

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, 2009 AND 2008

# MYRTUE MEDICAL CENTER

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MYRTUE MEDICAL CENTER  
Officials  
June 30, 2009

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Allan Hjelle, Chairperson	Elk Horn, Iowa	2010
Judy Tamm, Vice-Chairperson	Harlan, Iowa	2012
Don Holdsworth, Secretary/Treasurer	Irwin, Iowa	2012
Carmen Hosack	Harlan, Iowa	2014
Cheryl Chipman	Harlan, Iowa	2010
Larry Miller	Harlan, Iowa	2012
Frank Powers	Defiance, Iowa	2014
 <u>Chief Executive Officer:</u>		
Barry Jacobsen	Portsmouth, Iowa	
 <u>Interim Chief Financial Officer:</u>		
Michael Collins	Atlantic, Iowa	
 <u>Chief Nursing Executive:</u>		
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, 2009 and 2008, 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, 2009 and 2008, 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 28, 2009, 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.

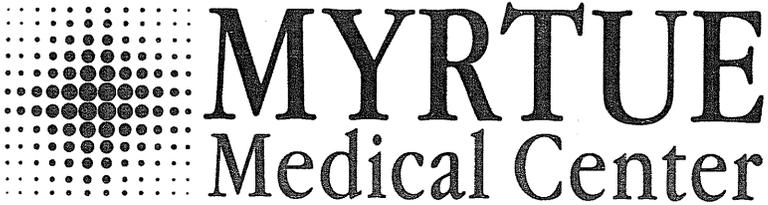
To the Board of Trustees  
Myrtue Medical Center

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 taken as a whole.

*Gronewald, Bell, Kghun + Co. P.C.*

Atlantic, Iowa  
October 28, 2009



1213 Garfield Ave  
Harlan, IA 51537  
712.755.5161

[www.myrtuemedical.org](http://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, 2009, 2008, and 2007. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

### FINANCIAL HIGHLIGHTS

The 2009 fiscal year was the third full year of Critical Access and hospital-based Rural Health Clinic designation for Myrtue Medical Center.

In 2009 the Hospital reported a decrease in Operating Income of \$333,000 when compared to the previous year. Conversely, in 2008, the Hospital reported an increase in Operating Income of \$259,000 compared to the previous year.

Non-operating revenues of \$908,000 stayed fairly consistent with the 2008 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

1220 Chatburn Ave  
Harlan, IA 51537  
712.755.5130

301 East  
Shelby, IA 51570  
712.544.2511

510 North Elm  
Avoca, IA 51521  
712.343.6455

4022 North Main  
Elk Horn, IA 51531  
712.764.4642

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>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current assets	\$ 9,981,813	\$ 8,952,777	\$ 7,847,298
Capital assets, net	13,845,941	13,007,267	11,995,777
Other noncurrent assets	<u>13,168,362</u>	<u>12,794,114</u>	<u>11,823,056</u>
Total assets	<u>\$ 36,996,116</u>	<u>\$ 34,754,158</u>	<u>\$ 31,666,131</u>
Liabilities:			
Long-term debt outstanding	\$ 205,849	\$ 316,916	\$ 423,455
Other current and noncurrent liabilities	<u>4,008,960</u>	<u>3,798,249</u>	<u>2,843,000</u>
Total liabilities	<u>\$ 4,214,809</u>	<u>\$ 4,115,165</u>	<u>\$ 3,266,455</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 13,421,712	\$ 12,690,351	\$ 11,572,322
Restricted expendable	871,330	794,249	70,517
Unrestricted	<u>18,488,265</u>	<u>17,154,393</u>	<u>16,756,837</u>
	<u>\$ 32,781,307</u>	<u>\$ 30,638,993</u>	<u>\$ 28,399,676</u>

Current assets increased \$1,029,000 from the previous year including a cash increase of \$1,654,000 and net accounts receivable decrease of \$836,000. The decrease in net accounts receivable was due to a 2% decrease in gross revenues and an increased focus on collections.

Capital assets increased by \$839,000 from the previous year. This was mostly due to construction in progress of the Wellness Center in the amount of \$1,726,000.

Other noncurrent assets increased by \$374,000 from the previous year. This increase is mainly due to an increase in internally designated assets of \$420,000.

Other current and noncurrent liabilities increased by \$211,000 from last year. This increase was mainly caused by an increase in accounts payable at year end.

MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2009, the Hospital's net assets increased by \$2,142,000 or 7.0 percent, as shown in Table 2. Net assets increased by \$2,239,000 or 7.9 percent in 2008.

