

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

YEARS ENDED JUNE 30, 2007 AND 2006

MYRTUE MEDICAL CENTER

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Myrtue Medical Center
Harlan, Iowa

We have audited the accompanying balance sheets Myrtue Medical Center as of June 30, 2007 and 2006, and the related statements of revenues and expenses, 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 opinions.

As explained in Note A, the 2006 statements of revenues and expenses and changes in net assets include only eight months of the operations of two component units. In our opinion, accounting principles generally accepted in the United States of America require that such entities be combined with these financial statements for the complete year.

In our opinion, except for the effects of exclusion (from the 2006 statements of revenues and expenses and changes in net assets) 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, 2007 and 2006, 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.

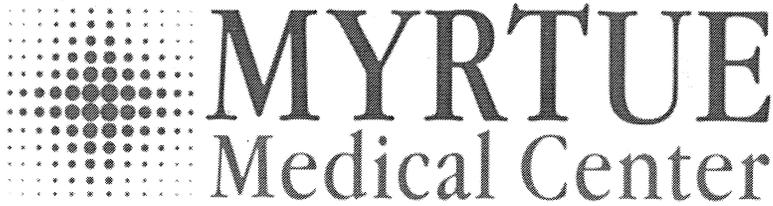
In accordance with Government Auditing Standards, we have also issued our report dated October 4, 2007, on our consideration of Myrtue Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 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 30) 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.

Gronewold, Bell, Kyburh + Co. P.C.
Atlantic, Iowa
October 4, 2007



1213 Garfield Ave
Harlan, IA 51537
712.755.5161

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MYRTUE MEDICAL CENTER Management's Discussion and Analysis

Our discussion and analysis of Myrtue Medical Center's (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The 2007 fiscal year was the first full year of Critical Access and hospital-based Rural Health Clinic designation for Myrtue Medical Center.

In 2007 the Hospital reported a decrease in Operating Income of \$254,200 when compared to the previous year. Conversely, in 2006, the Hospital reported an increase in Operating Income of \$382,400 compared to the previous year.

Non-operating revenues increased by \$282,700 or 35 percent in 2007 compared to 2006. This was due to an increase in reserves of \$1,600,000 and improved interest rates, which increased interest income by \$176,900. Non-operating revenues increased in 2006 by \$280,500 or 52 percent compared to 2005.

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 Statements of Revenues and 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.

CLINIC LOCATIONS

HARLAN
1220 Chaburn Ave
Harlan, IA 51537
712.755.5130

SHELBY
301 East
Shelby, IA 51570
712.544.2511

AVOCA
510 North Elm
Avoca, IA 51521
712.343.6455

ELK HORN
4022 North Main
Elk Horn, IA 51531
712.764.4642

HARLAN
1303 Garfield Ave
Harlan, IA 51537
712.755.5056

MYRTUE MEDICAL CENTER
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>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$ 7,781,066	\$ 7,803,628	\$ 4,836,617
Capital assets, net	11,995,777	12,444,209	12,544,794
Other noncurrent assets	<u>11,889,288</u>	<u>10,297,391</u>	<u>13,005,371</u>
Total assets	<u>\$ 31,666,131</u>	<u>\$ 30,545,228</u>	<u>\$ 30,386,782</u>
Liabilities:			
Long-term debt outstanding	\$ 423,455	\$ 525,650	\$ 910,000
Other current and noncurrent liabilities	<u>2,843,000</u>	<u>2,942,709</u>	<u>2,829,524</u>
Total liabilities	<u>\$ 3,266,455</u>	<u>\$ 3,468,359</u>	<u>\$ 3,739,524</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 11,572,322	\$ 11,918,559	\$ 11,634,794
Restricted for debt service		--	421,839
Restricted expendable net assets	70,517	62,728	56,440
Unrestricted	<u>16,756,837</u>	<u>15,095,582</u>	<u>14,534,185</u>
	<u>\$ 28,399,676</u>	<u>\$ 27,076,869</u>	<u>\$ 26,647,258</u>

Current assets remained approximately the same when compared to 2006. From 2005 to 2006, 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 necessary changes taking place. Transition to Critical Access and hospital-based Rural Health Clinic status, change of ownership of the clinics, transitioning the clinic to the Hospital's patient accounting software system, and new provider number applications all presented hurdles for the billing department during the 2006 fiscal year. This slowdown in collections during 2006 has been reversed in the 2007 year. Although net patient receivables have only decreased by \$140,000, gross patient revenues have increased by \$3,188,000 (11%) during that same period which demonstrates an improvement in days revenue in accounts receivable.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

Total assets of the Hospital increased by \$1,121,000. The major reason for this increase was due to an increase in reserves of \$1,600,000. Reserves decreased by \$400,000 from 2005 to 2006. Capital assets decreased by \$448,000 in 2007 and \$100,000 in 2006. Total liabilities have also decreased each of the last two years (\$202,000 in 2007 and \$271,000 in 2006).

