

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

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2011 AND 2010

MYRTUE MEDICAL CENTER

Contents

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS:	
Balance Sheets	5
Statements of Revenues, Expenses and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	9
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	22
SUPPLEMENTARY INFORMATION:	
Schedule Supporting Balance Sheets: Patient receivables	23
Schedules Supporting Statements of Revenues, Expenses and Changes in Net Assets: Patient service revenue	24
Revenue and related adjustments	26
Schedule of expenses	27
Comparative Statistics	29
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	30
Schedule of Findings	32

MYRTUE MEDICAL CENTER
Officials
June 30, 2011

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Judy Tamm, Chairperson	Harlan, Iowa	2012
Don Holdsworth, Vice-Chairperson	Irwin, Iowa	2012
Frank Powers, Secretary/Treasurer	Defiance, Iowa	2014
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Cheryl Chipman	Harlan, Iowa	2016
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Barry Jacobsen	Portsmouth, Iowa	
 <u>Chief Financial Officer:</u>		
N. Sue Blake	Tekamah, Nebraska	
 <u>Chief Nursing Executive:</u>		
Karen Buman	Harlan, Iowa	

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Myrtue Medical Center
Harlan, Iowa

We have audited the accompanying balance sheets Myrtue Medical Center as of June 30, 2011 and 2010, 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 Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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, 2011 and 2010, 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 20, 2011, 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. 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 important for 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 supplementary 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, Kyhnn + Co. P.C.
Atlantic, Iowa
October 20, 2011



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MYRTUE MEDICAL CENTER
Management's Discussion and Analysis

Our discussion and analysis of Myrtue Medical Center's (Medical Center's) financial performance provides an overview of the Medical Center's financial activity for the fiscal years ended June 30, 2011, 2010, and 2009. Please read it in conjunction with the Medical Center's financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The 2011 fiscal year was the fifth full year of Critical Access and hospital-based Rural Health Clinic designation for Myrtue Medical Center.

In 2011 the Medical Center reported a decrease in Operating Income of \$602,000 when compared to the previous year. In 2010, the Medical Center reported an increase in Operating Income of \$567,000 compared to the previous year.

Non-operating revenues of \$752,000 represented a \$137,000 decrease from 2010.

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

Our analysis of the Medical Center finances begins on page 4a. One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center 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 Medical Center'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 Medical Center's net assets and changes in them. You can think of the Medical Center's net assets - the difference between assets and liabilities - as one way to measure the Medical Center's financial health, or financial position. Over time, increases or decreases in the Medical Center'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 Medical Center'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 Medical Center.

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Shelby, IA 51570
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510 North Elm
Avoca, IA 51521
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4022 North Main
Elk Horn, IA 51531
712.764.4642

100 Industrial Drive
Earling, IA 51530
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1303 Garfield Ave
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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 MEDICAL CENTER'S NET ASSETS

The Medical Center'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>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 10,993,823	\$ 9,761,096	\$ 9,981,813
Capital assets, net	24,440,659	23,381,195	13,845,941
Other noncurrent assets	<u>8,550,488</u>	<u>10,618,362</u>	<u>13,168,362</u>
Total assets	<u>\$ 43,984,970</u>	<u>\$ 43,760,653</u>	<u>\$ 36,996,116</u>
Liabilities:			
Long-term debt outstanding	\$ 2,263,700	\$ 2,520,560	\$ 205,849
Other current and noncurrent liabilities	<u>4,114,736</u>	<u>5,156,664</u>	<u>4,008,960</u>
Total liabilities	<u>\$ 6,378,436</u>	<u>\$ 7,677,224</u>	<u>\$ 4,214,809</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 22,121,581	\$ 19,981,938	\$ 13,421,712
Restricted expendable	106,817	84,058	871,330
Unrestricted	<u>15,378,136</u>	<u>16,017,433</u>	<u>18,488,265</u>
	<u>\$ 37,606,534</u>	<u>\$ 36,083,429</u>	<u>\$ 32,781,307</u>

Current assets increased \$1,233,000 from the previous year including a cash increase of \$1,608,000. At the end of 2010, the Medical Center was finishing the construction of a wellness center, so cash and investments were expended to meet construction cost obligations. By June 30, 2011, the Medical Center had begun a \$16,000,000 expansion and renovation project, so cash and investments were maintained at a higher liquidity to meet construction cost obligations. Net accounts receivable increased \$466,000 due to a 5.5% increase in gross revenues.

Capital assets increased by \$1,059,000 from the previous year. This was mostly due to completion of a wellness center in August, 2010 and the purchase of a new clinic building in Earling, Iowa, in January, 2011.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

Other noncurrent assets decreased by \$2,068,000 from the previous year. This decrease is mainly due to utilizing investments for wellness center construction costs and the purchase of the Earling clinic building.

Other current and noncurrent liabilities decreased by \$1,042,000 from last year. This decrease was mainly caused by an decrease in accounts payable, primarily construction payables, at year end.

OPERATING RESULTS AND CHANGES IN THE MEDICAL CENTER'S NET ASSETS

In 2011, the Medical Center's net assets increased by \$1,523,000 or 4.2 percent, as shown in Table 2. Net assets increased by \$3,302,000 or 10.1 percent in 2010.

