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, 2008 AND 2007

MYRTUE MEDICAL CENTER

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MYRTUE MEDICAL CENTER
Officials
June 30, 2008

| Board of Trustees: | Address | Term Expires |
|---|---|---|
| Cheryl Chipman, Chairman | Harlan, Iowa | 2010 |
| Allan Hjelle, Vice-Chairman | Elk Horn, Iowa | 2010 |
| Todd Langenfeld, Secretary/Treasurer | Earling, Iowa | 2008 |
| Carmen Hosack | Harlan, Iowa | 2008 |
| Don Holdsworth | Irwin, Iowa | 2012 |
| Judy Tamm | Harlan, Iowa | 2012 |
| Larry Miller | Harlan, Iowa | 2012 |

| | |
|---|---|
| Chief Executive Officer: | |
| Mark Woodring | Harlan, Iowa |
| Chief Financial Officer: | |
| Barry Jacobsen | Portsmouth, Iowa |
| Chief Nursing Executive: | |
| Karen Buman | Harlan, Iowa |

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Myrtue Medical Center
Harlan, Iowa

We have audited the accompanying balance sheets Myrtue Medical Center as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Myrtue Medical Center as of June 30, 2008 and 2007, 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 29, 2008, 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 22 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 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 23 through 29) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements take as a whole.

Grouewald, Bell, Kyhun + Co. P.C.

Atlantic, Iowa
October 29, 2008

MYRTUE
Medical Center

1213 Garfield Ave
Harlan, IA 51537
712.755.5161

www.myrtuemedical.org

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, 2008, 2007, and 2006. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The 2008 fiscal year was the second full year of Critical Access and hospital-based Rural Health Clinic designation for Myrtue Medical Center.

In 2008 the Hospital reported an increase in Operating Income of $259,000 when compared to the previous year. Conversely, in 2007, the Hospital reported a decrease in Operating Income of $254,000 compared to the previous year.

Non-operating revenues of $1,075,00 stayed fairly consistent with the 2007 year.

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 Chatburn 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

DR. CARSON
ELK HORN
REHABILITATION
4022 North Main
Elk Horn, IA 51531
712.764.4642

BEHAVIORAL
HEALTH
1303 Garfield Ave
Harlan, IA 51537
712.755.5056

## 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

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Assets: | | | |
| Current assets | $ 8,726,777 | $ 7,847,298 | $ 7,803,628 |
| Capital assets, net | 13,007,267 | 11,995,777 | 12,444,209 |
| Other noncurrent assets | 13,020,114 | 11,823,056 | 10,297,391 |
| Total assets | $ 34,754,158 | $ 31,666,131 | $ 30,545,228 |
| Liabilities: | | | |
| Long-term debt outstanding | $ 316,916 | $ 423,455 | $ 525,650 |
| Other current and noncurrent liabilities | 3,798,249 | 2,843,000 | 2,942,709 |
| Total liabilities | $ 4,115,165 | $ 3,266,455 | $ 3,468,359 |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | $ 12,690,351 | $ 11,572,322 | $ 11,918,559 |
| Restricted expendable | 794,249 | 70,517 | 62,728 |
| Unrestricted | 17,154,393 | 16,756,837 | 15,095,582 |
| | $ 30,638,993 | $ 28,399,676 | $ 27,076,869 |

Current assets increased $880,000 from the previous year including a cash increase of $320,000 and net accounts receivable increase of $500,000. The increase in net accounts receivable was due to an 18% increase in gross revenues.

Capital assets increased by over $1,000,000 from the previous year. This was mostly due to the purchase of two pieces of land adjacent to hospital property costing $950,000. One of those plots is the future site of the wellness center.

Other noncurrent assets increased by $1,200,000 from the previous year. This increase is mainly due to an increase in restricted assets of $950,000. Investments held for the future construction of a wellness center makes up $710,000 and investments held for the future costs of the Iowa Family Planning project consists of $220,000.

Other current and noncurrent liabilities increased by $950,000 from last year. This increase was mainly caused by an increase of $436,000 in the estimated amount due to the third party payors. Deferred grant revenue also increased by $220,000 with the addition of the Iowa Family Planning Initiative grant.

## OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2008, the Hospital's net assets increased by $2,239,000 or 7.9 percent, as shown in Table 2. Net assets increased by $1,323,000 or 4.9 percent in 2007.

Table 2: Operating Results and Changes in Net Assets

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Operating Revenues: | | | |
| Net patient service revenue | $ 25,459,227 | $ 22,063,227 | $ 19,136,037 |
| Other operating revenues | 247,486 | 229,346 | 230,025 |
| Total operating revenues | 25,706,713 | 22,292,573 | 19,366,062 |
| Operating Expenses: | | | |
| Salaries and benefits | 13,110,169 | 11,589,419 | 9,955,500 |
| Professional fees | 4,551,943 | 3,970,495 | 3,054,314 |
| Depreciation | 1,346,618 | 1,324,874 | 1,250,353 |
| Other operating expenses | 6,263,435 | 5,232,011 | 4,675,922 |
| Total operating expenses | 25,272,165 | 22,116,799 | 18,936,089 |
| Operating income | 434,548 | 175,774 | 429,973 |
| Nonoperating Revenues and Expenses: | | | |
| County taxes | 515,308 | 517,295 | 481,671 |
| Investment income | 551,072 | 568,911 | 392,042 |
| Noncapital grants and contributions | 46,889 | 63,244 | 48,123 |
| Other nonoperating revenues and expenses, net | ( 38,230) | ( 50,417) | ( 105,472) |
| Nonoperating revenues (expenses), net | 1,075,039 | 1,099,033 | 816,364 |
| Excess of Revenues Over Expenses Before Capital Grants and Contributions, and Endowments | 1,509,587 | 1,274,807 | 1,246,337 |
| Grants, Contributions, and Endowments: | | | |
| Capital grants and contributions | 729,730 | 48,000 | 185,795 |
| Excess of Revenues over Expenses | 2,239,317 | 1,322,807 | 1,432,132 |
| Merger of Component Units | -- | -- | ( 1,002,521) |
| Net Assets Beginning of Year | 28,399,676 | 27,076,869 | 26,647,258 |
| Net Assets End of Year | $ 30,638,993 | $ 28,399,676 | $ 27,076,869 |