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2007, the Hospital's net assets increased by \$1,323,000 or 4.9 percent, as shown in Table 2. Net assets increased by \$430,000 or 1.6 percent in 2006.

Table 2: Operating Results and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues:			
Net patient service revenue	\$ 22,063,227	\$ 19,136,037	\$ 14,710,140
Other operating revenues	<u>229,346</u>	<u>230,025</u>	<u>157,575</u>
Total operating revenues	22,292,573	19,366,062	14,867,715
Operating Expenses:			
Salaries and benefits	11,589,419	9,955,500	7,916,665
Professional fees	3,970,495	3,054,314	1,470,496
Depreciation	1,324,874	1,250,353	1,062,276
Other operating expenses	<u>5,232,011</u>	<u>4,675,922</u>	<u>4,370,697</u>
Total operating expenses	<u>22,116,799</u>	<u>18,936,089</u>	<u>14,820,134</u>
Operating income	175,774	429,973	47,581
Nonoperating Revenues and Expenses:			
County taxes	517,295	481,671	423,311
Investment income	568,911	392,042	283,893
Noncapital grants and contributions	63,244	48,123	39,013
Other nonoperating revenues and expenses, net	<u>(50,417)</u>	<u>(105,472)</u>	<u>(210,319)</u>
Nonoperating revenues (expenses), net	<u>1,099,033</u>	<u>816,364</u>	<u>535,898</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions, and Endowments	1,274,807	1,246,337	583,479
Grants, Contributions, and Endowments:			
Capital grants and contributions and endowments	<u>48,000</u>	<u>185,795</u>	<u>146,278</u>
Excess of Revenues over Expenses	1,322,807	1,432,132	729,757
Merger of Component Units	--	(1,002,521)	--
Net Assets Beginning of Year	<u>27,076,869</u>	<u>26,647,258</u>	<u>25,917,501</u>
Net Assets End of Year	<u>\$ 28,399,676</u>	<u>\$ 27,076,869</u>	<u>\$ 26,647,258</u>

MYRTUE MEDICAL CENTER
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 \$2,926,500 or 15 percent in 2007 compared to an increase of \$4,498,300 or 30 percent in net revenue in 2006.

The increase in salary and benefit costs for the Hospital's employees was \$1,633,900 or 16.4 percent in 2007 compared to \$2,038,800 or 25.7 percent in 2006.

An increase in professional fee costs of \$916,000 in 2007 compared to an increase of \$1,583,800 in 2006.

Other operating costs increased by \$556,100 in 2007 while depreciation expense increased by \$75,000.

Overall expenses increased 16.8 percent or \$3,180,700 in 2007 compared to 27.8 percent or \$4,116,000 in 2006.

The obvious large increases in all areas in both years are due to the addition of the four rural health clinics and the outpatient mental health center in November 2005. In 2006, these additions were included in operations for 8 months and a full 12 months for 2007.

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 2005 to 2007.

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 third 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 (\$455,295 in 2007 vs. \$620,320 in 1996). The Hospital's investment income is up \$176,900 or 45 percent in 2007 compared to an increase of \$108,000 or 38 percent in 2006.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

CONTRIBUTIONS AND ENDOWMENTS

During the current year, the Hospital received capital contributions of \$48,000. The main contributor was Shelby County Health Foundation providing \$23,000. In 2006 the Hospital received \$186,000 in capital contributions which consisted of \$170,000 from the Shelby County Health Foundation and \$16,000 from the Hospital Auxiliary.

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 2007 net cash provided by operating activities was \$1,479,000. In 2006, net cash was provided by operating activities in the amount of \$336,000.

Net cash used in capital and related financing activities in 2007 was \$906,000. In 2006, net cash used in capital and related financing activities was \$1,337,500.

Cash flows used in investing activities was \$861,000 in 2007. In 2006, net cash provided by investing activities was \$891,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2007, the Hospital had \$12 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. During 2007, the Hospital spent \$821,000 on equipment and building improvements. In 2006, \$1,198,000 was spent on new equipment and building projects.

Debt:

Hospital long term debt dropped by \$102,000 during 2007 due to the normal pay off of a note-related to a CT scanner purchased in 2006. 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 the CT scanner.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2007 was prepared on a modified accrual basis. As indicated on page 23, actual expenditures were approximately \$2,337,000 lower than budgeted.

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.

MYRTUE MEDICAL CENTER
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.