Table 2: Operating Results and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues:			
Net patient service revenue	\$ 29,052,626	\$ 27,493,923	\$ 24,513,230
Other operating revenues	<u>255,939</u>	<u>279,282</u>	<u>254,802</u>
Total operating revenues	29,308,565	27,773,205	24,768,032
Operating Expenses:			
Salaries and benefits	15,338,345	14,054,997	12,879,437
Professional fees	5,303,012	4,921,155	4,250,285
Depreciation	1,603,489	1,274,732	1,324,322
Other operating expenses	<u>6,997,410</u>	<u>6,854,016</u>	<u>6,212,655</u>
Total operating expenses	<u>29,242,256</u>	<u>27,104,900</u>	<u>24,666,699</u>
Operating income	66,309	668,305	101,333
Nonoperating Revenues and Expenses:			
County taxes	638,874	596,609	557,746
Investment income	138,414	284,860	371,328
Noncapital grants and contributions	33,982	47,480	38,656
Other nonoperating revenues and expenses, net	<u>(59,188)</u>	<u>(39,730)</u>	<u>(60,056)</u>
Nonoperating revenues (expenses), net	<u>752,082</u>	<u>889,219</u>	<u>907,674</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions, and Endowments	818,391	1,557,524	1,009,007
Grants, Contributions, and Endowments:			
Capital grants and contributions	<u>704,714</u>	<u>1,744,598</u>	<u>1,133,307</u>
Excess of Revenues over Expenses	1,523,105	3,302,122	2,142,314
Net Assets Beginning of Year	<u>36,083,429</u>	<u>32,781,307</u>	<u>30,638,993</u>
Net Assets End of Year	<u>\$ 37,606,534</u>	<u>\$ 36,083,429</u>	<u>\$ 32,781,307</u>

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

OPERATING INCOME

The first component of the overall change in the Medical Center'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 Medical Center has reported a positive operating income. This is consistent with the Medical Center's previous two decades.

The primary components of the operating income are:

An increase in net patient service revenue of \$1,559,000, a 5.7 percent increase, in 2011 compared to an increase of \$2,981,000 or 12.2 percent in net revenue in 2010.

The increase in salary and benefit costs for the Medical Center's employees was \$1,283,000, a 9.1 percent increase, in 2011 compared to an increase of \$1,176,000 or 9.1 percent in 2010.

An increase in professional fee costs of \$382,000, a 7.8 percent increase, in 2011 compared to an increase of \$671,000 or 15.8 percent in 2010.

Other operating costs increased by \$143,000, a 2.1 percent increase, in 2011 compared to a decrease of \$641,000 or 10.3 percent in 2010.

Overall expenses increased 7.9 percent or \$2,137,000 in 2011 compared to an increase of 9.9 percent or \$2,438,000 in 2010.

The increases above resulted from the opening of the new Wellness Center as well as increases in volume of physician clinic visits and surgical procedures provided:

	<u>% Increase (Decrease)</u>	<u>2011</u>	<u>2010</u>
Inpatient Days	(4.4%)	4708	4923
Average Daily Census	(4.4%)	12.9	13.5
Physician Clinic Visits	18.5%	39,242	33,128
Surgical Procedures	5.3%	1407	1336
Outpatient Visits	0.0%	32,344	32,336
Observation Patients	14.0%	536	470

The current shortage of professional caregivers and technologists continues to drive up some salary costs. The Medical Center 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 Medical Center 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 Medical Center 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 Medical Center when it was established in 1954. The level of services provided to these patients increased from \$263,971 in 2010 to \$640,990 in 2011.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of property taxes levied by the Medical Center 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 Medical Center maintained its tax asking at 98 cents per thousand dollars valuation this year for the sixth 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 Medical Center is less reliant upon county tax revenue than it was fifteen years ago (\$608,874 in 2011 vs. \$620,320 in 1996). The Medical Center's investment income has declined due to significant drops in interest rates.

CONTRIBUTIONS AND ENDOWMENTS

During the 2007 fiscal year, the Medical Center started a fundraising campaign to build a \$10 million wellness center. The Medical Center has obtained pledges of approximately \$7.2 million dollars which includes \$630,000 in donations received during the 2011 fiscal year.

THE MEDICAL CENTER'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 2011 net cash provided by operating activities was \$792,000. In 2010, net cash provided by operating activities was \$1,133,000.

Net cash used in capital and related financing activities in 2011 was \$3,078,000, mainly due to the construction of a wellness center and the Medical Center's expansion and renovation project. In 2010, net cash used in capital and related financing activities was \$6,097,000.

Cash flow provided by investing activities was \$3,190,000 in 2011. In 2010, net cash provided by investing activities was \$966,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2011, the Medical Center had \$24.4 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. During 2011, the Medical Center spent \$2,662,000 on land, equipment and building improvements, a large portion of which was due to the construction of a wellness center. In 2010, \$10,810,000 was spent on land, equipment and building improvements.

Debt:

In 2010 the Medical Center secured a loan for \$2.5 million to finish construction on its wellness center. The loan is secured by revenues of the Medical Center and is payable over 15 years.

BUDGETARY HIGHLIGHTS

The official county budget of the Medical Center for the year ended June 30, 2011 was prepared on a modified accrual basis. As indicated on page 22, actual expenditures were approximately \$2,944,000 lower than budgeted due to an unexpected decrease in volume of inpatient services provided and lower than expected increase in outpatient services.

MYRTUE MEDICAL CENTER
Management's Discussion and Analysis - Continued

OTHER ECONOMIC FACTORS

The Medical Center is a rural hospital in west central Iowa. The Medicare program represents about 65% of the revenues the Medical Center 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 Medical Center due to its high percentage of Medicare patients.

