

PRAIRIE ROSE MENTAL HEALTH CENTER
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS
FOUR MONTHS ENDED OCTOBER 31, 2005 AND
YEAR ENDED JUNE 30, 2005

PRAIRIE ROSE MENTAL HEALTH CENTER

CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS:	
Balance Sheets	3
Statements of Activities	4
Statements of Changes in Net Assets (Deficit)	5
Statements of Cash Flows	6
Notes to Financial Statements	7
COMMENTS AND RECOMMENDATIONS:	
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	11
Schedule of Findings	13

PRAIRIE ROSE MENTAL HEALTH CENTER
Officials
October 31, 2005

<u>Board of Directors:</u>	<u>Address</u>	<u>Term Expires*</u>
Alan Hjelle, President	Elk Horn, Iowa	June, 2006
Cheryl Chipman, Vice President	Harlan, Iowa	June, 2006
Sue Assman, Secretary-Treasurer	Harlan, Iowa	June, 2007
Duane Magee	Harlan, Iowa	June, 2007
Robert Burton	Irwin, Iowa	June, 2006

* As described in Note A-1, the Board of Directors was discontinued after all business of the Health Center was combined with Myrtue Medical Center.

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

ROGER A. BELL
MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Prairie Rose Mental Health Center
Harlan, Iowa

We have audited the accompanying balance sheet of Prairie Rose Mental Health Center as of June 30, 2005, and the related statements of activities, changes in net assets (deficit), and cash flows for the year then ended. We have also audited the balance sheet in preparation for dissolution and merger of Prairie Rose Mental Health Center as of October 31, 2005, and the related statements of revenues, expenses, and changes in net assets (deficit) for the period of July 1, 2005 through October 31, 2005. These financial statements are the responsibility of the Center'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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards 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 described in Note A to the financial statements, Prairie Rose Mental Health Center was dissolved and merged with Myrtue Medical Center as of November 1, 2005. As a result, Prairie Rose Mental Health Center changed its basis of accounting for the period of July 1, 2005 to October 31, 2005 from the going concern basis to the dissolution basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prairie Rose Mental Health Center as of June 30, 2005, and the results of its operations, changes in net assets (deficit), and cash flows for the year then ended, and the financial position of Prairie Rose Mental Health Center as of October 31, 2005, and the results of its operations, changes in net assets (deficit), and cash flows for the period of July 1, 2005 to October 31, 2005 in preparation for dissolution and merger, 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 24, 2006 on our consideration of Prairie Rose Mental Health 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Gronewold, Bell, Kyhnn & Co. P.C.
Atlantic, Iowa
October 24, 2006

PRAIRIE ROSE MENTAL HEALTH CENTER
Balance Sheets

ASSETS

	<u>October 31,</u> <u>2005</u>	<u>June 30,</u> <u>2005</u>
Current Assets:		
Cash	\$ 12,580	\$ 6,614
Accounts receivable, less allowances for doubtful accounts and contractual adjustments (\$34,930 October 31, \$30,861 June 30)	73,994	78,532
Other receivables	9,292	13,483
Prepaid expense	<u>2,288</u>	<u>6,264</u>
Total current assets	98,154	104,893
Furniture and Equipment		
Less accumulated depreciation	<u>7,809</u>	<u>7,809</u>
Net furniture and equipment	<u>--</u>	<u>--</u>
Total assets	<u>\$ 98,154</u>	<u>\$ 104,893</u>

LIABILITIES AND NET ASSETS (DEFICIT)

Current Liabilities:		
Accounts payable	\$ 9,760	\$ 8,606
Accrued employee compensation	19,683	20,816
Payroll taxes withheld and accrued	3,806	3,345
Other payables	3,078	1,626
Due to related parties	<u>122,616</u>	<u>122,439</u>
Total current liabilities	158,943	156,832
Net Assets (Deficit):		
Unrestricted	<u>(60,789)</u>	<u>(51,939)</u>
Total liabilities and net assets	<u>\$ 98,154</u>	<u>\$ 104,893</u>

The accompanying notes are an integral part of these statements.