* * *

MYRTUE MEDICAL CENTER
Balance Sheets
June 30,

ASSETS

	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash	\$ 1,329,349	\$ 1,269,595
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$2,164,000 in 2007, \$2,330,000 in 2006)	5,300,313	5,440,411
Other receivables	74,647	88,790
Inventory	133,422	132,798
Prepaid expense	201,968	132,129
Succeeding year property tax receivable	451,000	440,000
Internally designated assets	<u>290,367</u>	<u>299,905</u>
Total current assets	7,781,066	7,803,628
Designated and Restricted Assets:		
Internally designated assets	11,639,708	10,047,936
Restricted assets	<u>70,517</u>	<u>62,728</u>
	11,710,225	10,110,664
Less amounts required to meet current liabilities	<u>290,367</u>	<u>299,905</u>
	11,419,858	9,810,759
Capital Assets:		
Depreciable capital assets, net	11,473,509	11,986,672
Non-depreciable capital assets	<u>522,268</u>	<u>457,537</u>
	11,995,777	12,444,209
Other Assets:		
Notes receivable	83,650	117,969
Related organization receivables	66,232	31,146
Deferred costs	58,335	75,842
Other	<u>261,213</u>	<u>261,675</u>
	469,430	486,632
Total assets	<u>\$ 31,666,131</u>	<u>\$ 30,545,228</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 107,000	\$ 102,000
Accounts payable	784,870	604,325
Accrued employee compensation	740,369	657,349
Payroll taxes withheld and accrued	199,740	115,711
Accrued interest	1,300	1,300
Estimated third-party payor settlements	530,000	925,000
Other current liabilities	132,840	193,000
Deferred revenue for succeeding year property tax receivable	<u>451,000</u>	<u>440,000</u>
Total current liabilities	2,947,119	3,038,685
Long-Term Debt, less current maturities	316,455	423,650
Deferred Grant Revenue	<u>2,881</u>	<u>6,024</u>
Total liabilities	3,266,455	3,468,359
Net Assets:		
Invested in capital assets, net of related debt	11,572,322	11,918,559
Restricted expendable	70,517	62,728
Unrestricted	<u>16,756,837</u>	<u>15,095,582</u>
Total net assets	<u>28,399,676</u>	<u>27,076,869</u>
Total liabilities and net assets	<u>\$ 31,666,131</u>	<u>\$ 30,545,228</u>

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

	<u>2007</u>	<u>2006</u>
Revenue:		
Net patient service revenue	\$ 22,063,227	\$ 19,136,037
Other revenue	<u>229,346</u>	<u>230,025</u>
Total revenue	22,292,573	19,366,062
Expenses:		
Salaries and wages	9,269,389	8,040,991
Employee benefits	2,320,030	1,914,509
Professional fees	3,970,495	3,054,314
Supplies and other expenses	5,232,011	4,675,922
Provision for depreciation	<u>1,324,874</u>	<u>1,250,353</u>
Total expenses	<u>22,116,799</u>	<u>18,936,089</u>
Operating Income	175,774	429,973
Non-Operating Revenues (Expenses):		
Investment income	568,911	392,042
Noncapital grants and contributions	63,244	48,123
County taxes	455,295	421,671
Behavioral health county revenue	62,000	60,000
Healthcare education loans, net	7,789	6,287
Interest expense	(20,388)	(32,924)
Contracted ambulance service	(58,000)	(29,000)
Income (loss) on disposal of assets	(198)	513
Clinic buildings cost, net	<u>20,380</u>	<u>(50,348)</u>
Non-operating revenues (expenses), net	<u>1,099,033</u>	<u>816,364</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,274,807	1,246,337
Capital Grants and Contributions	<u>48,000</u>	<u>185,795</u>
Increase in Net Assets	<u>\$ 1,322,807</u>	<u>\$ 1,432,132</u>

The accompanying notes are an integral part of these statements.

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

	<u>2007</u>	<u>2006</u>
Net Assets Beginning of Year	\$ 27,076,869	\$ 26,647,258
Change in Net Assets as a Result of Combining Previously Separate Component Units (Note K)	--	(1,002,521)
Increase in Net Assets	<u>1,322,807</u>	<u>1,432,132</u>
Net Assets End of Year	<u>\$ 28,399,676</u>	<u>\$ 27,076,869</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Statements of Cash Flows
Year ended June 30,