Table 2: Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues:			
Net patient service revenue	\$ 24,513,230	\$ 25,459,227	\$ 22,063,227
Other operating revenues	<u>254,802</u>	<u>247,486</u>	<u>229,346</u>
Total operating revenues	24,768,032	25,706,713	22,292,573
Operating Expenses:			
Salaries and benefits	12,879,437	13,110,169	11,589,419
Professional fees	4,250,285	4,551,943	3,970,495
Depreciation	1,324,322	1,346,618	1,324,874
Other operating expenses	<u>6,212,655</u>	<u>6,263,435</u>	<u>5,232,011</u>
Total operating expenses	<u>24,666,699</u>	<u>25,272,165</u>	<u>22,116,799</u>
Operating income	101,333	434,548	175,774
Nonoperating Revenues and Expenses:			
County taxes	557,746	515,308	517,295
Investment income	371,328	551,072	568,911
Noncapital grants and contributions	38,656	46,889	63,244
Other nonoperating revenues and expenses, net	<u>( 60,056)</u>	<u>( 38,230)</u>	<u>( 50,417)</u>
Nonoperating revenues (expenses), net	<u>907,674</u>	<u>1,075,039</u>	<u>1,099,033</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions, and Endowments	1,009,007	1,509,587	1,274,807
Grants, Contributions, and Endowments:			
Capital grants and contributions	<u>1,133,307</u>	<u>729,730</u>	<u>48,000</u>
Excess of Revenues over Expenses	2,142,314	2,239,317	1,322,807
Net Assets Beginning of Year	<u>30,638,993</u>	<u>28,399,676</u>	<u>27,076,869</u>
Net Assets End of Year	<u>\$ 32,781,307</u>	<u>\$ 30,638,993</u>	<u>\$ 28,399,676</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 eleven years.

The primary components of the operating income are:

A decrease in net revenue of \$946,000, a 4 percent decrease, in 2009 compared to an increase of \$3,414,000 or 15 percent in net revenue in 2008.

The decrease in salary and benefit costs for the Hospital's employees was \$231,000, a 2 percent decrease, in 2009 compared to an increase of \$1,521,000 or 13 percent in 2008.

A decrease in professional fee costs of \$302,000, a 7 percent decrease, in 2009 compared to an increase of \$581,000 or 15 percent in 2008.

Other operating costs decreased by \$51,000, a 1 percent decrease, in 2009 compared to an increase of \$1,031,000 or 20 percent in 2008.

Overall expenses decreased 2.4 percent or \$605,000 in 2009 compared to an increase of 14.3 percent or \$3,155,000 in 2008.

The decreases above were mainly due to decreases in volume of services provided:

	<u>% Decrease</u>	<u>2009</u>	<u>2008</u>
Inpatient Days	(13.2 %)	5,401	6,221
Average Daily Census	(12.9 %)	14.8	17.0
Physician Clinic Visits	(8.1 %)	34,799	37,902

The current shortage of professional caregivers and technologists continues to drive up some 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 \$233,111 in 2008 to \$288,509 in 2009.

MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis - Continued

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 fifth 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 thirteen years ago (\$512,462 in 2009 vs. \$620,320 in 1996). The Hospital's investment income has declined due to significant drops in interest rates.

CONTRIBUTIONS AND ENDOWMENTS

During the 2007 fiscal year, the Hospital started a fundraising campaign to build a \$10 million wellness center. The Hospital has obtained pledges of approximately \$6.9 million dollars which includes \$1,100,000 in donations received during the 2009 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 2009 net cash provided by operating activities was \$2,332,000. In 2008, net cash provided by operating activities was \$1,809,000.

Net cash used in capital and related financing activities in 2009 was \$1,016,000. In 2008, net cash used in capital and related financing activities was \$1,711,000.

Cash flows provided by investing activities was \$1,221,000 in 2009. In 2008, net cash used in investing activities was \$293,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2009, the Hospital had \$14 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. During 2009, the Hospital spent \$2,163,000 on land, equipment and building improvements. In 2008, \$2,358,000 was spent on new equipment and building projects.

Debt:

Hospital long term debt dropped by \$111,000 during 2009 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, 2009 was prepared on a modified accrual basis. As indicated on page 22, actual expenditures were approximately \$3,540,000 lower than budgeted due to a decrease in volume of services provided.

MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis - Continued

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.

The effect of national health care reform is unknown as of the date of this report.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Myrtue Medical Center, 1213 Garfield Avenue, Harlan, Iowa 51537.

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MYRTUE MEDICAL CENTER  
Balance Sheets  
June 30,