PRAIRIE ROSE MENTAL HEALTH CENTER
Statements of Activities

	<u>Four months ended October 31, 2005</u>	<u>Year ended June 30, 2005</u>
Support and Revenue:		
Support:		
Fees from county	\$ 33,389	\$ 99,105
Grants	<u>8,400</u>	<u>24,284</u>
Total support	41,789	123,389
Revenue:		
Client fees, net	78,411	232,140
Other revenue	<u>196</u>	<u>472</u>
Total revenue	<u>78,607</u>	<u>232,612</u>
 Total Support and Revenue	 120,396	 356,001
 Expenses:		
Salaries and wages	79,017	216,821
Employee benefits	14,923	39,357
Meetings, travel, and education	2,413	4,697
Supply costs	3,360	10,700
Rent	4,805	14,865
Insurance	3,758	11,777
Utilities and telephone	588	1,926
Purchased services	14,093	42,071
Dues and publications	289	2,142
Provision for bad debts	<u>6,000</u>	<u>15,421</u>
Total expenses	<u>129,246</u>	<u>359,777</u>
 Decrease in Unrestricted Net Assets	 <u><u>\$ (8,850)</u></u>	 <u><u>\$ (3,776)</u></u>

The accompanying notes are an integral part of these statements.

PRAIRIE ROSE MENTAL HEALTH CENTER
Statements of Changes in Net Assets (Deficit)

	Four months ended October 31, 2005	Year ended June 30, 2005
Unrestricted Net Assets:		
Decrease in Unrestricted Net Assets	\$(8,850)	\$(3,776)
Net Assets (Deficit) at Beginning of Year	(51,939)	(48,163)
Net Assets (Deficit) at End of Period	\$(60,789)	\$(51,939)

The accompanying notes are an integral part of these statements.

PRAIRIE ROSE MENTAL HEALTH CENTER
Statements of Cash Flows

	Four months ended October 31, 2005	Year ended June 30, 2005
Cash flows from operating activities:		
Cash received from clients, third-party payors, and public support	\$ 123,125	\$ 317,259
Cash paid to suppliers	(40,009)	(134,614)
Cash paid to employees	(80,150)	(218,465)
Net cash provided by (used in) operating activities	2,966	(35,820)
Cash flows from financing activities:		
Advance from Myrtue Medical Center	<u>3,000</u>	<u>28,500</u>
Net change in cash	5,966	(7,320)
Cash at beginning of year	<u>6,614</u>	<u>13,934</u>
Cash at end of period	<u>\$ 12,580</u>	<u>\$ 6,614</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$(8,850)	\$(3,776)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Provision for bad debts	6,000	15,421
Changes in assets and liabilities		
Accounts receivable	(1,462)	(30,985)
Other receivables	4,191	(7,757)
Prepaid expense	3,976	510
Due to related parties	(2,823)	(7,306)
Accounts payable	1,154	(1,340)
Accrued employee compensation	(1,133)	(1,644)
Payroll taxes withheld and accrued	461	954
Other payables	<u>1,452</u>	<u>103</u>
Total adjustments	<u>11,816</u>	<u>(32,044)</u>
Net cash provided by (used in) operating activities	<u>\$ 2,966</u>	<u>\$(35,820)</u>

The accompanying notes are an integral part of these statements.

PRAIRIE ROSE MENTAL HEALTH CENTER
Notes to Financial Statements
October 31, 2005 and June 30, 2005

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Nature of Activities

The Prairie Rose Mental Health Center is an Iowa not-for-profit corporation operating under Chapter 230A of the Code of Iowa and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is governed by a five member Board of Directors selected by the existing Board for one or two year terms. Of the five, three are also members of the Board of Myrtue Medical Center, a related organization (Note B). The Center is established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness in Shelby County and surrounding areas.

Effective October 31, 2005, Prairie Rose Mental Health Center ceased operations as a separate entity. As of November 1, 2005, the Center became a department of Myrtue Medical Center. Upon dissolution of the Center, the assets, liabilities and net deficit were assumed by Myrtue Medical Center. Since Prairie Rose Mental Health Center is no longer a going concern, the financial statements for the four months ended October 31, 2005 have been prepared on a dissolution basis of accounting. Implementation of the dissolution basis of accounting did not require any significant adjustments to be made to the financial statements.

2. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

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. Client Receivables

Client receivables are shown at the amount expected to be collected from clients and other third-party payors. The allowance for doubtful accounts is based on an aging of all the individual client balances. The allowance for contractual adjustments is based on the difference between the Center's normal fees and expected government program and insurance payments.