	2007	2006
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 21,822,468	\$ 17,706,070
Cash paid to suppliers	(11,386,420)	(9,516,785)
Cash paid to employees	(9,186,369)	(8,083,340)
Other revenue	229,346	230,025
Net cash provided by operating activities	1,479,025	335,970
Cash flows from non-capital financing activities:		
County tax revenue	517,295	481,671
Contracted ambulance service	(58,000)	(29,000)
Noncapital grants and contributions	67,890	54,979
Merger of SCMC and PRMHC	--	12,580
Net cash provided by non-capital financing activities	527,185	520,230
Cash flows from capital and related financing activities:		
Capital expenditures	(832,235)	(549,873)
Proceeds from disposal of assets	1,217	513
Payments on long-term debt	(102,195)	(936,804)
Capital grants and contributions	48,000	185,795
Interest paid	(20,388)	(37,168)
Net cash used in capital and related financing activities	(905,601)	(1,337,537)
Cash flows from investing activities:		
Investment income	568,911	392,042
Change in designated and restricted assets	(1,420,030)	1,194,618
Clinic buildings cost, net	20,380	(1,853)
Change in notes receivable	4,039	(9,925)
Related organization receivables, net	(35,086)	(602,339)
Deferred costs incurred	--	(87,510)
Change in other assets	462	5,557
Net cash provided by (used in) investing activities	(861,324)	890,590
Net increase in cash and cash equivalents	239,285	409,253
Cash and cash equivalents, beginning of year	1,933,836	1,524,583
Cash and cash equivalents, end of year	\$ 2,173,121	\$ 1,933,836

(continued next page)

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

	2007	2006
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,329,349	\$ 1,269,595
Cash in designated and restricted assets	843,772	664,241
Total cash and cash equivalents	\$ 2,173,121	\$ 1,933,836
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 175,774	\$ 429,973
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,324,874	1,250,353
Provision for bad debts	884,128	703,226
Amortization	47,787	61,806
Change in assets and liabilities		
Accounts receivable	(729,887)	(2,088,193)
Inventory	(624)	(15,279)
Prepaid expense	(69,839)	494
Accounts payable, trade	134,923	42,741
Accrued employee compensation	83,020	(42,349)
Estimated third-party payor settlements	(395,000)	(45,000)
Payroll taxes withheld and accrued	84,029	(25,357)
Other current liabilities	(60,160)	63,555
Total adjustments	1,303,251	(94,003)
Net cash provided by operating activities	\$ 1,479,025	\$ 335,970

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 provided by operating activities:

	2007	2006
Net Book Value of Asset Traded	\$ 7,996	\$ --
Capital Lease	--	552,454
Merger of SCMC and PRMHC with MMC	--	989,941
	\$ 7,996	\$ 1,542,395

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2007 and 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. The reorganized SCMC continues to operate as an excluded component unit of the Hospital, however, virtually all of its transactions are with the Hospital. It has limited assets and liabilities other than between SCMC and the Hospital. Therefore, combining the component unit would not have a material effect on these financial statements (See Note K).

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, 2007 and 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 either 2007 or 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 may elect to receive salary in lieu of PTO for hours accumulated in excess of 160, at the end of each quarter. 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, 2007 and 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, 2007 and 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, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare and Medicaid cost reports have been audited and finalized by the fiscal intermediaries through September 30, 2005. 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, 2007 and 2006

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Expendable restricted net assets are available for the following purposes:

	2007	2006
Healthcare education loans	\$ 70,517	\$ 62,728

The Hospital has no nonexpendable restricted net assets or endowments at June 30, 2007 or 2006.

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

	2007	2006
Purchase of property and equipment	\$ 48,000	\$ 185,795
Education loans forgiven	--	3,713
Pay long-term debt	--	421,838
	\$ 48,000	\$ 611,346

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 \$16,756,837 (\$15,095,582 in 2006) of unrestricted net assets, \$11,639,708 (\$10,047,936 in 2006) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	2007	2006
Capital acquisitions	\$ 10,795,463	\$ 9,390,353
Employee health insurance	844,245	657,583
	\$ 11,639,708	\$ 10,047,936

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2007 and 2006

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2007 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:

	2007	2006
Internally Designated Assets:		
Cash and cash equivalents	\$ 844,245	\$ 657,583
Certificates of deposit	9,870,000	8,452,055
U.S. Treasury obligations	850,013	850,013
Interest receivable	75,450	88,285
	\$ 11,639,708	\$ 10,047,936
Restricted Assets:		
Cash and cash equivalents	\$(473)	\$ 6,658
Education loans	70,990	56,070
	\$ 70,517	\$ 62,728

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, 2007 and 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, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Receivable from:		
Patients	\$ 2,411,070	\$ 2,050,628
Medicare	2,175,509	2,414,652
Medicaid	781,270	734,483
Wellmark	892,901	967,288
Other commercial insurance carriers	1,126,807	1,575,446
Others	<u>76,756</u>	<u>27,914</u>
	7,464,313	7,770,411
Less allowances for doubtful accounts and contractual adjustments	<u>(2,164,000)</u>	<u>(2,330,000)</u>
	<u>\$ 5,300,313</u>	<u>\$ 5,440,411</u>

NOTE G - CAPITAL ASSETS

Hospital capital assets, additions, disposals and balances for the years ended June 30, 2007 and 2006 were as follows:

<u>Cost</u>	<u>Balance 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2007</u>
Land Improvements	\$ 400,559	\$ 7,680	\$ --	\$ 408,239
Buildings	13,917,687	90,800	--	14,008,487
Fixed Equipment	3,273,814	146,039	--	3,419,853
Major Movable Equipment	<u>7,981,020</u>	<u>576,603</u>	<u>40,664</u>	<u>8,516,959</u>
	25,573,080	821,122	40,664	26,353,538
<u>Depreciation</u>				
Land Improvements	313,872	16,713	--	330,585
Buildings	5,066,652	500,688	--	5,567,340
Fixed Equipment	2,855,307	92,122	--	2,947,429
Major Movable Equipment	<u>5,350,577</u>	<u>715,351</u>	<u>31,253</u>	<u>6,034,675</u>
Total Depreciation	<u>13,586,408</u>	<u>1,324,874</u>	<u>31,253</u>	<u>14,880,029</u>
Depreciable Capital Assets, Net	<u>\$ 11,986,672</u>	<u>\$(503,752)</u>	<u>\$ 9,411</u>	<u>\$ 11,473,509</u>
Non-depreciable Capital Assets:				
Land	\$ 457,537	\$ --	\$ --	\$ 457,537
Construction in progress	<u>--</u>	<u>64,731</u>	<u>--</u>	<u>64,731</u>
	<u>\$ 457,537</u>	<u>\$ 64,731</u>	<u>\$ --</u>	<u>\$ 522,268</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2007 and 2006

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2006</u>
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 in 2006 (none in 2007) on the statement of revenues and expenses.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2007 and 2006

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2007 and 2006 follows:

	<u>Balance 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2007</u>	<u>Current Portion</u>
Long-Term Debt:					
Capital lease	\$ 525,650	\$ --	\$ 102,195	\$ 423,455	\$ 107,000
Other Liabilities:					
Deferred grant revenue	<u>6,024</u>	<u>--</u>	<u>3,143</u>	<u>2,881</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$ 531,674</u>	<u>\$ --</u>	<u>\$ 105,338</u>	<u>\$ 426,336</u>	<u>\$ 107,000</u>
	<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. Interest rates ranged from 6.0% to 7.5%. The notes were paid off in December, 2005.

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

	<u>2007</u>	<u>2006</u>
Medical Equipment	\$ 552,454	\$ 552,454
Less: Accumulated Amortization	<u>138,113</u>	<u>27,623</u>
Net Book Value	<u>\$ 414,341</u>	<u>\$ 524,831</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2007 and 2006

NOTE H - NON-CURRENT LIABILITIES - Continued

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

Year Ending June 30,	Capital Lease	
	Principal	Interest
2008	\$ 107,000	\$ 15,176
2009	110,606	11,570
2010	115,789	6,387
2011	<u>90,060</u>	<u>1,572</u>
	<u>\$ 423,455</u>	<u>\$ 34,705</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 \$3,143 (\$3,144 in 2006) is included in non-operating revenue on the statement of revenues and expenses.

NOTE I - 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% (3.90% July 1, 2007) of their annual salary and the Hospital is required to contribute 5.75% (6.05% July 1, 2007) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were approximately \$515,600, \$463,700, and \$355,300, respectively, equal to the required contributions for each year.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2007 and 2006

NOTE J - COMMITMENTS AND CONTINGENCIES

Shelby County Ambulance Commission

The Hospital has committed to participate in the support of the Shelby County Ambulance Commission along with Shelby County and the City of Harlan. The Commission is a private corporation which provides ambulance services to Shelby County and surrounding communities. The Hospital has agreed to provide financial support totaling \$58,000 in 2007-08.

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, 2007 and 2006 the Hospital had accumulated funds in excess of actual claims paid of approximately \$844,200 and \$657,600, 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, 2007 of approximately \$133,000 (\$193,000 in 2006) 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. Myrtue Medical 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.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2007 and 2006

NOTE K - 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 (MMC) 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:

	2007	2006
<u>Between SCMC and MMC After November 1, 2005</u>		
Purchase of services from SCMC	<u>\$ 2,325,997</u>	<u>\$ 1,469,162</u>
Sale of services to SCMC	<u>\$ 24,000</u>	<u>\$ 16,000</u>
Amount receivable from SCMC at year end	<u>\$ 66,232</u>	<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:

	2006
<u>Between SCMC and MMC</u>	
Sale of medical and other services to SCMC	<u>\$ 192,714</u>
Services and supplies purchased from SCMC	<u>\$ 12,979</u>
<u>Between PRMHC and MMH</u>	
Sale of services to PRMHC	<u>\$ 7,512</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2007 and 2006

NOTE K - RELATED ORGANIZATIONS - Continued

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Montgomery County Memorial Hospital of Red Oak) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