## 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 $3,414,000 or 15 percent in 2008 compared to an increase of $2,927,000 or 15 percent in net revenue in 2007.

The increase in salary and benefit costs for the Hospital's employees was $1,521,000 or 13 percent in 2008 compared to $1,634,000 or 16 percent in 2007.

An increase in professional fee costs of $581,000 in 2008 compared to an increase of $916,000 in 2007.

Other operating costs increased by $1,031,000 in 2008 compared to an increase of $556,000 in 2007.

Overall expenses increased 14.3 percent or $3,155,000 in 2008 compared to 16.8 percent or $3,180,700 in 2007.

The increases above were mainly due to an increase in volume of services provided:

| | % Increase | 2008 | 2007 |
|---|---|---|---|
| Inpatient Days | 9.0% | 6,221 | 5,690 |
| Average Daily Census | 9.0% | 17.0 | 15.6 |
| Births | 21.4% | 102 | 84 |
| Outpatient Hospital Visits | 7.1% | 29,750 | 27,774 |
| Physician Clinic Visits | 8.0% | 37,902 | 35,103 |

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 increased from $36,604 in 2007 to $233,111 in 2008.

## 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 fourth year in a row. 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 twelve years ago ($470,297 in 2008 vs. $620,320 in 1996). The Hospital's investment income has remained consistent with last year.

## CONTRIBUTIONS AND ENDOWMENTS

During the 2007 fiscal year, the Hospital started a fundraising campaign to build a $9.5 million wellness center. The Hospital has obtained pledges of approximately $6.1 million dollars which includes $700,000 in donations received during the 2008 fiscal year.

## 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 2008 net cash provided by operating activities was $1,809,000. In 2007, net cash provided by operating activities was $1,444,000.

Net cash used in capital and related financing activities in 2008 was $1,711,000. In 2007, net cash used in capital and related financing activities was $906,000.

Cash flows used in investing activities was $293,000 in 2008. In 2007, net cash used in investing activities was $827,000.

## CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2008, the Hospital had $13 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. During 2008, the Hospital spent $2,743,000 on land, equipment and building improvements. In 2007, $886,000 was spent on new equipment and building projects.

Debt:

Hospital long term debt dropped by $106,000 during 2008 due to the normal pay off of a note-related to a CT scanner purchased in 2006.

## BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2008 was prepared on a modified accrual basis. As indicated on page 22, actual expenditures were approximately $916,000 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.

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

| | 2008 | 2007 |
|---|---|---|
| Current Assets: | | |
| Cash | $ 1,645,460 | $ 1,329,349 |
| Patient receivables, less allowances for doubtful accounts and for contractual adjustments ($2,434,000 in 2008, $2,164,000 in 2007) | 5,804,271 | 5,300,313 |
| Other receivables | 119,028 | 74,647 |
| Related organization receivable | 115,887 | 66,232 |
| Inventory | 147,126 | 133,422 |
| Prepaid expense | 196,140 | 201,968 |
| Succeeding year property tax receivable | 503,000 | 451,000 |
| Internally designated assets | 421,865 | 290,367 |
| Total current assets | 8,952,777 | 7,847,298 |
| Designated and Restricted Assets: | | |
| Internally designated assets | 11,809,909 | 11,639,708 |
| Restricted assets | 1,017,701 | 70,517 |
| | 12,827,610 | 11,710,225 |
| Less amounts required to meet current liabilities | 421,865 | 290,367 |
| | 12,405,745 | 11,419,858 |
| Capital Assets: | | |
| Depreciable capital assets, net | 11,019,225 | 11,473,509 |
| Non-depreciable capital assets | 1,988,042 | 522,268 |
| | 13,007,267 | 11,995,777 |
| Other Assets: | | |
| Notes receivable | 75,106 | 83,650 |
| Deferred costs | 40,828 | 58,335 |
| Other | 272,435 | 261,213 |
| | 388,369 | 403,198 |
| Total assets | $ 34,754,158 | $ 31,666,131 |

The accompanying notes are an integral part of these statements.