The Medical Center 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 Medical Center'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 MEDICAL CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Medical Center's finances and to show the Medical Center'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

	2011	2010
Current Assets:		
Cash	\$ 2,371,740	\$ 763,524
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$2,640,000 in 2011, \$2,482,000 in 2010)	6,714,210	6,248,013
Other receivables	90,941	217,513
Related organization receivable	121,331	6,142
Inventory	194,074	142,562
Prepaid expense	299,496	217,883
Succeeding year property tax receivable	678,500	591,200
Internally designated assets	523,531	1,574,259
Total current assets	10,993,823	9,761,096
Designated and Restricted Assets:		
Internally designated assets	8,285,370	11,397,770
Restricted assets	355,754	400,148
	8,641,124	11,797,918
Less amounts required to meet current liabilities	523,531	1,574,259
	8,117,593	10,223,659
Capital Assets:		
Depreciable capital assets, net	21,389,331	9,730,742
Non-depreciable capital assets	3,051,328	13,650,453
	24,440,659	23,381,195
Other Assets:		
Notes receivable	35,035	33,868
Deferred costs	9,906	16,453
Other	387,954	344,382
	432,895	394,703
Total assets	\$ 43,984,970	\$ 43,760,653

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2011	2010
Current Liabilities:		
Current maturities of long-term debt	\$ 166,800	\$ 242,960
Accounts payable	922,322	1,823,167
Accrued employee compensation	1,137,427	1,042,696
Payroll taxes withheld and accrued	135,157	130,085
Accrued interest	800	800
Estimated third-party payor settlements	842,000	1,018,000
Other current liabilities	149,593	217,083
Deferred revenue, current	136,996	221,692
Deferred revenue for succeeding year property tax receivable	<u>678,500</u>	<u>591,200</u>
Total current liabilities	4,169,595	5,287,683
Long-Term Debt, less current maturities	2,096,900	2,277,600
Deferred Revenue	<u>111,941</u>	<u>111,941</u>
Total liabilities	6,378,436	7,677,224
Net Assets:		
Invested in capital assets, net of related debt	22,121,581	19,981,938
Restricted expendable	106,817	84,058
Unrestricted	<u>15,378,136</u>	<u>16,017,433</u>
Total net assets	<u>37,606,534</u>	<u>36,083,429</u>
Total liabilities and net assets	<u>\$ 43,984,970</u>	<u>\$ 43,760,653</u>

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

	<u>2011</u>	<u>2010</u>
Revenue:		
Net patient service revenue	\$ 29,052,626	\$ 27,493,923
Other revenue	<u>255,939</u>	<u>279,282</u>
Total revenue	29,308,565	27,773,205
Expenses:		
Salaries and wages	12,179,005	11,325,248
Employee benefits	3,159,340	2,729,749
Professional fees	5,303,012	4,921,155
Supplies and other expenses	6,997,410	6,854,016
Provision for depreciation	<u>1,603,489</u>	<u>1,274,732</u>
Total expenses	<u>29,242,256</u>	<u>27,104,900</u>
Operating Income	66,309	668,305
Non-Operating Revenues (Expenses):		
Investment income	138,414	284,860
Noncapital grants and contributions	33,982	47,480
County taxes	608,874	548,129
Behavioral health county revenue	30,000	48,476
Other restricted donations, net	22,759	5,538
Interest expense	(62,490)	(6,391)
Contracted ambulance service	(65,328)	(65,328)
Gain on disposal of assets	24,000	500
Clinic buildings revenue, net	<u>21,871</u>	<u>25,955</u>
Non-operating revenues, net	<u>752,082</u>	<u>889,219</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	818,391	1,557,524
Capital Grants and Contributions:		
Wellness center	630,080	1,689,598
Other	<u>74,634</u>	<u>55,000</u>
Increase in Net Assets	1,523,105	3,302,122
Net Assets Beginning of Year	<u>36,083,429</u>	<u>32,781,307</u>
Net Assets End of Year	<u>\$ 37,606,534</u>	<u>\$ 36,083,429</u>

The accompanying notes are an integral part of these statements.

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

	2011	2010
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 28,452,305	\$ 26,362,421
Cash paid to suppliers	(15,831,733)	(14,320,253)
Cash paid to employees	(12,084,274)	(11,188,185)
Other revenue	<u>255,939</u>	<u>279,282</u>
Net cash provided by operating activities	792,237	1,133,265
Cash flows from non-capital financing activities:		
County tax revenue	638,874	596,605
Contracted ambulance service	(65,328)	(65,328)
Noncapital grants and contributions	<u>68,982</u>	<u>62,480</u>
Net cash provided by non-capital financing activities	642,528	593,757
Cash flows from capital and related financing activities:		
Capital expenditures	(3,486,320)	(10,109,084)
Proceeds from disposal of assets	23,316	500
Proceeds from issuance of debt	--	2,500,000
Payments on long-term debt	(256,860)	(185,289)
Debt issue costs incurred	--	(10,942)
Capital grants and contributions	704,714	1,744,598
Interest paid	<u>(62,490)</u>	<u>(36,338)</u>
Net cash used in capital and related financing activities	(3,077,640)	(6,096,555)
Cash flows from investing activities:		
Investment income	145,774	215,179
Change in designated and restricted assets	3,075,806	768,425
Clinic buildings, net	21,871	25,955
Change in notes receivable	(10,175)	1,200
Change in other assets	<u>(43,572)</u>	<u>(44,371)</u>
Net cash provided by investing activities	<u>3,189,704</u>	<u>966,388</u>
Net increase (decrease) in cash and cash equivalents	1,546,829	(3,403,145)
Cash and cash equivalents, beginning of year	<u>2,169,433</u>	<u>5,572,578</u>
Cash and cash equivalents, end of year	<u>\$ 3,716,262</u>	<u>\$ 2,169,433</u>

(continued next page)

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

	<u>2011</u>	<u>2010</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 2,371,740	\$ 763,524
Cash in designated and restricted assets	<u>1,344,522</u>	<u>1,405,909</u>
Total cash and cash equivalents	<u>\$ 3,716,262</u>	<u>\$ 2,169,433</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 66,309	\$ 668,305
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,603,489	1,274,732
Amortization	15,555	36,186
Change in assets and liabilities		
Accounts receivable	(339,625)	(1,361,890)
Related organization receivable	(115,189)	120,913
Inventory	(51,512)	14,369
Prepaid expense	(81,613)	(31,499)
Accounts payable, trade	(76,794)	43,699
Accrued employee compensation	94,731	137,063
Estimated third-party payor settlements	(176,000)	168,000
Payroll taxes withheld and accrued	5,072	32,187
Other current liabilities	(67,490)	(31,188)
Deferred revenue	(84,696)	62,388
Total adjustments	<u>725,928</u>	<u>464,960</u>
Net cash provided by operating activities	<u>\$ 792,237</u>	<u>\$ 1,133,265</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2011 and 2010

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Myrtue Medical Center (the Medical Center) is a county hospital with related healthcare ancillary, outpatient, and physician clinic services. The Medical Center 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 Medical Center 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 Medical Center are such that exclusion would cause the Medical Center'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 Medical Center'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 Medical Center.