ASSETS

	<u>2009</u>	<u>2008</u>
<b>Current Assets:</b>		
Cash	\$ 3,299,522	\$ 1,645,460
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$2,109,000 in 2009, \$2,434,000 in 2008)	4,968,276	5,804,271
Other receivables	135,360	102,125
Related organization receivable	127,055	132,790
Inventory	156,931	147,126
Prepaid expense	186,384	196,140
Succeeding year property tax receivable	526,600	503,000
Internally designated assets	<u>581,685</u>	<u>421,865</u>
Total current assets	9,981,813	8,952,777
<b>Designated and Restricted Assets:</b>		
Internally designated assets	12,230,696	11,809,909
Restricted assets	<u>1,142,575</u>	<u>1,017,701</u>
	13,373,271	12,827,610
Less amounts required to meet current liabilities	<u>581,685</u>	<u>421,865</u>
	12,791,586	12,405,745
<b>Capital Assets:</b>		
Depreciable capital assets, net	10,258,365	11,019,225
Non-depreciable capital assets	<u>3,587,576</u>	<u>1,988,042</u>
	13,845,941	13,007,267
<b>Other Assets:</b>		
Notes receivable	53,443	75,106
Deferred costs	23,322	40,828
Other	<u>300,011</u>	<u>272,435</u>
	<u>376,776</u>	<u>388,369</u>
Total assets	<u>\$ 36,996,116</u>	<u>\$ 34,754,158</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 116,000	\$ 111,000
Accounts payable	1,108,513	883,425
Accrued employee compensation	905,633	882,434
Payroll taxes withheld and accrued	97,898	101,475
Accrued interest	800	800
Estimated third-party payor settlements	850,000	966,000
Other current liabilities	248,271	237,663
Deferred revenue for succeeding year property tax receivable	<u>526,600</u>	<u>503,000</u>
Total current liabilities	3,853,715	3,685,797
Long-Term Debt, less current maturities	89,849	205,916
Deferred Revenue	<u>271,245</u>	<u>223,452</u>
Total liabilities	4,214,809	4,115,165
Net Assets:		
Invested in capital assets, net of related debt	13,421,712	12,690,351
Restricted expendable	871,330	794,249
Unrestricted	<u>18,488,265</u>	<u>17,154,393</u>
Total net assets	<u>32,781,307</u>	<u>30,638,993</u>
Total liabilities and net assets	<u>\$ 36,996,116</u>	<u>\$ 34,754,158</u>

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

	<u>2009</u>	<u>2008</u>
Revenue:		
Net patient service revenue	\$ 24,513,230	\$ 25,459,227
Other revenue	<u>254,802</u>	<u>247,486</u>
Total revenue	24,768,032	25,706,713
Expenses:		
Salaries and wages	10,475,840	10,221,304
Employee benefits	2,403,597	2,888,865
Professional fees	4,250,285	4,551,943
Supplies and other expenses	6,212,655	6,263,435
Provision for depreciation	<u>1,324,322</u>	<u>1,346,618</u>
Total expenses	<u>24,666,699</u>	<u>25,272,165</u>
Operating Income	101,333	434,548
Non-Operating Revenues (Expenses):		
Investment income	371,328	551,072
Noncapital grants and contributions	38,656	46,889
County taxes	512,462	470,297
Behavioral health county revenue	45,284	45,011
Healthcare education loans, net	( 5,660)	13,663
Interest expense	( 12,383)	( 15,358)
Contracted ambulance service	( 65,328)	( 62,004)
Income on disposal of assets	2,853	4,897
Clinic buildings revenue, net	<u>20,462</u>	<u>20,572</u>
Non-operating revenues, net	<u>907,674</u>	<u>1,075,039</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,009,007	1,509,587
Capital Grants and Contributions:		
Wellness center	1,118,307	702,230
Other	<u>15,000</u>	<u>27,500</u>
Increase in Net Assets	2,142,314	2,239,317
Net Assets Beginning of Year	<u>30,638,993</u>	<u>28,399,676</u>
Net Assets End of Year	<u>\$ 32,781,307</u>	<u>\$ 30,638,993</u>

The accompanying notes are an integral part of these statements.

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

	2009	2008
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 25,247,783	\$ 25,289,139
Cash paid to suppliers	( 12,718,379)	( 13,648,514)
Cash paid to employees	( 10,452,641)	( 10,079,239)
Other revenue	<u>254,802</u>	<u>247,486</u>
Net cash provided by operating activities	2,331,565	1,808,872
Cash flows from non-capital financing activities:		
County tax revenue	557,746	515,308
Contracted ambulance service	( 65,328)	( 62,004)
Noncapital grants and contributions	<u>53,974</u>	<u>59,141</u>
Net cash provided by non-capital financing activities	546,392	512,445
Cash flows from capital and related financing activities:		
Capital expenditures	( 2,029,481)	( 2,323,770)
Proceeds from disposal of assets	2,853	4,897
Payments on long-term debt	( 111,067)	( 106,539)
Capital grants and contributions	1,133,307	729,730
Interest paid	<u>( 12,383)</u>	<u>( 15,858)</u>
Net cash used in capital and related financing activities	( 1,016,771)	( 1,711,540)
Cash flows from investing activities:		
Investment income	442,769	592,408
Change in designated and restricted assets	790,303	( 861,186)
Clinic buildings, net	20,462	20,572
Change in notes receivable	( 4,699)	( 33,337)
Change in other assets	<u>( 27,576)</u>	<u>( 11,222)</u>
Net cash provided by (used in) investing activities	<u>1,221,259</u>	<u>( 292,765)</u>
Net increase in cash and cash equivalents	3,082,445	317,012
Cash and cash equivalents, beginning of year	<u>2,490,133</u>	<u>2,173,121</u>
Cash and cash equivalents, end of year	<u>\$ 5,572,578</u>	<u>\$ 2,490,133</u>

(continued next page)