## LIABILITIES AND NET ASSETS

| | 2008 | 2007 |
|---|---|---|
| Current Liabilities: | | |
| Current maturities of long-term debt | $ 111,000 | $ 107,000 |
| Accounts payable | 883,425 | 784,870 |
| Accrued employee compensation | 882,434 | 740,369 |
| Payroll taxes withheld and accrued | 101,475 | 199,740 |
| Accrued interest | 800 | 1,300 |
| Estimated third-party payor settlements | 966,000 | 530,000 |
| Other current liabilities | 237,663 | 132,840 |
| Deferred revenue for succeeding year property tax receivable | 503,000 | 451,000 |
| Total current liabilities | 3,685,797 | 2,947,119 |
| Long-Term Debt, less current maturities | 205,916 | 316,455 |
| Deferred Grant Revenue | 223,452 | 2,881 |
| Total liabilities | 4,115,165 | 3,266,455 |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 12,690,351 | 11,572,322 |
| Restricted expendable | 794,249 | 70,517 |
| Unrestricted | 17,154,393 | 16,756,837 |
| Total net assets | 30,638,993 | 28,399,676 |
| Total liabilities and net assets | $ 34,754,158 | $ 31,666,131 |

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

| | 2008 | 2007 |
|---|---|---|
| Revenue: | | |
| Net patient service revenue | $ 25,459,227 | $ 22,063,227 |
| Other revenue | 247,486 | 229,346 |
| Total revenue | 25,706,713 | 22,292,573 |
| Expenses: | | |
| Salaries and wages | 10,221,304 | 9,269,389 |
| Employee benefits | 2,888,865 | 2,320,030 |
| Professional fees | 4,551,943 | 3,970,495 |
| Supplies and other expenses | 6,263,435 | 5,232,011 |
| Provision for depreciation | 1,346,618 | 1,324,874 |
| Total expenses | 25,272,165 | 22,116,799 |
| Operating Income | 434,548 | 175,774 |
| Non-Operating Revenues (Expenses): | | |
| Investment income | 551,072 | 568,911 |
| Noncapital grants and contributions | 46,889 | 63,244 |
| County taxes | 470,297 | 455,295 |
| Behavioral health county revenue | 45,011 | 62,000 |
| Healthcare education loans, net | 13,663 | 7,789 |
| Interest expense | ( 15,358) | ( 20,388) |
| Contracted ambulance service | ( 62,004) | ( 58,000) |
| Income (loss) on disposal of assets | 4,897 | ( 198) |
| Clinic buildings cost, net | 20,572 | 20,380 |
| Non-operating revenues, net | 1,075,039 | 1,099,033 |
| Excess of Revenues Over Expenses Before Capital Grants and Contributions | 1,509,587 | 1,274,807 |
| Capital Grants and Contributions: | | |
| Wellness center | 702,230 | -- |
| Other | 27,500 | 48,000 |
| Increase in Net Assets | 2,239,317 | 1,322,807 |
| Net Assets Beginning of Year | 28,399,676 | 27,076,869 |
| Net Assets End of Year | $ 30,638,993 | $ 28,399,676 |

The accompanying notes are an integral part of these statements.

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

| | 2008 | 2007 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from patients and third-party payors | $ 25,272,236 | $ 21,822,468 |
| Cash paid to suppliers | ( 13,631,611) | ( 11,421,506) |
| Cash paid to employees | ( 10,079,239) | ( 9,186,369) |
| Other revenue | 247,486 | 229,346 |
| Net cash provided by operating activities | 1,808,872 | 1,443,939 |
| Cash flows from non-capital financing activities: | | |
| County tax revenue | 515,308 | 517,295 |
| Contracted ambulance service | ( 62,004) | ( 58,000) |
| Noncapital grants and contributions | 59,141 | 67,890 |
| Net cash provided by non-capital financing activities | 512,445 | 527,185 |
| Cash flows from capital and related financing activities: | | |
| Capital expenditures | ( 2,323,770) | ( 832,235) |
| Proceeds from disposal of assets | 4,897 | 1,217 |
| Payments on long-term debt | ( 106,539) | ( 102,195) |
| Capital grants and contributions | 729,730 | 48,000 |
| Interest paid | ( 15,858) | ( 20,388) |
| Net cash used in capital and related financing activities | ( 1,711,540) | ( 905,601) |
| Cash flows from investing activities: | | |
| Investment income | 592,408 | 568,911 |
| Change in designated and restricted assets | ( 861,186) | ( 1,420,030) |
| Clinic buildings cost, net | 20,572 | 20,380 |
| Change in notes receivable | ( 33,337) | 4,039 |
| Change in other assets | ( 11,222) | 462 |
| Net cash used in investing activities | ( 292,765) | ( 826,238) |
| Net increase in cash and cash equivalents | 317,012 | 239,285 |
| Cash and cash equivalents, beginning of year | 2,173,121 | 1,933,836 |
| Cash and cash equivalents, end of year | $ 2,490,133 | $ 2,173,121 |

(continued next page)

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

| | 2008 | 2007 |
|---|---|---|
| Reconciliation of cash and cash equivalents to the balance sheets: | | |
| Cash in current assets | $ 1,645,460 | $ 1,329,349 |
| Cash in designated and restricted assets | 844,673 | 843,772 |
| Total cash and cash equivalents | $ 2,490,133 | $ 2,173,121 |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | $ 434,548 | $ 175,774 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Provision for depreciation | 1,346,618 | 1,324,874 |
| Grant (capital stock) recognized | ( 74,652) | -- |
| Amortization | 59,388 | 47,787 |
| Change in assets and liabilities | | |
| Accounts receivable | ( 548,339) | 154,241 |
| Related organization receivable | ( 49,655) | ( 35,086) |
| Inventory | ( 13,704) | ( 624) |
| Prepaid expense | 5,828 | ( 69,839) |
| Accounts payable, trade | 64,217 | 134,923 |
| Accrued employee compensation | 142,065 | 83,020 |
| Estimated third-party payor settlements | 436,000 | ( 395,000) |
| Payroll taxes withheld and accrued | ( 98,265) | 84,029 |
| Other current liabilities | 104,823 | ( 60,160) |
| Total adjustments | 1,374,324 | 1,268,165 |
| Net cash provided by operating activities | $ 1,808,872 | $ 1,443,939 |

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:

| | 2008 | 2007 |
|---|---|---|
| Net Book Value of Asset Traded | $ -- | $ 7,996 |
| Capital Grant Deferred | 223,452 | -- |
| | $ 223,452 | $ 7,996 |

The accompanying notes are an integral part of these statements.

