,926,959	\$ 139,988	\$ 117,003
<u>Other Nursing Services</u>			
Clinic room	272,219	19,490	23,811
Operating and recovery room	311,464	22,866	112,197
Delivery and labor room	118,837	8,580	7,819
Emergency service	185,343	13,780	24,231
Medical supplies	50,356	3,391	338,431
Intravenous therapy	--	--	87,659
Total other nursing services	<u>938,219</u>	<u>68,107</u>	<u>594,148</u>
<u>Other Professional Services</u>			
Laboratory	427,460	31,610	443,946
Electrocardiology	34,632	2,639	1,206
Cardiac rehabilitation	38,736	3,276	1,834
Radiology	340,487	24,247	359,442
CT scanning	--	--	54,056
Nuclear imaging	--	--	64,772
MRI	--	--	153,626
Pharmacy	213,479	15,200	524,973
Chemotherapy	15,350	1,177	288,886
Anesthesia	--	--	14,981
Respiratory therapy	104,364	7,944	80,840
Physical therapy	--	--	4,968
Occupational therapy	--	--	113
Speech therapy	--	--	--
Home Health	374,425	27,725	30,140
Public Health	295,507	23,933	62,718
Hospice	129,890	8,736	42,979
Family Planning	4,845	--	43,583
Occupational Health Outreach	50,504	3,934	24,794
Fitness Center	50,168	3,785	5,099
Medical records	247,164	17,976	61,817
Total other professional services	<u>2,327,011</u>	<u>172,182</u>	<u>2,264,773</u>

(continued next page)

<u>Professional Fees</u>	<u>Total Expenses</u>
\$ 7,670	\$ 2,191,620
3,464	318,984
2,094	448,621
--	135,236
207,798	431,152
--	392,178
--	87,659
<u>213,356</u>	<u>1,813,830</u>
133,866	1,036,882
--	38,477
--	43,846
--	724,176
--	54,056
--	64,772
--	153,626
--	753,652
--	305,413
328,333	343,314
--	193,148
370,098	375,066
64,122	64,235
38,725	38,725
30,170	462,460
--	382,158
--	181,605
94,044	142,472
40,966	120,198
--	59,052
--	326,957
<u>1,100,324</u>	<u>5,864,290</u>

MYRTUE MEDICAL CENTER
Schedule of Expenses - continued
Year ended June 30, 2006

	<u>Salaries and Wages</u>	<u>Employee Benefits</u>	<u>Supplies and Other Expenses</u>
<u>Behavioral Health</u>	\$ 139,373	\$ 10,592	\$ 22,438
<u>Physician Clinic Services</u>			
Harlan	907,159	190,962	199,499
Avoca	64,729	16,632	29,914
Elk Horn	80,817	22,491	22,734
Shelby	25,090	2,605	16,157
Total physician clinic services	<u>1,077,795</u>	<u>232,690</u>	<u>268,304</u>
<u>General Services</u>			
Dietary	341,099	23,998	204,704
Plant engineering	123,074	8,493	442,342
Housekeeping	210,767	15,445	60,893
Laundry and linen	29,940	2,177	85,387
Total general services	<u>704,880</u>	<u>50,113</u>	<u>793,326</u>
<u>Fiscal and Administrative</u>	<u>926,754</u>	<u>1,240,837</u>	<u>615,930</u>
Total all departments	<u>\$ 8,040,991</u>	<u>\$ 1,914,509</u>	<u>\$ 4,675,922</u>

See Independent Auditor's Report.

<u>Professional Fees</u>	<u>Total Expenses</u>
\$ --	\$ 172,403
1,444,385	2,742,005
39,629	150,904
27,469	153,511
<u>31,904</u>	<u>75,756</u>
1,543,387	3,122,176
--	569,801
--	573,909
--	287,105
--	<u>117,504</u>
--	1,548,319
<u>189,577</u>	<u>2,973,098</u>
<u>\$ 3,054,314</u>	<u>\$ 17,685,736</u>

MYRTUE MEDICAL CENTER
Comparative Statistics
Year ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Acute Care:					
Admissions	1,156	1,270	1,243	1,207	1,151
Discharges	1,155	1,273	1,240	1,207	1,150
Patient days	3,306	3,636	3,608	3,482	3,537
Average length of stay	2.9	2.9	2.9	2.9	3.1
Average daily census	9.1	10.0	9.9	9.5	9.7
Swing Bed:					
Admissions	390	425	438	395	447
Discharges	390	423	443	393	443
Patient days	2,264	2,722	2,745	2,906	4,326
Combined Average Daily Census	15.3	17.4	17.4	17.5	21.5
Nursery Days	188	209	264	301	260
Outpatient Visits	24,820	25,660	24,585	23,922	24,773

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
Myrtue Medical Center
Harlan, Iowa

We have audited the financial statements of Myrtue Medical Center as of and for the year ended June 30, 2006, and have issued our report thereon dated October 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Myrtue Medical Center'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 Myrtue Medical Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 06-I-A is a material weakness.

To the Board of Trustees
Myrtue Medical Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Myrtue Medical Center'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, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of Myrtue Medical Center 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.

Gronebold, Bell, Kybur + Co. P. C.
Atlantic, Iowa
October 23, 2006

MYRTUE MEDICAL CENTER
Schedule of Findings
Year ended June 30, 2006

PART I - REPORTABLE CONDITIONS

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

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

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

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

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

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

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

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

* * *