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

	2009	2008
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 3,299,522	\$ 1,645,460
Cash in designated and restricted assets	2,273,056	844,673
Total cash and cash equivalents	\$ 5,572,578	\$ 2,490,133
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 101,333	\$ 434,548
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,324,322	1,346,618
Grant (capital stock) recognized	--	( 74,652)
Amortization	43,868	59,388
Change in assets and liabilities		
Accounts receivable	802,760	( 531,436)
Related organization receivable	5,735	( 66,558)
Inventory	( 9,805)	( 13,704)
Prepaid expense	9,756	5,828
Accounts payable, trade	91,573	64,217
Accrued employee compensation	23,199	142,065
Estimated third-party payor settlements	( 116,000)	436,000
Payroll taxes withheld and accrued	( 3,577)	( 98,265)
Other current liabilities	10,608	104,823
Deferred revenue	47,793	--
Total adjustments	2,230,232	1,374,324
Net cash provided by operating activities	\$ 2,331,565	\$ 1,808,872

Non-Cash Transaction:

The Hospital also incurred the following non-cash transaction in addition to the transactions reflected in the reconciliation of operating income to net cash provided by operating activities:

	2009	2008
Grant (Capital Stock) Deferred	\$ --	\$ 223,452

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2009 and 2008

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.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2009 and 2008

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 2009 or 2008.

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, 2009 and 2008

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, 2009 and 2008

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, 2007. 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, 2009 and 2008

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Expendable restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Healthcare education loans	\$ 78,520	\$ 84,180
Wellness center	792,810	710,069
Family planning initiative	<u>271,245</u>	<u>223,452</u>
	<u>\$ 1,142,575</u>	<u>\$ 1,017,701</u>

The Hospital has no nonexpendable restricted net assets or endowments at June 30, 2009 or 2008.

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

	<u>2009</u>	<u>2008</u>
Purchase of property and equipment	\$ 1,069,761	\$ 27,500
Education loans forgiven	20,978	1,470
Family planning initiative	<u>264,388</u>	<u>74,653</u>
	<u>\$ 1,355,127</u>	<u>\$ 103,623</u>

NOTE D - DESIGNATED NET ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$18,488,265 (\$17,154,393 in 2008) of unrestricted net assets, \$12,230,696 (\$11,809,909 in 2008) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	<u>2009</u>	<u>2008</u>
Capital acquisitions and related debt	\$ 10,835,152	\$ 10,975,065
Employee health insurance	<u>1,395,544</u>	<u>834,844</u>
	<u>\$ 12,230,696</u>	<u>\$ 11,809,909</u>

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2009 and 2008

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2009 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:

	2009	2008
<b>Internally Designated Assets:</b>		
Cash and cash equivalents	\$ 891,756	\$ 834,844
Certificates of deposit	10,775,971	10,652,519
Capital stock	185,327	256,768
Interest receivable	61,067	65,778
Due from restricted fund	316,575	--
	\$ 12,230,696	\$ 11,809,909
<b>Restricted Assets:</b>		
Cash and cash equivalents	\$ 1,381,300	\$ 9,829
Education loans	77,360	79,532
Certificates of deposit	--	920,927
Accrued interest	490	7,413
Due to board designated fund	( 316,575)	--
	\$ 1,142,575	\$ 1,017,701

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, 2009 and 2008

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, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Receivable from:		
Patients	\$ 3,194,305	\$ 3,151,608
Medicare	1,855,889	2,834,443
Medicaid	379,012	559,724
Wellmark	897,100	887,863
Other commercial insurance carriers	644,530	746,919
Others	<u>106,440</u>	<u>57,714</u>
	7,077,276	8,238,271
Less allowances for doubtful accounts and contractual adjustments	<u>( 2,109,000)</u>	<u>( 2,434,000)</u>
	<u>\$ 4,968,276</u>	<u>\$ 5,804,271</u>

NOTE G - CAPITAL ASSETS

Hospital capital assets, additions, disposals and balances for the years ended June 30, 2009 and 2008 were as follows:

<u>Cost</u>	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
Land Improvements	\$ 455,964	\$ 18,461	\$ --	\$ 474,425
Buildings	14,255,274	67,169	--	14,322,443
Fixed Equipment	3,461,124	--	--	3,461,124
Major Movable Equipment	<u>8,840,489</u>	<u>477,832</u>	<u>--</u>	<u>9,318,321</u>
	27,012,851	563,462	--	27,576,313
<u>Depreciation</u>				
Land Improvements	345,421	16,006	--	361,427
Buildings	6,066,910	502,261	--	6,569,171
Fixed Equipment	3,042,514	70,170	--	3,112,684
Major Movable Equipment	<u>6,538,781</u>	<u>735,885</u>	<u>--</u>	<u>7,274,666</u>
Total Depreciation	<u>15,993,626</u>	<u>1,324,322</u>	<u>--</u>	<u>17,317,948</u>
Depreciable Capital Assets, Net	<u>\$ 11,019,225</u>	<u>\$( 760,860)</u>	<u>\$ --</u>	<u>\$ 10,258,365</u>
Non-depreciable Capital Assets:				
Land	\$ 1,430,076	\$ --	\$ --	\$ 1,430,076
Construction in progress	<u>557,966</u>	<u>1,725,840</u>	<u>126,306</u>	<u>2,157,500</u>
	<u>\$ 1,988,042</u>	<u>\$1,725,840</u>	<u>\$ 126,306</u>	<u>\$ 3,587,576</u>