## 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 has one component unit, Shelby County Medical Corporation (SCMC). SCMC contracts physician services to the Hospital's physician clinics, and 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 J).

### 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.

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 2008 or 2007.

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.

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.

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

16. Net Assets

Net assets of the Hospital are classified in three 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 net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *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 June 30, 2006. 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.

## NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Expendable restricted net assets are available for the following purposes:

| | 2008 | 2007 |
|---|---|---|
| Healthcare education loans | $ 84,180 | $ 70,517 |
| Wellness center | 710,069 | -- |
| Family planning initiative | 223,452 | -- |
| Total restricted assets | $ 1,017,701 | $ 70,517 |

The Hospital has no nonexpendable restricted net assets or endowments at June 30, 2008 or 2007.

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

| | 2008 | 2007 |
|---|---|---|
| Purchase of property and equipment | $ 27,500 | $ 48,000 |
| Education loans forgiven | 1,470 | -- |
| Family planning initiative | 74,653 | -- |
| | $ 103,623 | $ 48,000 |

## 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 $17,154,393 ($16,756,837 in 2007) of unrestricted net assets, $11,809,909 ($11,639,708 in 2007) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

| | 2008 | 2007 |
|---|---|---|
| Capital acquisitions | $ 10,975,065 | $ 10,795,463 |
| Employee health insurance | 834,844 | 844,245 |
| | $ 11,809,909 | $ 11,639,708 |

## NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2008 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:

| | 2008 | 2007 |
|---|---|---|
| Internally Designated Assets: | | |
| Cash and cash equivalents | $ 834,844 | $ 844,245 |
| Certificates of deposit | 10,652,519 | 9,870,000 |
| U.S. Treasury obligations | -- | 850,013 |
| Capital stock | 256,768 | -- |
| Interest receivable | 65,778 | 75,450 |
| | $ 11,809,909 | $ 11,639,708 |
| Restricted Assets: | | |
| Cash and cash equivalents | $ 9,829 | $( 473) |
| Education loans | 79,532 | 70,990 |
| Certificates of deposit | 920,927 | -- |
| Accrued interest | 7,413 | -- |
| | $ 1,017,701 | $ 70,517 |

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.

## 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, 2008 and 2007, was as follows:

| | 2008 | 2007 |
|---|---|---|
| Receivable from: | | |
| Patients | $ 3,151,608 | $ 2,411,070 |
| Medicare | 2,834,443 | 2,175,509 |
| Medicaid | 559,724 | 781,270 |
| Wellmark | 887,863 | 892,901 |
| Other commercial insurance carriers | 746,919 | 1,126,807 |
| Others | 57,714 | 76,756 |
| | 8,238,271 | 7,464,313 |
| Less allowances for doubtful accounts and contractual adjustments | ( 2,434,000) | ( 2,164,000) |
| | $ 5,804,271 | $ 5,300,313 |

## NOTE G - CAPITAL ASSETS

Hospital capital assets, additions, disposals and balances for the years ended June 30, 2008 and 2007 were as follows:

| Cost | Balance 2007 | Additions | Disposals | Balance 2008 |
|---|---|---|---|---|
| Land Improvements | $ 408,239 | $ 47,725 | $ -- | $ 455,964 |
| Buildings | 14,008,487 | 246,787 | -- | 14,255,274 |
| Fixed Equipment | 3,419,853 | 41,271 | -- | 3,461,124 |
| Major Movable Equipment | 8,516,959 | 556,551 | 233,021 | 8,840,489 |
| | 26,353,538 | 892,334 | 233,021 | 27,012,851 |
| Depreciation | | | | |
| Land Improvements | 330,585 | 14,836 | -- | 345,421 |
| Buildings | 5,567,340 | 499,570 | -- | 6,066,910 |
| Fixed Equipment | 2,947,429 | 95,085 | -- | 3,042,514 |
| Major Movable Equipment | 6,034,675 | 737,127 | 233,021 | 6,538,781 |
| Total Depreciation | 14,880,029 | 1,346,618 | 233,021 | 15,993,626 |
| Depreciable Capital Assets, Net | $ 11,473,509 | $( 454,284) | $ -- | $ 11,019,225 |
| Non-depreciable Capital Assets: | | | | |
| Land | $ 457,537 | $ 972,539 | $ -- | $ 1,430,076 |
| Construction in progress | 64,731 | 878,107 | 384,872 | 557,966 |
| | $ 522,268 | $1,850,646 | $ 384,872 | $ 1,988,042 |

NOTE G - CAPITAL ASSETS - Continued

| Cost | Balance 2006 | Additions | Disposals | Balance 2007 |
|---|---|---|---|---|
| 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 | 7,981,020 | 576,603 | 40,664 | 8,516,959 |
| | 25,573,080 | 821,122 | 40,664 | 26,353,538 |
| Depreciation | | | | |
| 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 | 5,350,577 | 715,351 | 31,253 | 6,034,675 |
| Total Depreciation | 13,586,408 | 1,324,874 | 31,253 | 14,880,029 |
| Depreciable Capital Assets, Net | $ 11,986,672 | $( 503,752) | $ 9,411 | $ 11,473,509 |
| Non-depreciable Capital Assets: | | | | |
| Land | $ 457,537 | $ -- | $ -- | $ 457,537 |
| Construction in progress | -- | 64,731 | -- | 64,731 |
| | $ 457,537 | $ 64,731 | $ -- | $ 522,268 |

## NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2008 and 2007 follows:

| | Balance 2007 | Additions | Reductions | Balance 2008 | Current Portion |
|---|---|---|---|---|---|
| Long-Term Debt: | | | | | |
| Capital lease | $ 423,455 | $ -- | $ 106,539 | $ 316,916 | $ 111,000 |
| Other Liabilities: | | | | | |
| Deferred grant revenue | 2,881 | 223,452 | 2,881 | 223,452 | -- |
| Total Non-Current Liabilities | $ 426,336 | $ 223,452 | $ 109,420 | $ 540,368 | $ 111,000 |

| | Balance 2006 | Additions | Reductions | Balance 2007 | Current Portion |
|---|---|---|---|---|---|
| Long-Term Debt: | | | | | |
| Capital lease | $ 525,650 | $ -- | $ 102,195 | $ 423,455 | $ 107,000 |
| Other Liabilities: | | | | | |
| Deferred grant revenue | 6,024 | -- | 3,143 | 2,881 | -- |
| Total Non-Current Liabilities | $ 531,674 | $ -- | $ 105,338 | $ 426,336 | $ 107,000 |

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

| | 2008 | 2007 |
|---|---|---|
| Medical Equipment | $ 552,454 | $ 552,454 |
| Less: Accumulated Amortization | 248,604 | 138,113 |
| Net Book Value | $ 303,850 | $ 414,341 |

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 | Capital Lease Interest |
|---|---|---|
| 2009 | $ 111,000 | $ 11,109 |
| 2010 | 115,789 | 6,387 |
| 2011 | 90,127 | 1,572 |
| | $ 316,916 | $ 19,068 |

Deferred grant revenue at June 30, 2008 is the unearned portion of an Iowa Family Planning Initiative grant. The original grant totaled $298,104, with $74,652 earned by June 30, 2008.

Deferred grant revenue at June 30, 2007 was 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 $2,881 ($3,143 in 2007) 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 3.90% (4.10% July 1, 2008) of their annual salary and the Hospital is required to contribute 6.05% (6.35% July 1, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006, were approximately $600,100, $515,600, and $463,700, respectively, equal to the required contributions for each year.

## NOTE J - RELATED ORGANIZATIONS

Shelby County Medical Corporation

Shelby County Medical Corporation (SCMC) employs the physicians who staff the Hospital owned Rural Health Clinics. The Hospital purchases the physician services at a set cost per Relative Value Unit (RVU). SCMC is paid at an interim monthly rate, with a net settlement determined at year end, based on the total RVUs 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 and SCMC:

| | 2008 | 2007 |
|---|---|---|
| Purchase of services from SCMC | $ 2,555,507 | $ 2,325,997 |
| Sale of services to SCMC | $ 24,000 | $ 24,000 |
| Amount receivable from SCMC at year end | $ 115,887 | $ 66,232 |

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:

| | 2008 | 2007 |
|---|---|---|
| Services purchased from HPSI | $ 79,855 | $ 70,527 |
| Services sold to HPSI | $ 45,078 | $ 44,939 |
| Amount due from (to) HPSI | $ 1,134 | $ 548 |
| Member share of net assets | $ 272,435 | $ 261,213 |

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.

## NOTE K - COMMITMENTS AND CONTINGENCIES

Shelby County Ambulance Commission
The Hospital has committed to participate in the support of the Shelby County Ambulance Commission along with 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 $65,300 in 2008-09.

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, 2008 and 2007 the Hospital had accumulated funds in excess of actual claims paid of approximately $834,800 and $844,200, 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, 2008 of approximately $226,000 ($133,000 in 2007) 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.

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Future Projects
The Hospital has started the planning for two major construction and remodeling projects. By the date of this report no commitments had been signed, however, fundraising had started and preliminary planning costs had been incurred.

A. Wellness Center - The Hospital, in coordination with the Harlan community, has begun planning for the construction of a Community Wellness Center, currently estimated to cost approximately $9,500,000. Funds for this project will be obtained through grants, a community fund drive, and $2,000,000 from the Hospital. Hospital restricted funds include $710,000 collected for the project. The Hospital has incurred approximately $415,000 of planning and land acquisition costs related to the project, included in construction in progress at year end.

B. Remodeling and Construction - The Hospital has incurred approximately $495,000 of cost related to a facility master plan, included in construction in progress at year end. The project involves the relocation and modernization of all outpatient services and the remodeling of existing space for other uses. Because various scenarios are being considered, eventual cost of this project cannot currently be estimated. Funding for this project will be obtained through funds generated internally and the issue of debt.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER
Budgetary Comparison Schedule
Year Ended June 30, 2008