The Medical Center has one component unit, Shelby County Medical Corporation (SCMC). SCMC contracts physician services to the Medical Center's physician clinics, and virtually all of its transactions are with the Medical Center. It has limited assets and liabilities other than between SCMC and the Medical Center. Therefore, combining the component unit would not have a material effect on these financial statements (See Note J).

2. Enterprise Fund Accounting

The Medical Center 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 Medical Center 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, 2011 and 2010

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 Medical Center's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$5,000 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. The Medical Center capitalized \$ - 0 - of interest cost in 2011 (\$29,947 in 2010).

9. Compensated Absences

Medical Center 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 Medical Center'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 Medical Center'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, 2011 and 2010

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

11. Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center 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 Medical Center 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 Medical Center has no endowment funds.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Medical Center Board of Trustees based on the facts regarding each specific situation.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2011 and 2010

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

16. Net Assets

Net assets of the Medical Center 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 Medical Center. *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 Medical Center 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 Medical Center does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service (net of discounts for uninsured patients where appropriate) 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 Medical Center is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediaries. The Medical Center's Medicare and Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2009. 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 Medical Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center 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, 2011 and 2010

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Expendable restricted net assets are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Healthcare education loans	\$ 86,967	\$ 84,058
Wellness center scholarships	19,850	--
Family planning initiative	<u>248,937</u>	<u>316,090</u>
	<u>\$ 355,754</u>	<u>\$ 400,148</u>

The Medical Center has no nonexpendable restricted net assets or endowments at June 30, 2011 or 2010.

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

	<u>2011</u>	<u>2010</u>
Purchase of property and equipment	\$ 704,714	\$ 2,537,408
Education loans forgiven	12,091	9,462
Wellness center scholarships	150	--
Family planning initiative	<u>199,402</u>	<u>220,103</u>
	<u>\$ 916,357</u>	<u>\$ 2,766,973</u>

NOTE D - DESIGNATED NET ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$15,378,136 (\$16,017,433 in 2010) of unrestricted net assets, \$8,285,370 (\$11,397,770 in 2010) has been designated by the Medical Center's Board of Trustees for purposes identified in the following schedule.

	<u>2011</u>	<u>2010</u>
Capital acquisitions and related debt	\$ 6,762,181	\$ 9,813,983
Employee health insurance	<u>1,523,189</u>	<u>1,583,787</u>
	<u>\$ 8,285,370</u>	<u>\$ 11,397,770</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2011 and 2010

NOTE E - DEPOSITS AND INVESTMENTS

The Medical Center's deposits at June 30, 2011 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 Medical Center 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 Medical Center is allowed to retain any donated equity securities and maintain them as a part of their invested funds. At June 30, 2011 the Medical Center held \$247,648 (\$255,008 in 2010) of capital stock, none of which is covered by any form of insurance against loss.

The composition of designated and restricted assets is as follows:

	2011	2010
Internally Designated Assets:		
Cash and cash equivalents	\$ 1,019,266	\$ 1,077,360
Certificates of deposit	6,950,000	10,033,838
Capital stock	247,648	255,008
Interest receivable	16,562	25,640
Due from restricted fund	51,894	5,924
	\$ 8,285,370	\$ 11,397,770
Restricted Assets:		
Cash and cash equivalents	\$ 325,256	\$ 328,549
Education loans	82,392	77,523
Due to board designated fund	(51,894)	(5,924)
	\$ 355,754	\$ 400,148

The Medical Center'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 Medical Center.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2011 and 2010

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Medical Center 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, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Receivable from:		
Patients	\$ 3,487,890	\$ 3,461,178
Medicare	2,456,559	2,458,737
Medicaid	781,796	609,047
Wellmark	1,472,939	1,297,511
Other commercial insurance carriers	1,038,127	827,940
Others	<u>116,899</u>	<u>75,600</u>
	9,354,210	8,730,013
Less allowances for doubtful accounts and contractual adjustments	<u>2,640,000</u>	<u>2,482,000</u>
	<u>\$ 6,714,210</u>	<u>\$ 6,248,013</u>

NOTE G - CAPITAL ASSETS

Medical Center capital assets, additions, disposals and balances for the years ended June 30, 2011 and 2010 were as follows:

<u>Cost</u>	<u>Balance</u> <u>2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>2011</u>
Land Improvements	\$ 478,123	\$ 13,774	\$ --	\$ 491,897
Buildings	14,365,831	12,052,272	--	26,418,103
Fixed Equipment	3,461,124	321,348	--	3,782,472
Major Movable Equipment	<u>10,018,344</u>	<u>874,000</u>	<u>57,133</u>	<u>10,835,211</u>
	28,323,422	13,261,394	57,133	41,527,683
<u>Depreciation</u>				
Land Improvements	375,993	15,019	--	391,012
Buildings	7,074,470	839,468	--	7,913,938
Fixed Equipment	3,179,596	71,603	--	3,251,199
Major Movable Equipment	<u>7,962,621</u>	<u>677,399</u>	<u>57,817</u>	<u>8,582,203</u>
Total Depreciation	<u>18,592,680</u>	<u>1,603,489</u>	<u>57,817</u>	<u>20,138,352</u>
Depreciable Capital Assets, Net	<u>\$ 9,730,742</u>	<u>\$ 11,657,905</u>	<u>\$ (684)</u>	<u>\$ 21,389,331</u>
Non-depreciable Capital Assets:				
Land	\$ 1,430,076	\$ 12,272	\$ --	\$ 1,442,348
Construction in progress	<u>12,220,377</u>	<u>712,705</u>	<u>11,324,102</u>	<u>1,608,980</u>
	<u>\$ 13,650,453</u>	<u>\$ 724,977</u>	<u>\$ 11,324,102</u>	<u>\$ 3,051,328</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2011 and 2010