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2009 and 2008

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2007</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2008</u>
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	<u>8,516,959</u>	<u>556,551</u>	<u>233,021</u>	<u>8,840,489</u>
	26,353,538	892,334	233,021	27,012,851
<u>Depreciation</u>				
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	<u>6,034,675</u>	<u>737,127</u>	<u>233,021</u>	<u>6,538,781</u>
Total Depreciation	<u>14,880,029</u>	<u>1,346,618</u>	<u>233,021</u>	<u>15,993,626</u>
Depreciable Capital Assets, Net	<u>\$ 11,473,509</u>	<u>\$( 454,284)</u>	<u>\$ --</u>	<u>\$ 11,019,225</u>
Non-depreciable Capital Assets:				
Land	\$ 457,537	\$ 972,539	\$ --	\$ 1,430,076
Construction in progress	<u>64,731</u>	<u>878,107</u>	<u>384,872</u>	<u>557,966</u>
	<u>\$ 522,268</u>	<u>\$1,850,646</u>	<u>\$ 384,872</u>	<u>\$ 1,988,042</u>

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2009 and 2008

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2009 and 2008 follows:

	<u>Balance 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2009</u>	<u>Current Portion</u>
Long-Term Debt:					
Capital lease	\$ 316,916	\$ --	\$ 111,067	\$ 205,849	\$ 116,000
Other Liabilities:					
Deferred revenue	<u>223,452</u>	<u>312,181</u>	<u>264,388</u>	<u>271,245</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$ 540,368</u>	<u>\$ 312,181</u>	<u>\$ 375,455</u>	<u>\$ 477,094</u>	<u>\$ 116,000</u>
	<u>Balance 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2008</u>	<u>Current Portion</u>
Long-Term Debt:					
Capital lease	\$ 423,455	\$ --	\$ 106,539	\$ 316,916	\$ 111,000
Other Liabilities:					
Deferred revenue	<u>2,881</u>	<u>223,452</u>	<u>2,881</u>	<u>223,452</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$ 426,336</u>	<u>\$ 223,452</u>	<u>\$ 109,420</u>	<u>\$ 540,368</u>	<u>\$ 111,000</u>

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

	<u>2009</u>	<u>2008</u>
Medical Equipment	\$ 552,454	\$ 552,454
Less: Accumulated Amortization	<u>359,094</u>	<u>248,604</u>
Net Book Value	<u>\$ 193,360</u>	<u>\$ 303,850</u>

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2009 and 2008

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
2010	\$ 116,000	\$ 6,387
2011	89,849	1,572
	<u>\$ 205,849</u>	<u>\$ 7,959</u>

Deferred revenue at June 30, 2009 is related to an Iowa Family Planning Initiative grant. The balance at year end includes \$192,476 of unexpended restricted grant proceeds (second year grant of \$233,412) and \$78,769 of funds made available for the project through Hospital revenues.

Deferred revenue at June 30, 2008 is the unearned portion of an Iowa Family Planning Initiative grant. The original grant totaled \$298,105, with \$74,653 earned by June 30, 2008.

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 4.10% (4.30% beginning July 1, 2009) of their annual salary and the Hospital is required to contribute 6.35% (6.65% beginning July 1, 2009) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were approximately \$651,000, \$600,100, and \$515,600, respectively, equal to the required contributions for each year.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2009 and 2008

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:

	<u>2009</u>	<u>2008</u>
Purchase of services from SCMC	\$ <u>2,095,009</u>	\$ <u>2,331,986</u>
Sale of services to SCMC	\$ <u>24,000</u>	\$ <u>24,000</u>
Amount receivable from SCMC at year end	\$ <u>127,055</u>	\$ <u>132,790</u>

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>2009</u>	<u>2008</u>
Services purchased from HPSI	\$ <u>64,128</u>	\$ <u>68,896</u>
Services sold to HPSI	\$ <u>56,544</u>	\$ <u>45,078</u>
Amount due from (to) HPSI	\$ <u>1,319</u>	\$ <u>1,134</u>
Member share of net assets	\$ <u>300,011</u>	\$ <u>272,435</u>

The member share of net assets is included in other assets and the amounts due from (to) HPSI are included in other receivables and 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.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2009 and 2008

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 2009-10.

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, 2009 and 2008 the Hospital had accumulated funds in excess of actual claims paid of approximately \$1,396,000 and \$834,800, 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, 2009 of approximately \$247,300 (\$226,000 in 2008) 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.

Other Post Employment Benefits (OPEB)

The Hospital implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions during the year ended June 30, 2009.

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2009 and 2008

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Construction Projects

The Hospital has entered into two major construction and remodeling projects.