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 | $ 470,297 | $ -- | $ 470,297 |
| Other revenues | 26,367,315 | 751,232 | 27,118,547 |
| Transfers in (out) | 27,500 | ( 27,500) | -- |
| | 26,865,112 | 723,732 | 27,588,844 |
| Expenses | 25,349,527 | -- | 25,349,527 |
| Net | 1,515,585 | 723,732 | 2,239,317 |
| Balance beginning of year | 28,329,159 | 70,517 | 28,399,676 |
| Balance end of year | $ 29,844,744 | $ 794,249 | $ 30,638,993 |

| | Total Financial Statements | Budget Adjustments | Budget Basis | Amended Budget |
|---|---|---|---|---|
| Amount raised by taxation | $ 470,297 | $ -- | $ 470,297 | $ 450,617 |
| Other revenues | 27,118,547 | -- | 27,118,547 | 26,864,690 |
| | 27,588,844 | -- | 27,588,844 | 27,315,307 |
| Expenses | 25,349,527 | -- | 25,349,527 | 26,265,200 |
| Net | 2,239,317 | -- | 2,239,317 | 1,050,107 |
| Balance beginning of year | 28,399,676 | 709,749 | 29,109,425 | 29,109,425 |
| Balance end of year | $ 30,638,993 | $ 709,749 | $ 31,348,742 | $ 30,159,532 |

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MYRTUE MEDICAL CENTER
Patient Receivables
June 30,

Analysis of Aging:

| Days Since Discharge | 2008 Amount | 2008 Percent to Total | 2007 Amount | 2007 Percent to Total |
|---|---|---|---|---|
| 0 - 30 | $ 2,857,666 | 34.7% | $ 2,411,473 | 32.3% |
| 31 - 90 | 1,831,587 | 22.2 | 1,299,582 | 17.4 |
| 91 - 180 | 1,089,462 | 13.2 | 894,213 | 12.0 |
| 181 - 365 | 609,893 | 7.4 | 839,238 | 11.2 |
| Over 365 | 1,849,663 | 22.5 | 2,019,807 | 27.1 |
| | 8,238,271 | 100.0% | 7,464,313 | 100.0% |
| Less: | | | | |
| Allowance for doubtful accounts | 998,000 | | 871,000 | |
| Allowance for contractual adjustments | 1,436,000 | | 1,293,000 | |
| | $ 5,804,271 | | $ 5,300,313 | |

Allowance for Doubtful Accounts:

| | Year Ended June 30, 2008 | 2007 |
|---|---|---|
| Balance, beginning | $ 871,000 | $ 914,000 |
| Provision for bad debts | 1,031,044 | 884,128 |
| Recoveries of accounts previously written off | 200,541 | 159,912 |
| | 2,102,585 | 1,958,040 |
| Accounts written off | 1,104,585 | 1,087,040 |
| Balance, ending | $ 998,000 | $ 871,000 |

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Patient Service Revenue
Year ended June 30,

| | 2008 | |
|---|---|---|
| | Inpatient | Swing-Bed |
| Daily Patient Services | | |
| Medical, surgical and obstetrical | $ 1,651,635 | $ 616,880 |
| Nursery | 119,508 | -- |
| | 1,771,143 | 616,880 |
| Other Nursing Services | | |
| Observation beds | 15,593 | -- |
| Clinic room | -- | -- |
| Operating and recovery room | 210,692 | 12,067 |
| Delivery and labor room | 260,269 | -- |
| Emergency service | 67,314 | -- |
| Medical supplies | 106,412 | 20,285 |
| Intravenous therapy | 75,002 | 24,150 |
| | 735,282 | 56,502 |
| Other Professional Services | | |
| Laboratory | 768,255 | 265,658 |
| Electrocardiology | 52,744 | 3,360 |
| Cardiac rehabilitation | -- | -- |
| Radiology | 101,103 | 38,622 |
| CT scanning | 405,368 | 48,867 |
| Nuclear imaging | 3,432 | 3,169 |
| Ultrasound | 206,358 | 18,832 |
| MRI | 79,994 | 29,563 |
| Pharmacy | 1,204,639 | 1,018,477 |
| Chemotherapy | 25,328 | 73,600 |
| Anesthesia | 115,960 | 2,326 |
| Respiratory therapy | 314,574 | 219,856 |
| Physical therapy | 113,904 | 328,584 |
| Occupational therapy | 33,548 | 160,536 |
| Speech therapy | 13,810 | 23,319 |
| Home Health | -- | -- |
| Hospice | -- | -- |
| Family Planning | -- | -- |
| Public Health | -- | -- |
| Fitness Center | -- | -- |
| Occupational Health Outreach | -- | -- |
| Other | -- | -- |
| | 3,439,017 | 2,234,769 |

(continued next page)

| 2008 | | | 2007 |
|---|---|---|---|
| Outpatient | Physician Services | Total | Total |
| $ 109,884 | $ -- | $ 2,378,399 | $ 2,092,184 |
| -- | -- | 119,508 | 84,575 |
| 109,884 | -- | 2,497,907 | 2,176,759 |
| 112,259 | -- | 127,852 | 102,031 |
| 275,250 | -- | 275,250 | 202,079 |
| 1,473,317 | -- | 1,696,076 | 1,547,942 |
| 47,683 | -- | 307,952 | 214,057 |
| 1,490,446 | 663,072 | 2,220,832 | 1,813,030 |
| 340,622 | 44,289 | 511,608 | 515,244 |
| 1,393 | -- | 100,545 | 200,283 |
| 3,740,970 | 707,361 | 5,240,115 | 4,594,666 |
| 2,274,249 | 2,653,257 | 5,961,419 | 5,515,890 |
| 253,402 | -- | 309,506 | 326,578 |
| 165,267 | -- | 165,267 | 160,600 |
| 1,067,650 | 515,602 | 1,722,977 | 1,628,037 |
| 2,444,829 | -- | 2,899,064 | 2,367,370 |
| 135,748 | -- | 142,349 | 137,819 |
| 1,000,586 | -- | 1,225,776 | 1,229,565 |
| 958,189 | -- | 1,067,746 | 856,734 |
| 900,186 | 444,342 | 3,567,644 | 2,606,918 |
| 1,567,958 | 1,466 | 1,668,352 | 718,262 |
| 356,649 | -- | 474,935 | 427,244 |
| 271,708 | -- | 806,138 | 864,633 |
| 943,585 | -- | 1,386,073 | 1,131,318 |
| 116,544 | -- | 310,628 | 208,296 |
| 43,694 | -- | 80,823 | 61,731 |
| 828,352 | -- | 828,352 | 639,899 |
| 451,131 | -- | 451,131 | 366,766 |
| 305,234 | -- | 305,234 | 160,583 |
| 462,750 | -- | 462,750 | 365,311 |
| 36,798 | -- | 36,798 | 37,306 |
| 208,895 | -- | 208,895 | 166,389 |
| 1,720 | -- | 1,720 | 300 |
| 14,795,124 | 3,614,667 | 24,083,577 | 19,977,549 |