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Land Improvements	\$ 474,425	\$ 3,698	\$ --	\$ 478,123
Buildings	14,322,443	43,388	--	14,365,831
Fixed Equipment	3,461,124	--	--	3,461,124
Major Movable Equipment	<u>9,318,321</u>	<u>700,023</u>	<u>--</u>	<u>10,018,344</u>
	27,576,313	747,109	--	28,323,422
<u>Depreciation</u>				
Land Improvements	361,427	14,566	--	375,993
Buildings	6,569,171	505,299	--	7,074,470
Fixed Equipment	3,112,684	66,912	--	3,179,596
Major Movable Equipment	<u>7,274,666</u>	<u>687,955</u>	<u>--</u>	<u>7,962,621</u>
Total Depreciation	<u>17,317,948</u>	<u>1,274,732</u>	<u>--</u>	<u>18,592,680</u>
Depreciable Capital Assets, Net	<u>\$ 10,258,365</u>	<u>\$ (527,623)</u>	<u>\$ --</u>	<u>\$ 9,730,742</u>
Non-depreciable Capital Assets:				
Land	\$ 1,430,076	\$ --	\$ --	\$ 1,430,076
Construction in progress	<u>2,157,500</u>	<u>10,514,397</u>	<u>451,520</u>	<u>12,220,377</u>
	<u>\$ 3,587,576</u>	<u>\$ 10,514,397</u>	<u>\$ 451,520</u>	<u>\$ 13,650,453</u>

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Medical Center's non-current liabilities for the years ended June 30, 2011 and 2010 follows:

	<u>Balance 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2011</u>	<u>Current Portion</u>
Long-Term Debt:					
Capital loan notes	\$2,430,500	\$ --	\$ 166,800	\$ 2,263,700	\$ 166,800
Capital lease	90,060	--	90,060	--	--
Other Liabilities:					
Deferred revenue	<u>333,633</u>	<u>132,249</u>	<u>216,945</u>	<u>248,937</u>	<u>136,996</u>
Total Non-Current Liabilities	<u>\$2,854,193</u>	<u>\$ 132,249</u>	<u>\$ 473,805</u>	<u>\$ 2,512,637</u>	<u>\$ 303,796</u>

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2011 and 2010

NOTE H - NON-CURRENT LIABILITIES - Continued

	<u>Balance</u> 2009	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> 2010	<u>Current</u> <u>Portion</u>
Long-Term Debt:					
Capital loan notes	\$ --	\$ 2,500,000	\$ 69,500	\$ 2,430,500	\$ 152,900
Capital lease	205,849	--	115,789	90,060	90,060
Other Liabilities:					
Deferred revenue	<u>271,245</u>	<u>282,491</u>	<u>220,103</u>	<u>333,633</u>	<u>221,692</u>
Total Non-Current Liabilities	<u>\$ 477,094</u>	<u>\$ 2,782,491</u>	<u>\$ 405,392</u>	<u>\$ 2,854,193</u>	<u>\$ 464,652</u>

Capital Loan Notes

The Medical Center issued \$2,500,000 of Hospital Revenue Capital Loan Notes, Series 2010 to pay a portion of the costs of constructing and equipping a new Wellness Center. The notes are payable from the revenues of the Medical Center. The notes mature in monthly installments including principal of \$13,900 and monthly interest on the remaining balance, beginning in March, 2010, through February, 2024. The interest rate for the first three years will be 2.85%, with the rate changing on February 1, 2013 and every three years thereafter based on the three year Federal Home Loan Bank Des Moines fixed rate advance rate plus 1.375% (subject to a 350 basis point lifetime cap and a 175 basis point re-pricing cap, with a lifetime floor of 2.85%). The Medical Center has pledged its future revenues (net of expenses) to repay the notes. The annual debt service on the notes is expected to require less than 10% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$235,200 and \$2,500,500 respectively.

Under terms of the loan agreement, the Medical Center is required to make timely note payments. The loan agreement also places limits on the incurrence of additional borrowings and requires that the Medical Center satisfy certain measures of financial performance as long as the notes are outstanding. The notes may be called for redemption by the Medical Center by giving 30 days notice of redemption to the holder.

Capital Lease

The capital lease carried an interest rate of 4.17% and matured in March of 2011.

Deferred Revenue

Deferred revenue at June 30, 2011 is related to an Iowa Family Planning Initiative (IFPI) grant (\$136,996) and \$111,941 of funds made available for the project through Medical Center revenues. Deferred revenue at June 30, 2010 was related to an IFPI grant (\$316,090) and annual dues to the Wellness Center paid in advance (\$17,543). The balance at June 30, 2010 included \$204,149 of unexpended restricted grant proceeds and \$111,941 of funds made available for the project through Medical Center revenues.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2011 and 2010

NOTE H - NON-CURRENT LIABILITIES - Continued

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

	<u>2011</u>	<u>2010</u>
Medical Equipment	\$ --	\$ 552,454
Less: Accumulated Amortization	<u>--</u>	<u>469,586</u>
Net Book Value	<u>\$ --</u>	<u>\$ 82,868</u>

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 166,800	\$ 63,779	\$ 230,579
2013	166,800	58,788	225,588
2014	166,800	53,968	220,768
2015	166,800	49,148	215,948
2016	166,800	44,447	211,247
2017-21	834,000	149,412	983,412
2022-25	<u>595,700</u>	<u>32,954</u>	<u>628,654</u>
	<u>\$ 2,263,700</u>	<u>\$ 452,496</u>	<u>\$ 2,716,196</u>

NOTE I - PENSION AND RETIREMENT BENEFITS

The Medical Center 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 4.50% (5.38% beginning July 1, 2011) of their annual salary and the Medical Center is required to contribute 6.95% (8.07% beginning July 1, 2011) of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were approximately \$819,000, \$729,000, and \$651,000, respectively, equal to the required contributions for each year.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2011 and 2010

NOTE J - RELATED ORGANIZATIONS

Shelby County Medical Corporation

Shelby County Medical Corporation (SCMC) employs the physicians who staff the Medical Center owned Rural Health Clinics. The Medical Center 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 Medical Center provides limited administrative services to assist SCMC in its operations.