- A. Wellness Center - The Hospital, in coordination with the Harlan community, has begun the construction of a combined Community Wellness Center and Hospital physical therapy building, currently estimated to cost approximately \$10,000,000. Funds for this project will be obtained through grants, a community fund drive, and \$2,000,000 from the Hospital. In addition, the Hospital has committed to match additional amounts raised in the fund drive after June 2, 2009, up to \$1,700,000. Debt may be issued as interim financing for the project, to be repaid by proceeds of the fund drive. Hospital restricted funds include approximately \$793,000 collected for the project. The Hospital has incurred approximately \$1,353,000 of costs related to the project, included in construction in progress at year end.
- B. Remodeling and Construction - The Hospital has incurred approximately \$804,000 of cost related to a facility master plan and several other small projects, included in construction in progress at year end. The facility master plan 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.

Subsequent Events

The Hospital has evaluated all subsequent events through October 28, 2009, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER  
Budgetary Comparison Schedule  
Year Ended June 30, 2009

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	\$ 512,462	\$ --	\$ 512,462
Other revenues	24,909,260	1,465,002	26,374,262
Transfers in (out)	<u>1,387,921</u>	<u>( 1,387,921)</u>	<u>--</u>
	26,809,643	77,081	26,886,724
Expenses	<u>24,744,410</u>	<u>--</u>	<u>24,744,410</u>
Net	2,065,233	77,081	2,142,314
Balance beginning of year	<u>29,844,744</u>	<u>794,249</u>	<u>30,638,993</u>
Balance end of year	<u>\$ 31,909,977</u>	<u>\$ 871,330</u>	<u>\$ 32,781,307</u>

	Total Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 512,462	\$ --	\$ 512,462	\$ 502,943
Other revenues	<u>26,374,262</u>	<u>--</u>	<u>26,374,262</u>	<u>29,074,838</u>
	26,886,724	--	26,886,724	29,577,781
Expenses	<u>24,744,410</u>	<u>--</u>	<u>24,744,410</u>	<u>28,285,334</u>
Net	2,142,314	--	2,142,314	1,292,447
Balance beginning of year	<u>30,638,993</u>	<u>( 1,062,000)</u>	<u>29,576,993</u>	<u>29,576,993</u>
Balance end of year	<u>\$ 32,781,307</u>	<u>\$ ( 1,062,000)</u>	<u>\$ 31,719,307</u>	<u>\$ 30,869,440</u>

See Independent Auditor's Report.

ACCOMPANYING INFORMATION

MYRTUE MEDICAL CENTER  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 2,586,874	36.6%	\$ 2,857,666	34.7%
31 - 90	1,271,791	18.0	1,831,587	22.2
91 - 180	552,284	7.8	1,089,462	13.2
181 - 365	362,508	5.1	609,893	7.4
Over 365	2,303,819	32.5	1,849,663	22.5
	<u>7,077,276</u>	<u>100.0%</u>	<u>8,238,271</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	983,000		998,000	
Allowance for contractual adjustments	<u>1,126,000</u>		<u>1,436,000</u>	
	<u>\$ 4,968,276</u>		<u>\$ 5,804,271</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Balance, beginning	\$ 998,000	\$ 871,000
Provision for bad debts	921,605	1,031,044
Recoveries of accounts previously written off	<u>196,522</u>	<u>200,541</u>
	2,116,127	2,102,585
Accounts written off	<u>1,133,127</u>	<u>1,104,585</u>
Balance, ending	<u>\$ 983,000</u>	<u>\$ 998,000</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER  
Patient Service Revenue  
Year ended June 30,

	2009	
	Inpatient	Swing-Bed
<u>Daily Patient Services</u>		
Medical, surgical and obstetrical	\$ 1,593,460	\$ 526,630
Nursery	<u>117,551</u>	<u>--</u>
	1,711,011	526,630
<u>Other Nursing Services</u>		
Observation beds	6,112	--
Clinic room	--	--
Operating and recovery room	100,172	10,664
Delivery and labor room	258,948	--
Emergency service	65,021	--
Medical supplies	64,698	21,111
Intravenous therapy	<u>77,203</u>	<u>25,013</u>
	572,154	56,788
<u>Other Professional Services</u>		
Emergency room physicians	--	--
Laboratory	729,332	203,116
Electrocardiology	49,757	4,654
Cardiac rehabilitation	--	--
Radiology	109,841	30,057
CT scanning	402,638	48,806
Nuclear imaging	891	2,017
Ultrasound	202,415	24,276
MRI	62,662	14,744
Pharmacy	816,223	655,526
Chemotherapy	9,682	22,500
Anesthesia	112,916	5,320
Respiratory therapy	340,616	189,510
Physical therapy	117,999	311,715
Occupational therapy	42,493	181,257
Speech therapy	12,480	23,350
Home Health	--	--
Hospice	--	--
Family Planning	--	--
Public Health	--	--
Fitness Center	--	--
Occupational Health Outreach	--	--
Other	<u>--</u>	<u>--</u>
	3,009,945	1,716,848