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

| | 2008 | |
|---|---|---|
| | Inpatient | Swing-Bed |
| Behavioral Health | $ -- | $ -- |
| Physician Clinic Services | | |
| Harlan | -- | -- |
| Avoca | -- | -- |
| Elk Horn | -- | -- |
| Shelby | -- | -- |
| | -- | -- |
| Total All Services | $ 5,945,442 | $ 2,908,151 |

See Independent Auditor's Report.

| 2008 | | | 2007 |
|---|---|---|---|
| Outpatient | Physician Services | Total | Total |
| $ 364,981 | $ -- | $ 364,981 | $ 281,308 |
| 81,139 | 4,955,993 | 5,037,132 | 4,404,756 |
| -- | 290,674 | 290,674 | 217,465 |
| -- | 188,682 | 188,682 | 166,512 |
| -- | 72,213 | 72,213 | 78,328 |
| 81,139 | 5,507,562 | 5,588,701 | 4,867,061 |
| $ 19,092,098 | $ 9,829,590 | $ 37,775,281 | $ 31,897,343 |

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

| | 2008 | 2007 |
|---|---|---|
| Net Patient Service Revenue | | |
| Patient service revenue | $ 37,775,281 | $ 31,897,343 |
| Contractual adjustment | ( 10,949,232) | ( 8,902,161) |
| Provision for bad debts | ( 1,031,044) | ( 884,128) |
| Charity Care | ( 233,111) | ( 36,604) |
| Administrative adjustments | ( 102,667) | ( 11,223) |
| | $ 25,459,227 | $ 22,063,227 |
| Other Revenue | | |
| Cafeteria | $ 75,015 | $ 69,572 |
| Other dietary services | 26,633 | 30,806 |
| Rental income | 81,561 | 80,522 |
| Other | 64,277 | 48,446 |
| | $ 247,486 | $ 229,346 |

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Schedule of Expenses
Year ended June 30,

| | 2008 | | |
|---|---|---|---|
| | Salaries and Wages | Employee Benefits | Supplies and Other Expenses |
| Daily Patient Services | | | |
| Nursing service | $ 2,205,805 | $ 633,676 | $ 192,157 |
| Other Nursing Services | | | |
| Clinic room | 327,301 | 82,269 | 37,513 |
| Operating and recovery room | 313,123 | 67,532 | 121,585 |
| Delivery and labor room | 175,356 | 37,946 | 25,158 |
| Emergency service | 261,915 | 66,499 | 44,050 |
| Medical supplies | 58,605 | 21,317 | 337,719 |
| Intravenous therapy | -- | -- | 56,397 |
| Total other nursing services | 1,136,300 | 275,563 | 622,422 |
| Other Professional Services | | | |
| Laboratory | 513,798 | 135,786 | 541,111 |
| Electrocardiology | 38,875 | 4,650 | 2,449 |
| Cardiac rehabilitation | 48,801 | 17,386 | 2,866 |
| Radiology | 409,645 | 118,669 | 296,260 |
| CT scanning | -- | -- | 150,885 |
| Nuclear imaging | -- | -- | 58,434 |
| MRI | -- | -- | 153,538 |
| Pharmacy | 245,290 | 68,413 | 600,609 |
| Chemotherapy | 14,157 | 1,477 | 694,979 |
| Anesthesia | -- | -- | 17,125 |
| Respiratory therapy | 126,743 | 43,986 | 100,047 |
| Physical therapy | -- | -- | 16,443 |
| Occupational therapy | -- | -- | 39 |
| Speech therapy | -- | -- | 10 |
| Home Health | 488,605 | 123,823 | 58,348 |
| Public Health | 332,727 | 124,335 | 112,140 |
| Hospice | 196,208 | 41,773 | 68,547 |
| Family Planning | 62,223 | 8,156 | 81,117 |
| Occupational Health Outreach | 52,358 | 7,852 | 25,288 |
| Fitness Center | 55,510 | 8,150 | 3,864 |
| Medical records | 224,656 | 67,303 | 117,881 |
| Total other professional services | 2,809,596 | 771,759 | 3,101,980 |