Below, and in the following section is information about transactions between the Medical Center and SCMC:

	<u>2011</u>	<u>2010</u>
Purchase of services from SCMC	\$ <u>2,626,739</u>	\$ <u>2,537,040</u>
Sale of services to SCMC	\$ <u>24,000</u>	\$ <u>24,000</u>
Amount receivable from SCMC at year end	\$ <u>121,331</u>	\$ <u>6,142</u>

Health Partners of Southwest Iowa

The Medical Center 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 Medical Center's transactions with HPSI and year end balances involving the 28E organization:

	<u>2011</u>	<u>2010</u>
Services purchased from HPSI	\$ <u>78,872</u>	\$ <u>71,039</u>
Services sold to HPSI	\$ <u>65,533</u>	\$ <u>58,783</u>
Amount due from (to) HPSI	\$ <u>1,117</u>	\$(<u>1,292</u>)
Member share of net assets	\$ <u>387,037</u>	\$ <u>344,382</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 Medical Center 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 Medical Center and the office of the State Auditor.

MYRTUE MEDICAL CENTER
Notes to Financial Statements
June 30, 2011 and 2010

NOTE K - COMMITMENTS AND CONTINGENCIES

Shelby County Ambulance Commission

The Medical Center 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 Medical Center has agreed to provide financial support totaling \$65,300 in 2011-12.

Self Funded Health/Disability Insurance

The Medical Center has established an employee health and disability insurance fund. Under the self-insured plan, the Medical Center 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 Medical Center 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, 2011 and 2010 the Medical Center had accumulated funds in excess of actual claims paid of approximately \$1,523,000 and \$1,584,000, 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, 2011 of approximately \$154,500 (\$220,200 in 2010) is included in current liabilities.

Notes Receivable

The Medical Center has provided financial aid to several medical occupation students enabling them to complete their education. In exchange for the aid, the Medical Center 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 Medical Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. 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)

Plan Description: As required by state law, the Medical Center 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 Medical Center employees, and the retiree must pay a health insurance premium equal to that charged for current employees. There are 212 active employees and 4 retirees currently covered by the plan.

Potential for Liability: A review of the Medical Center'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, 2011 and 2010

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Construction Project

At June 30, 2011, the Medical Center had incurred approximately \$1,609,000 of costs related to a major construction and remodeling project and several other minor projects. The total estimated cost of the projects is approximately \$16,000,000 with funding to be provided through the issue of \$10,000,000 of revenue bonds and \$6,000,000 of internally generated funds.

Subsequent Events

The Medical Center has evaluated all subsequent events through October 20, 2011, the date the financial statements were available to be issued.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER
Budgetary Comparison Schedule
Year Ended June 30, 2011

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	\$ 608,874	\$ --	\$ 608,874
Other revenues	29,217,371	939,116	30,156,487
Transfers in (out)	<u>916,357</u>	<u>(916,357)</u>	<u>--</u>
	30,742,602	22,759	30,765,361
Expenses	<u>29,242,256</u>	<u>--</u>	<u>29,242,256</u>
Net	1,500,346	22,759	1,523,105
Balance beginning of year	<u>35,999,371</u>	<u>84,058</u>	<u>36,083,429</u>
Balance end of year	<u>\$ 37,499,717</u>	<u>\$ 106,817</u>	<u>\$ 37,606,534</u>

	Total Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 608,874	\$ --	\$ 608,874	\$ 591,237
Other revenues	<u>30,156,487</u>	<u>127,818</u>	<u>30,284,305</u>	<u>32,753,741</u>
	30,765,361	127,818	30,893,179	33,344,978
Expenses	<u>29,242,256</u>	<u>127,818</u>	<u>29,370,074</u>	<u>32,314,334</u>
Net	1,523,105	--	1,523,105	1,030,644
Balance beginning of year	<u>36,083,429</u>	<u>(2,863,282)</u>	<u>33,220,147</u>	<u>33,220,147</u>
Balance end of year	<u>\$ 37,606,534</u>	<u>\$ (2,863,282)</u>	<u>\$ 34,743,252</u>	<u>\$ 34,250,791</u>

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2011</u>		<u>2010</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 2,570,244	27.5 %	\$ 3,221,436	36.9%
31 - 90	1,977,442	21.1	1,892,127	21.7
91 - 180	979,495	10.5	892,894	10.2
181 - 365	732,858	7.8	597,738	6.8
Over 365	<u>3,094,171</u>	<u>33.1</u>	<u>2,125,818</u>	<u>24.4</u>
	<u>9,354,210</u>	<u>100.0%</u>	<u>8,730,013</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	1,068,000		1,040,000	
Allowance for contractual adjustments	<u>1,572,000</u>		<u>1,442,000</u>	
	<u>\$ 6,714,210</u>		<u>\$ 6,248,013</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Balance, beginning	\$1,040,000	\$ 983,000
Provision for bad debts	844,141	950,862
Recoveries of accounts previously written off	<u>263,867</u>	<u>282,284</u>
	2,148,008	2,216,146
Accounts written off	<u>1,080,008</u>	<u>1,176,146</u>
Balance, ending	<u>\$1,068,000</u>	<u>\$1,040,000</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Patient Service Revenue
Year ended June 30,