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

	<u>2007</u>	<u>2006</u>
Services purchased from HPSI	\$ <u>70,527</u>	\$ <u>103,944</u>
Services sold to HPSI	\$ <u>94,439</u>	\$ <u>49,307</u>
Amount due from (to) HPSI	\$ <u>548</u>	\$(<u>410</u>)
Member share of net assets	\$ <u>261,213</u>	\$ <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.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER
 Budgetary Comparison Schedule
 Year Ended June 30, 2007

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	\$ 517,295	\$ --	\$ 517,295
Other revenues	<u>22,992,910</u>	<u>7,789</u>	<u>23,000,699</u>
	23,510,205	7,789	23,517,994
Expenses	<u>22,195,187</u>	<u>--</u>	<u>22,195,187</u>
Net	1,315,018	7,789	1,322,807
Balance beginning of year	<u>27,014,141</u>	<u>62,728</u>	<u>27,076,869</u>
Balance end of year	<u>\$ 28,329,159</u>	<u>\$ 70,517</u>	<u>\$ 28,399,676</u>

	Total Financial Statements	Budget Adjustments	Budget Basis	Amended Budget
Amount raised by taxation	\$ 517,295	\$(62,000)	\$ 455,295	\$ 440,112
Other revenues	<u>23,000,699</u>	<u>62,000</u>	<u>23,062,699</u>	<u>24,541,550</u>
	23,517,994	--	23,517,994	24,981,662
Expenses	<u>22,195,187</u>	<u>--</u>	<u>22,195,187</u>	<u>24,532,200</u>
Net	1,322,807	--	1,322,807	449,462
Balance beginning of year	<u>27,076,869</u>	<u>220,401</u>	<u>27,297,270</u>	<u>27,297,270</u>
Balance end of year	<u>\$ 28,399,676</u>	<u>\$ 220,401</u>	<u>\$ 28,620,077</u>	<u>\$ 27,746,732</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MYRTUE MEDICAL CENTER
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 2,411,473	32.3%	\$ 2,105,162	27.1%
31 - 90	1,299,582	17.4	1,786,251	23.0
91 - 180	894,213	12.0	2,301,263	29.6
181 - 365	839,238	11.2	456,242	5.9
Over 365	<u>2,019,807</u>	<u>27.1</u>	<u>1,121,493</u>	<u>14.4</u>
	<u>7,464,313</u>	<u>100.0%</u>	<u>7,770,411</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	871,000		914,000	
Allowance for contractual adjustments	<u>1,293,000</u>		<u>1,416,000</u>	
	<u>\$ 5,300,313</u>		<u>\$ 5,440,411</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Balance, beginning	\$ 914,000	\$ 277,000
Provision for bad debts	884,128	703,226
Recoveries of accounts previously written off	<u>159,912</u>	<u>156,954</u>
	1,958,040	1,137,180
Accounts written off	<u>1,087,040</u>	<u>223,180</u>
Balance, ending	<u>\$ 871,000</u>	<u>\$ 914,000</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Patient Service Revenue
Year ended June 30,

	2007	
	Inpatient	Swing-Bed
<u>Daily Patient Services</u>		
Medical, surgical and obstetrical	\$ 1,548,382	\$ 441,425
Nursery	84,475	--
	1,632,857	441,425
<u>Other Nursing Services</u>		
Observation beds	9,733	--
Clinic room	20	--
Operating and recovery room	237,533	12,666
Delivery and labor room	178,543	--
Emergency service	64,267	--
Medical supplies	140,415	17,404
Intravenous therapy	158,941	38,163
	789,452	68,233
<u>Other Professional Services</u>		
Laboratory	789,398	150,879
Electrocardiology	62,385	3,072
Cardiac rehabilitation	--	--
Radiology	128,792	33,195
CT scanning	452,494	43,894
Nuclear imaging	9,240	2,439
Ultrasound	225,221	21,940
MRI	94,216	11,906
Pharmacy	1,005,956	596,662
Chemotherapy	36,546	34,167
Anesthesia	120,292	4,896
Respiratory therapy	358,171	160,639
Physical therapy	93,495	220,483
Occupational therapy	17,194	80,472
Speech therapy	11,153	9,639
Home Health	--	--
Hospice	--	--
Family Planning	--	--
Public Health	--	--
Fitness Center	--	--
Occupational Health Outreach	--	--
Other	--	--
	3,404,553	1,374,283

(continued next page)