(continued next page)

| 2008 | | | 2007 |
|---|---|---|---|
| Professional Fees | Depreciation Expense | Total Expenses | Total Expenses |
| $ 34,340 | $ 68,237 | $ 3,134,215 | $ 2,664,633 |
| 1,187 | 7,159 | 455,429 | 389,743 |
| 8,365 | 61,594 | 572,199 | 578,270 |
| -- | 14,700 | 253,160 | 263,307 |
| 252,903 | 13,614 | 638,981 | 520,029 |
| -- | 276 | 417,917 | 459,139 |
| -- | -- | 56,397 | 69,702 |
| 262,455 | 97,343 | 2,394,083 | 2,280,190 |
| 144,161 | 31,007 | 1,365,863 | 1,252,329 |
| -- | -- | 45,974 | 47,682 |
| -- | 2,050 | 71,103 | 66,027 |
| -- | 98,138 | 922,712 | 946,386 |
| -- | 110,491 | 261,376 | 129,982 |
| -- | -- | 58,434 | 61,743 |
| -- | -- | 153,538 | 134,000 |
| -- | 727 | 915,039 | 805,335 |
| -- | -- | 710,613 | 262,718 |
| 425,952 | 6,409 | 449,486 | 374,321 |
| -- | 10,944 | 281,720 | 271,786 |
| 523,313 | 4,365 | 544,121 | 458,167 |
| 117,943 | 35 | 118,017 | 84,164 |
| 43,002 | -- | 43,012 | 36,375 |
| 73,157 | 7,301 | 751,234 | 606,845 |
| -- | 3,018 | 572,220 | 498,639 |
| -- | -- | 306,528 | 253,298 |
| 107,522 | -- | 259,018 | 160,837 |
| 2,541 | 58 | 88,097 | 89,107 |
| -- | 4,952 | 72,476 | 71,052 |
| -- | 17,196 | 427,036 | 374,418 |
| 1,437,591 | 296,691 | 8,417,617 | 6,985,211 |

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

| | 2008 | | |
|---|---|---|---|
| | Salaries and Wages | Employee Benefits | Supplies and Other Expenses |
| Behavioral Health | $ 284,680 | $ 81,966 | $ 72,784 |
| Physician Clinic Services | | | |
| Harlan | 1,575,605 | 444,286 | 416,605 |
| Avoca | 138,062 | 32,886 | 70,654 |
| Elk Horn | 135,835 | 40,072 | 32,838 |
| Shelby | 37,515 | 4,136 | 24,000 |
| Total physician clinic services | 1,887,017 | 521,380 | 544,097 |
| General Services | | | |
| Dietary | 367,280 | 136,320 | 245,426 |
| Plant engineering | 199,144 | 68,215 | 514,609 |
| Housekeeping | 235,502 | 88,121 | 51,919 |
| Laundry and linen | 33,267 | 11,529 | 93,166 |
| Total general services | 835,193 | 304,185 | 905,120 |
| Fiscal and Administrative | 1,062,713 | 300,336 | 824,875 |
| General Depreciation | -- | -- | -- |
| Total all departments | $ 10,221,304 | $ 2,888,865 | $ 6,263,435 |

See Independent Auditor's Report.

| 2008 | | | 2007 |
|---|---|---|---|
| Professional Fees | Depreciation Expense | Total Expenses | Total Expenses |
| $ -- | $ 1,211 | $ 440,641 | $ 274,300 |
| 2,370,733 | 79,993 | 4,887,222 | 4,416,880 |
| 72,590 | 2,056 | 316,248 | 269,226 |
| 43,544 | 1,615 | 253,904 | 253,573 |
| 68,640 | 629 | 134,920 | 135,739 |
| 2,555,507 | 84,293 | 5,592,294 | 5,075,418 |
| -- | 8,739 | 757,765 | 702,290 |
| -- | 15,073 | 797,041 | 678,155 |
| -- | 1,854 | 377,396 | 335,369 |
| -- | -- | 137,962 | 126,602 |
| -- | 25,666 | 2,070,164 | 1,842,416 |
| 262,050 | 156,688 | 2,606,662 | 2,373,947 |
| -- | 616,489 | 616,489 | 620,684 |
| $ 4,551,943 | $ 1,346,618 | $ 25,272,165 | $ 22,116,799 |

MYRTUE MEDICAL CENTER
Comparative Statistics
Year ended June 30,

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Acute Care: | | | | | |
| Admissions | 1,169 | 1,197 | 1,156 | 1,270 | 1,243 |
| Discharges | 1,163 | 1,200 | 1,155 | 1,273 | 1,240 |
| Patient days | 3,411 | 3,510 | 3,306 | 3,636 | 3,608 |
| Average length of stay | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| Average daily census | 9.3 | 9.6 | 9.1 | 10.0 | 9.9 |
| Swing Bed: | | | | | |
| Admissions | 362 | 339 | 390 | 425 | 438 |
| Discharges | 363 | 336 | 390 | 423 | 443 |
| Patient days | 2,810 | 2,180 | 2,264 | 2,722 | 2,745 |
| Combined Average Daily Census | 17.0 | 15.6 | 15.3 | 17.4 | 17.4 |
| Nursery Days | 262 | 213 | 188 | 209 | 264 |
| Outpatient Visits | 29,750 | 27,774 | 24,820 | 25,660 | 24,585 |

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, 2008, and have issued our report thereon dated October 29, 2008. 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, 2008 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.

Grouewald, Bell, Kyhnn + Co. P.C.
Atlantic, Iowa
October 29, 2008

MYRTUE MEDICAL CENTER
Schedule of Findings
Year ended June 30, 2008

PART I - SIGNIFICANT DEFICIENCIES

08-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. However, this situation is common in rural Hospitals.

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

08-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2008 did not exceed amounts budgeted therefore.

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

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

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

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

08-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.

* * *