	2011	
	Inpatient	Swing-Bed
<u>Daily Patient Services</u>		
Medical, surgical and obstetrical	\$ 1,601,806	\$ 487,527
Nursery	109,710	--
	1,711,516	487,527
<u>Other Nursing Services</u>		
Observation beds	14,794	--
Clinic room	--	--
Operating and recovery room	363,869	9,960
Delivery and labor room	242,926	--
Emergency service	49,405	--
Medical supplies	280,264	22,988
Intravenous therapy	85,759	22,034
	1,037,017	54,982
<u>Other Professional Services</u>		
Emergency room physicians	--	--
Laboratory	647,497	174,936
Electrocardiology	33,545	3,852
Cardiac rehabilitation	--	--
Radiology	108,734	38,802
CT scanning	375,317	52,378
Nuclear imaging	705	4,054
Ultrasound	165,649	12,019
MRI	82,624	10,355
Pharmacy	950,455	515,938
Chemotherapy	11,676	3,793
Anesthesia	201,471	4,279
Respiratory therapy	405,706	191,953
Physical therapy	110,810	283,649
Occupational therapy	49,495	183,565
Speech therapy	26,128	36,749
Home Health	--	--
Hospice	--	--
Family Planning	--	--
Public Health	--	--
Wellness Center	--	--
Occupational Health Outreach	--	--
Other	--	--
	3,169,812	1,516,322

(continued next page)

		2011		2010	
Outpatient	Physician Services	Total	Total		
\$ 360,559	\$ --	\$ 2,449,892	\$ 2,344,951		
--	--	109,710	124,207		
<u>360,559</u>	<u>--</u>	<u>2,559,602</u>	<u>2,469,158</u>		
322,222	--	337,016	300,888		
420,491	--	420,491	401,573		
2,065,952	--	2,439,781	2,346,850		
76,003	--	318,929	307,118		
1,692,108	--	1,741,513	1,862,020		
592,129	42,817	938,198	843,495		
1,495	--	109,288	120,348		
<u>5,170,400</u>	<u>42,817</u>	<u>6,305,216</u>	<u>6,182,292</u>		
--	935,754	935,754	789,293		
2,601,460	3,078,370	6,502,263	6,231,813		
320,628	--	358,025	385,711		
155,894	--	155,894	154,710		
1,355,197	552,397	2,055,130	1,937,207		
2,960,389	--	3,388,084	3,120,461		
187,004	--	191,763	151,672		
1,168,786	--	1,346,454	1,369,601		
1,062,079	--	1,155,058	1,023,615		
815,442	504,920	2,786,755	2,760,706		
1,517,263	--	1,532,732	1,731,159		
493,187	--	698,937	821,140		
486,646	--	1,084,305	967,188		
1,576,805	--	1,971,264	1,666,621		
180,709	--	413,769	348,786		
56,533	--	119,410	83,117		
813,700	--	813,700	864,504		
836,599	--	836,599	870,060		
428,114	--	428,114	615,194		
452,685	--	452,685	515,919		
616,108	--	616,108	39,458		
230,967	--	230,967	204,467		
477	--	477	1,220		
<u>18,316,672</u>	<u>5,071,441</u>	<u>28,074,247</u>	<u>26,653,622</u>		

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

	2011	
	Inpatient	Swing-Bed
<u>Behavioral Health</u>	\$ 1,666	\$ --
<u>Physician Clinic Services</u>		
Harlan	--	--
Avoca	--	--
Elk Horn	--	--
Shelby	--	--
Earling	--	--
	--	--
 Total All Services	 \$ 5,920,011	 \$ 2,058,831

See Independent Auditor's Report.

		2011		2010	
Outpatient	Physician Services	Total	Total		
\$ 562,405	\$ --	\$ 564,071	\$ 423,751		
85,832	5,694,788	5,780,620	5,243,580		
--	325,136	325,136	349,989		
--	212,934	212,934	189,746		
--	210,917	210,917	217,121		
--	15,240	15,240	--		
<u>85,832</u>	<u>6,459,015</u>	<u>6,544,847</u>	<u>6,000,436</u>		
<u>\$ 24,495,868</u>	<u>\$ 11,573,273</u>	<u>\$ 44,047,983</u>	<u>\$ 41,729,259</u>		

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

	2011	2010
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 44,047,983	\$ 41,729,259
Contractual adjustment	(13,476,513)	(12,965,870)
Provision for bad debts	(844,141)	(950,862)
Charity Care	(640,990)	(263,971)
Administrative adjustments	(33,713)	(54,633)
	<u>\$ 29,052,626</u>	<u>\$ 27,493,923</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 95,424	\$ 92,043
Other dietary services	21,463	26,124
Rental income	49,583	65,334
Other	89,469	95,781
	<u>\$ 255,939</u>	<u>\$ 279,282</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER
Schedule of Expenses
Year ended June 30,

	2011		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing service	\$ 2,345,139	\$ 644,875	\$ 225,044
<u>Other Nursing Services</u>			
Clinic room	367,718	85,557	26,549
Operating and recovery room	374,098	83,159	157,385
Delivery and labor room	199,535	30,041	23,309
Emergency service	265,903	64,303	38,195
Medical supplies	87,329	24,199	489,672
Intravenous therapy	--	--	83,596
Total other nursing services	1,294,583	287,259	818,706
<u>Other Professional Services</u>			
Emergency room physicians	45,026	--	--
Laboratory	623,616	151,571	540,898
Electrocardiology	23,911	2,003	13,050
Cardiac rehabilitation	50,409	15,551	2,845
Radiology	478,653	123,826	371,887
CT scanning	--	--	108,445
Nuclear imaging	--	--	16,697
MRI	--	--	139,000
Pharmacy	281,800	69,187	497,564
Chemotherapy	24,928	3,211	709,103
Anesthesia	--	--	30,946
Respiratory therapy	164,144	44,515	142,774
Physical therapy	--	--	35,733
Occupational therapy	--	--	--
Speech therapy	--	--	10
Home Health	475,964	111,562	61,334
Public Health	369,452	106,184	130,743
Hospice	352,787	75,922	97,454
Family Planning	152,678	40,356	130,068
Occupational Health Outreach	67,006	18,981	20,966
Wellness Center	323,996	91,371	237,206
Medical records	286,520	83,113	167,447
Total other professional services	3,720,890	937,353	3,454,170