		2007		2006	
Outpatient	Physician Services	Total	Total		
\$ 102,377	\$ --	\$ 2,092,184	\$ 1,904,935		
100	--	84,575	74,251		
<u>102,477</u>	<u>--</u>	<u>2,176,759</u>	<u>1,979,186</u>		
92,298	--	102,031	92,756		
202,059	--	202,079	224,799		
1,297,743	--	1,547,942	1,689,577		
35,514	--	214,057	190,304		
1,227,444	--	1,291,711	1,257,148		
326,339	31,086	515,244	526,937		
3,179	--	200,283	392,319		
<u>3,184,576</u>	<u>31,086</u>	<u>4,073,347</u>	<u>4,373,840</u>		
3,429,476	1,146,137	5,515,890	5,153,927		
261,121	--	326,578	346,474		
160,600	--	160,600	147,455		
1,186,797	279,253	1,628,037	1,577,956		
1,870,982	--	2,367,370	2,050,683		
126,140	--	137,819	153,394		
982,404	--	1,229,565	1,103,034		
750,612	--	856,734	918,235		
669,052	335,248	2,606,918	2,372,988		
646,450	1,099	718,262	795,390		
302,056	--	427,244	456,008		
345,823	--	864,633	730,865		
817,340	--	1,131,318	999,036		
110,630	--	208,296	181,811		
40,939	--	61,731	55,235		
639,899	--	639,899	559,424		
366,766	--	366,766	299,125		
160,583	--	160,583	133,854		
365,311	--	365,311	348,449		
37,306	--	37,306	50,946		
166,389	--	166,389	160,574		
300	--	300	755		
<u>13,436,976</u>	<u>1,761,737</u>	<u>19,977,549</u>	<u>18,595,618</u>		

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

	2007	
	Inpatient	Swing-Bed
<u>Behavioral Health</u>	\$ --	\$ --
<u>Physician Clinic Services</u>		
Harlan	--	--
Avoca	--	--
Elk Horn	--	--
Shelby	--	--
	--	--
 Total All Services	 \$ 5,826,862	 \$ 1,883,941

See Independent Auditor's Report.

		2007		2006	
Outpatient	Physician Services	Total	Total		
\$ 281,308	\$ --	\$ 281,308	\$ 251,078		
44,224	4,881,851	4,926,075	3,220,973		
--	217,465	217,465	127,719		
--	166,512	166,512	106,131		
--	78,328	78,328	54,692		
<u>44,224</u>	<u>5,344,156</u>	<u>5,388,380</u>	<u>3,509,515</u>		
<u>\$ 17,049,561</u>	<u>\$ 7,136,979</u>	<u>\$ 31,897,343</u>	<u>\$ 28,709,237</u>		

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

	<u>2007</u>	<u>2006</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 31,897,343	\$ 28,709,237
Contractual adjustment estimate	(8,902,161)	(8,396,505)
Provision for bad debts	(884,128)	(703,226)
Charity Care	(36,604)	(63,513)
Administrative adjustments	<u>(11,223)</u>	<u>(409,956)</u>
	<u>\$ 22,063,227</u>	<u>\$ 19,136,037</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 69,572	\$ 72,127
Other dietary services	30,806	27,437
Rental income	80,522	62,058
Other	<u>48,446</u>	<u>68,403</u>
	<u>\$ 229,346</u>	<u>\$ 230,025</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Schedule of Expenses
Year ended June 30,

	2007		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing service	\$ 1,932,657	\$ 482,553	\$ 163,165
<u>Other Nursing Services</u>			
Clinic room	284,106	61,746	36,092
Operating and recovery room	296,913	72,442	135,984
Delivery and labor room	194,318	43,121	22,111
Emergency service	217,948	56,945	33,940
Medical supplies	60,063	21,076	377,724
Intravenous therapy	--	--	69,702
Total other nursing services	1,053,348	255,330	675,553
<u>Other Professional Services</u>			
Laboratory	468,112	108,858	248,299
Electrocardiology	40,551	3,971	3,160
Cardiac rehabilitation	45,855	14,585	3,726
Radiology	356,336	95,613	332,118
CT scanning	--	--	19,491
Nuclear imaging	--	--	61,743
MRI	--	--	134,000
Pharmacy	227,606	56,841	520,161
Chemotherapy	24,407	2,615	235,696
Anesthesia	--	--	16,057
Respiratory therapy	122,204	33,984	103,552
Physical therapy	--	--	11,572
Occupational therapy	--	--	37
Speech therapy	--	--	--
Home Health	435,161	99,222	36,203
Public Health	296,711	103,865	93,345
Hospice	161,183	33,172	58,943
Family Planning	20,683	--	47,536
Occupational Health Outreach	52,333	8,969	21,206
Fitness Center	53,868	7,792	4,613
Medical records	224,139	64,092	65,052
Total other professional services	2,529,149	633,579	2,016,510

(continued next page)