(continued next page)

		2009		2008	
Outpatient	Physician Services	Total	Total		
\$ 179,339	\$ --	\$ 2,299,429	\$ 2,378,399		
--	--	117,551	119,508		
<u>179,339</u>	<u>--</u>	<u>2,416,980</u>	<u>2,497,907</u>		
126,985	--	133,097	127,852		
342,663	--	342,663	275,250		
1,348,077	--	1,458,913	1,696,076		
55,660	--	314,608	307,952		
1,778,786	--	1,843,807	1,557,760		
335,740	47,189	468,738	511,608		
1,713	--	103,929	100,545		
<u>3,989,624</u>	<u>47,189</u>	<u>4,665,755</u>	<u>4,577,043</u>		
--	771,118	771,118	663,072		
2,294,148	2,942,081	6,168,677	5,961,419		
287,852	--	342,263	309,506		
137,540	--	137,540	165,267		
1,153,412	458,421	1,751,731	1,722,977		
2,468,181	--	2,919,625	2,899,064		
145,354	--	148,262	142,349		
1,105,280	--	1,331,971	1,225,776		
963,785	--	1,041,191	1,067,746		
699,805	449,655	2,621,209	3,567,644		
1,189,559	--	1,221,741	1,668,352		
420,037	--	538,273	474,935		
314,739	--	844,865	806,138		
1,140,542	--	1,570,256	1,386,073		
119,814	--	343,564	310,628		
14,384	--	50,214	80,823		
819,131	--	819,131	828,352		
570,381	--	570,381	451,131		
438,429	--	438,429	305,234		
510,406	--	510,406	462,750		
47,022	--	47,022	36,798		
184,605	--	184,605	208,895		
360	--	360	1,720		
<u>15,024,766</u>	<u>4,621,275</u>	<u>24,372,834</u>	<u>24,746,649</u>		

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

	2009	
	Inpatient	Swing-Bed
<u>Behavioral Health</u>	\$       --	\$       --
<u>Physician Clinic Services</u>		
Harlan	--	--
Avoca	--	--
Elk Horn	--	--
Shelby	--	--
	--	--
 Total All Services	<u>\$ 5,293,110</u>	<u>\$ 2,300,266</u>

See Independent Auditor's Report.

2009			2008
Outpatient	Physician Services	Total	Total
\$ 324,885	\$ --	\$ 324,885	\$ 364,981
129,895	4,524,197	4,654,092	5,037,132
--	314,005	314,005	290,674
--	202,215	202,215	188,682
--	194,664	194,664	72,213
129,895	5,235,081	5,364,976	5,588,701
\$ 19,648,509	\$ 9,903,545	\$ 37,145,430	\$ 37,775,281

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

	2009	2008
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 37,145,430	\$ 37,775,281
Contractual adjustment	( 11,354,033)	( 10,949,232)
Provision for bad debts	( 921,605)	( 1,031,044)
Charity Care	( 288,509)	( 233,111)
Administrative adjustments	( 68,053)	( 102,667)
	\$ 24,513,230	\$ 25,459,227
 <u>Other Revenue</u>		
Cafeteria	\$ 89,266	\$ 75,015
Other dietary services	23,373	26,633
Rental income	78,642	81,561
Other	63,521	64,277
	\$ 254,802	\$ 247,486

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER  
Schedule of Expenses  
Year ended June 30,

	2009		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing service	\$ 2,133,464	\$ 540,153	\$ 202,929
<u>Other Nursing Services</u>			
Clinic room	333,888	68,062	35,214
Operating and recovery room	295,035	57,300	84,258
Delivery and labor room	196,118	27,084	21,667
Emergency service	223,027	50,974	37,871
Medical supplies	65,378	16,415	251,162
Intravenous therapy	--	--	65,435
Total other nursing services	1,113,446	219,835	495,607
<u>Other Professional Services</u>			
Emergency room physicians	45,914	--	--
Laboratory	526,517	110,582	602,034
Electrocardiology	36,052	3,304	13,915
Cardiac rehabilitation	47,540	13,583	2,814
Radiology	427,858	96,359	299,193
CT scanning	--	--	103,271
Nuclear imaging	--	--	40,169
MRI	--	--	141,518
Pharmacy	265,863	59,962	397,274
Chemotherapy	19,927	1,729	580,727
Anesthesia	--	--	13,923
Respiratory therapy	117,822	32,880	170,953
Physical therapy	--	--	19,780
Occupational therapy	--	--	17
Speech therapy	--	--	--
Home Health	498,884	104,040	69,889
Public Health	373,039	88,375	134,976
Hospice	274,882	52,934	71,508
Family Planning	168,412	33,578	168,680
Occupational Health Outreach	55,646	8,117	27,265
Fitness Center	56,799	8,482	4,561
Medical records	238,138	57,281	186,933
Total other professional services	3,153,293	671,206	3,049,400

(continued next page)