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2011		2010	
Professional Fees	Depreciation Expense	Total Expenses	Total Expenses
\$ 7,276	\$ 46,382	\$ 3,268,716	\$ 3,144,470
75,850	5,224	560,898	523,311
4,561	83,651	702,854	680,849
--	15,998	268,883	261,900
--	12,854	381,255	362,684
--	232	601,432	626,856
80,411	117,959	2,598,918	2,535,006
482,533	--	527,559	405,577
209,552	35,615	1,561,252	1,509,467
--	--	38,964	33,868
--	1,976	70,781	69,889
--	106,688	1,081,054	989,627
--	82,868	191,313	223,192
--	--	16,697	22,291
--	--	139,000	136,016
--	3,953	852,504	819,174
--	--	737,242	745,901
438,552	22,994	492,492	452,623
--	17,933	369,366	390,218
753,346	7,834	796,913	719,963
155,480	--	155,480	142,981
107,484	--	107,494	54,927
70,160	9,128	728,148	745,634
--	5,613	611,992	648,396
--	7,114	533,277	491,174
75,367	--	398,469	422,850
887	41	107,881	96,311
--	21,361	673,934	193,200
2,293,361	325,314	10,731,088	9,860,751

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

	2011		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Behavioral Health</u>	\$ 305,599	\$ 83,712	\$ 77,425
<u>Physician Clinic Services</u>			
Harlan	1,988,160	411,623	624,147
Avoca	190,626	37,587	52,891
Elk Horn	167,514	43,576	32,174
Shelby	159,529	24,631	57,782
Earling	13,630	1,179	13,424
Total physician clinic services	<u>2,519,459</u>	<u>518,596</u>	<u>780,418</u>
<u>General Services</u>			
Dietary	423,124	129,506	280,901
Plant engineering	213,260	64,829	503,803
Housekeeping	222,039	100,527	76,376
Laundry and linen	35,233	9,900	94,457
Total general services	<u>893,656</u>	<u>304,762</u>	<u>955,537</u>
<u>Fiscal and Administrative</u>	1,099,679	382,783	686,110
<u>General Depreciation</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total all departments	<u>\$ 12,179,005</u>	<u>\$ 3,159,340</u>	<u>\$ 6,997,410</u>

See Independent Auditor's Report.

2011			2010
Professional Fees	Depreciation Expense	Total Expenses	Total Expenses
\$ --	\$ 1,767	\$ 468,503	\$ 367,420
2,525,381	38,827	5,588,138	5,347,186
64,062	3,095	348,261	340,506
37,528	2,201	282,993	271,048
37,200	2,695	281,837	234,899
--	--	28,233	--
<u>2,664,171</u>	<u>46,818</u>	<u>6,529,462</u>	<u>6,193,639</u>
--	4,562	838,093	803,505
--	15,628	797,520	759,071
--	843	399,785	344,926
--	--	139,590	138,732
--	<u>21,033</u>	<u>2,174,988</u>	<u>2,046,234</u>
257,793	106,380	2,532,745	2,358,935
--	<u>937,836</u>	<u>937,836</u>	<u>598,445</u>
<u>\$ 5,303,012</u>	<u>\$ 1,603,489</u>	<u>\$ 29,242,256</u>	<u>\$ 27,104,900</u>

MYRTUE MEDICAL CENTER
Comparative Statistics
Year ended June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Acute Care:					
Admissions	912	968	1,068	1,169	1,197
Discharges	913	961	1,075	1,163	1,200
Patient days	2,777	2,929	3,106	3,411	3,510
Average length of stay	3.0	3.0	2.9	2.9	2.9
Average occupied beds	7.6	8.0	8.5	9.3	9.6
Swing Bed:					
Admissions	278	282	275	362	339
Discharges	277	284	275	363	336
Patient days	1,931	1,994	2,295	2,810	2,180
Combined Average Occupied Beds	12.9	13.5	14.8	17.0	15.6
Nursery Days	209	249	249	262	213
Outpatient Visits	32,344	32,336	30,136	29,750	27,774
Physician Clinic Visits	39,242	33,128	34,799	37,902	35,103

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, 2011, and have issued our report thereon dated October 20, 2011. 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 Medical Center'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, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Medical Center's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Myrtue Medical Center

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 11-I-A to be a significant deficiency.

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 Medical Center's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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 Medical Center's responses, we did not audit the Medical Center'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 Medical Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Gronewald, Bell, Kyburm + Co. P.C.
Atlantic, Iowa
October 20, 2011

MYRTUE MEDICAL CENTER
Schedule of Findings
Year ended June 30, 2011

PART I - SIGNIFICANT DEFICIENCIES

11-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 Medical Center. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Medical Center 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 Medical Center 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

11-II-A Certified Budget: Medical Center expenditures during the year ended June 30, 2011 did not exceed amounts budgeted therefore.

11-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 Main Street Market	Employee recognition dinner	\$ 6,017

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.

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

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

MYRTUE MEDICAL CENTER
Schedule of Findings
Year ended June 30, 2011

PART II - REQUIRED STATUTORY REPORTING - Continued

11-II-E Board Minutes: On one occasion during the year, the Board entered a closed session, but failed to document the purpose of the session in the minutes. For all other closed sessions, the reasons were properly documented.

Recommendation: We recommend that the Board always assure that the purpose of any closed session be properly documented in the meeting minutes.

Response: The omission of documentation of the reason was an oversight in the one situation. We will be certain to document the reasons for any closed sessions in the future.

Conclusion: Response accepted.

11-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 Medical Center's investment policy.

* * *