<u>2007</u>			<u>2006</u>	
<u>Professional Fees</u>	<u>Depreciation Expense</u>	<u>Total Expenses</u>	<u>Total Expenses</u>	
\$ 18,069	\$ 68,189	\$ 2,664,633	\$ 2,191,620	
297	7,502	389,743	318,984	
1,512	71,419	578,270	448,621	
--	3,757	263,307	135,236	
197,100	14,096	520,029	431,152	
--	276	459,139	392,178	
--	--	69,702	87,659	
<u>198,909</u>	<u>97,050</u>	<u>2,280,190</u>	<u>1,813,830</u>	
140,287	26,515	992,071	1,036,882	
--	--	47,682	38,477	
--	1,861	66,027	43,846	
--	104,500	888,567	724,176	
--	110,491	129,982	54,056	
--	--	61,743	64,772	
--	--	134,000	153,626	
--	727	805,335	753,652	
--	--	262,718	305,413	
346,685	11,579	374,321	343,314	
--	12,046	271,786	193,148	
443,460	3,135	458,167	375,066	
84,092	35	84,164	64,235	
36,375	--	36,375	38,725	
31,180	5,079	606,845	462,460	
1,700	3,018	498,639	382,158	
--	--	253,298	181,605	
92,618	--	160,837	142,472	
6,541	58	89,107	120,198	
--	4,779	71,052	59,052	
--	21,135	374,418	326,957	
<u>1,182,938</u>	<u>304,958</u>	<u>6,667,134</u>	<u>5,864,290</u>	

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

	2007		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Behavioral Health</u>	\$ 174,446	\$ 36,619	\$ 62,979
<u>Physician Clinic Services</u>			
Harlan	1,511,393	358,090	593,142
Avoca	116,797	26,613	71,284
Elk Horn	139,949	35,272	46,880
Shelby	42,449	4,410	32,994
Total physician clinic services	<u>1,810,588</u>	<u>424,385</u>	<u>744,300</u>
<u>General Services</u>			
Dietary	347,531	115,880	229,909
Plant engineering	177,895	49,755	444,107
Housekeeping	220,890	69,208	43,417
Laundry and linen	29,428	9,481	87,693
Total general services	<u>775,744</u>	<u>244,324</u>	<u>805,126</u>
<u>Fiscal and Administrative</u>	993,457	243,240	764,378
<u>General Depreciation</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total all departments	<u>\$ 9,269,389</u>	<u>\$ 2,320,030</u>	<u>\$ 5,232,011</u>

See Independent Auditor's Report.

2007			2006	
Professional Fees	Depreciation Expense	Total Expenses	Total Expenses	
\$ --	\$ 256	\$ 274,300	\$ 172,403	
2,153,232	57,971	4,673,828	2,742,005	
69,134	1,805	285,633	150,904	
43,261	1,077	266,439	153,511	
60,370	214	140,437	75,756	
<u>2,325,997</u>	<u>61,067</u>	<u>5,366,337</u>	<u>3,122,176</u>	
--	8,970	702,290	569,801	
--	6,398	678,155	573,909	
--	1,854	335,369	287,105	
--	--	126,602	117,504	
<u>--</u>	<u>17,222</u>	<u>1,842,416</u>	<u>1,548,319</u>	
244,582	155,448	2,401,105	2,973,098	
<u>--</u>	<u>620,684</u>	<u>620,684</u>	<u>1,250,353</u>	
<u>\$ 3,970,495</u>	<u>\$ 1,324,874</u>	<u>\$ 22,116,799</u>	<u>\$ 18,936,089</u>	

MYRTUE MEDICAL CENTER
Comparative Statistics
Year ended June 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Acute Care:					
Admissions	1,197	1,156	1,270	1,243	1,207
Discharges	1,200	1,155	1,273	1,240	1,207
Patient days	3,510	3,306	3,636	3,608	3,482
Average length of stay	2.9	2.9	2.9	2.9	2.9
Average daily census	9.6	9.1	10.0	9.9	9.5
Swing Bed:					
Admissions	339	390	425	438	395
Discharges	336	390	423	443	393
Patient days	2,180	2,264	2,722	2,745	2,906
Combined Average Daily Census	15.6	15.3	17.4	17.4	17.5
Nursery Days	213	188	209	264	301
Outpatient Visits	27,774	24,820	25,660	24,585	23,922

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, 2007, and have issued our report thereon dated October 4, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Myrtue Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood a misstatement of the Hospital's financial statements, that is more than inconsequential, will not be prevented or detected by the Hospital's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Trustees
Myrtue Medical Center

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2007 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.

Myrtue Medical Center's response to findings identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Hospital's response, we did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Myrtue Medical Center and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald, Bell, Kyburh & Co. P.C.
Atlantic, Iowa
October 4, 2007

MYRTUE MEDICAL CENTER
Schedule of Findings
Year ended June 30, 2007

PART I - SIGNIFICANT DEFICIENCIES

07-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

07-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2007 did not exceed amounts budgeted therefore.

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

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

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

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

07-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.

* * *