PRAIRIE ROSE MENTAL HEALTH CENTER
Notes to Financial Statements
October 31, 2005 and June 30, 2005

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Revenues and Support

- a. Fees from clients are recorded at list price with adjustments based upon ability to pay and government program and insurance limitations deducted to arrive at net fees from clients.
- b. Fees from Shelby County include a predetermined amount based on the Center's annual budget.
- c. Grant revenues are for specific programs provided by the Center and are recognized as income when grant requirements have been satisfied.

6. Capital Assets

The Center'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).

7. Charity Care

The Center provides care to clients who meet certain criteria under its charity care policy at amounts less than its regular rates. Revenue from services to these clients is recorded as indicated in 5. above. These reductions are recorded as adjustments to fees from clients.

8. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Center considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

PRAIRIE ROSE MENTAL HEALTH CENTER
Notes to Financial Statements
October 31, 2005 and June 30, 2005

NOTE B - RELATED ORGANIZATION

The Center (PRMHC) is related to Myrtue Medical Center (MMC) and to Shelby County Medical Corporation (SCMC) through shared board members and a sharing of administrative services. The activities of PRMHC are conducted in facilities rented from MMC. MMC has provided working capital to PRMHC and is reimbursed for costs it pays on behalf of PRMHC. Below is a summary of the activity and year end balances owed between PRMHC and the related entities as of and for the period ended:

	<u>October 31, 2005</u>	<u>June 30, 2005</u>
<u>Between PRMHC and MMC</u>		
Services purchased from MMC	\$ <u>7,512</u>	\$ <u>28,182</u>
Amount payable to MMC	\$ <u>122,616</u>	\$ <u>122,439</u>
<u>Between PRMHC and SCMC</u>		
Purchase of administrative services from SCMC	\$ <u>--</u>	\$ <u>3,186</u>

NOTE C - CLASSIFICATION OF EXPENSES

Following is a summary classifying expenses by function:

	<u>October 31, 2005</u>	<u>June 30, 2005</u>
Medical services costs	\$ 113,799	\$ 311,448
Administrative and general costs	<u>15,447</u>	<u>48,329</u>
Total expenses	<u>\$ 129,246</u>	<u>\$ 359,777</u>

PRAIRIE ROSE MENTAL HEALTH CENTER
Notes to Financial Statements
October 31, 2005 and June 30, 2005

NOTE D - CONCENTRATION OF CREDIT RISK

The Center grants credit without collateral to its clients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from clients and third-party payors at October 31, 2005 and June 30, 2005, was as follows:

	October 31, 2005	June 30, 2005
Medicare	9%	17%
Medicaid	18	20
Other third-party payors	23	23
Clients	50	40
	100%	100%

NOTE E - COMMITMENT AND CONTINGENCY

Pension Plan

The Center has established a defined contribution pension plan for all employees who meet age and service requirements. Under the plan the Center contributes five percent of each qualifying employee's wages. Each employee becomes vested in the contributions (and investment income allocated to the employee's account) after five years of service. Upon dissolution of the Center, employees became fully vested in their individual accounts.

Pension plan expense was approximately \$4,800 for the four months ended October 31, 2005 (\$10,900 in 2005).

Risk Management

The Center 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. Prairie Rose Mental Health Center 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.

* * *

COMMENTS AND RECOMMENDATIONS

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

ROGER A. BELL
MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

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 Directors
Prairie Rose Mental Health Center
Harlan, Iowa

We have audited the financial statements of Prairie Rose Mental Health Center as of and for the four months ended October 31, 2005, and have issued our report thereon dated October 24, 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 Prairie Rose Mental Health 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 Prairie Rose Mental Health 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 05-I-A is a material weakness.

To the Board of Directors
Prairie Rose Mental Health Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prairie Rose Mental Health 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 or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Center's operations for the four months ended October 31, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. 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 Prairie Rose Mental Health Center and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald, Bell, Kyhns + Co. P.C.

Atlantic, Iowa
October 24, 2006

PRAIRIE ROSE MENTAL HEALTH CENTER
Schedule of Findings
Four Months Ended October 31, 2005

PART I - REPORTABLE CONDITIONS

05-I-A Segregation of Duties: A limited number of people had 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 were, for all practical purposes, missing in the Center.

Recommendation: No recommendation is necessary due to the dissolution of Prairie Rose Mental Health Center.

Response: The Board was aware of this lack of segregation of duties, but it was not economically feasible for the Center to employ additional personnel for this reason. The Board acted as an oversight group.

Conclusion: Response accepted.

* * *