<u>2009</u>		<u>2008</u>	
<u>Professional Fees</u>	<u>Depreciation Expense</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
\$ 3,289	\$ 76,555	\$ 2,956,390	\$ 3,134,215
1,907	7,490	446,561	455,429
4,447	63,179	504,219	572,199
--	16,255	261,124	253,160
--	15,699	327,571	320,825
--	271	333,226	417,917
--	--	65,435	56,397
<u>6,354</u>	<u>102,894</u>	<u>1,938,136</u>	<u>2,075,927</u>
343,152	--	389,066	318,156
146,875	36,160	1,422,168	1,365,863
--	--	53,271	45,974
--	2,019	65,956	71,103
--	72,668	896,078	922,712
--	110,491	213,762	261,376
--	--	40,169	58,434
--	--	141,518	153,538
--	727	723,826	915,039
--	--	602,383	710,613
437,645	4,232	455,800	449,486
--	18,143	339,798	281,720
585,191	3,872	608,843	544,121
127,989	35	128,041	118,017
21,277	--	21,277	43,012
72,349	4,448	749,610	751,234
--	3,869	600,259	572,220
--	--	399,324	306,528
75,924	--	446,594	259,018
1,107	58	92,193	88,097
--	5,620	75,462	72,476
--	6,418	488,770	427,036
<u>1,811,509</u>	<u>268,760</u>	<u>8,954,168</u>	<u>8,735,773</u>

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

	2009		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Behavioral Health</u>	\$ 147,940	\$ 42,235	\$ 114,927
<u>Physician Clinic Services</u>			
Harlan	1,426,284	334,559	677,415
Avoca	142,586	28,226	63,330
Elk Horn	145,110	33,216	34,281
Shelby	81,964	7,721	46,135
Total physician clinic services	1,795,944	403,722	821,161
<u>General Services</u>			
Dietary	382,796	102,066	271,376
Plant engineering	233,898	60,812	515,992
Housekeeping	255,116	69,198	51,061
Laundry and linen	31,630	8,008	89,750
Total general services	903,440	240,084	928,179
<u>Fiscal and Administrative</u>	1,228,313	286,362	600,452
<u>General Depreciation</u>	--	--	--
Total all departments	<u>\$ 10,475,840</u>	<u>\$ 2,403,597</u>	<u>\$ 6,212,655</u>

See Independent Auditor's Report.

<u>2009</u>			<u>2008</u>	
<u>Professional Fees</u>	<u>Depreciation Expense</u>	<u>Total Expenses</u>	<u>Total Expenses</u>	
\$ --	\$ 1,894	\$ 306,996	\$ 440,641	
2,028,683	76,756	4,543,697	4,887,222	
70,667	2,153	306,962	316,248	
41,885	2,489	256,981	253,904	
41,948	2,545	180,313	134,920	
<u>2,183,183</u>	<u>83,943</u>	<u>5,287,953</u>	<u>5,592,294</u>	
--	8,777	765,015	757,765	
--	17,270	827,972	797,041	
--	1,854	377,229	377,396	
--	--	129,388	137,962	
<u>--</u>	<u>27,901</u>	<u>2,099,604</u>	<u>2,070,164</u>	
245,950	163,404	2,524,481	2,606,662	
<u>--</u>	<u>598,971</u>	<u>598,971</u>	<u>616,489</u>	
<u>\$ 4,250,285</u>	<u>\$ 1,324,322</u>	<u>\$ 24,666,699</u>	<u>\$ 25,272,165</u>	

MYRTUE MEDICAL CENTER  
Comparative Statistics  
Year ended June 30,

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Acute Care:					
Admissions	1,068	1,169	1,197	1,156	1,270
Discharges	1,075	1,163	1,200	1,155	1,273
Patient days	3,106	3,411	3,510	3,306	3,636
Average length of stay	2.9	2.9	2.9	2.9	2.9
Average occupied beds	8.5	9.3	9.6	9.1	10.0
Swing Bed:					
Admissions	275	362	339	390	425
Discharges	275	363	336	390	423
Patient days	2,295	2,810	2,180	2,264	2,722
Combined Average Occupied Beds	14.8	17.0	15.6	15.3	17.4
Nursery Days	249	262	213	188	209
Outpatient Visits	30,136	29,750	27,774	24,820	25,660

See Independent Auditor's Report.

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhn & 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, 2009, and have issued our report thereon dated October 28, 2009. 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, 2009 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 responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

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.

*Ironwood, Bell, Kuhn & Co. P.C.*  
Atlantic, Iowa  
October 28, 2009

MYRTUE MEDICAL CENTER  
Schedule of Findings  
Year ended June 30, 2009

PART I - SIGNIFICANT DEFICIENCIES

09-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

09-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2009 did not exceed amounts budgeted therefore.

09-II-B Questionable Expenses: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Veteran's Memorial Auditorium and Club 191	Employee recognition dinner	\$ 4,240

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

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

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

MYRTUE MEDICAL CENTER  
Schedule of Findings  
Year ended June 30, 2009

PART II - REQUIRED STATUTORY REPORTING - Continued

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

09-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.

\* \* \*