MITCHELL COUNTY MEMORIAL HOSPITAL
D/B/A MITCHELL COUNTY REGIONAL
HEALTH CENTER

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

MITCHELL COUNTY REGIONAL HEALTH CENTER
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MITCHELL COUNTY REGIONAL HEALTH CENTER
ORGANIZATIONAL DATA
YEAR ENDED JUNE 30, 2004

Name	Title	Term Expires
	BOARD OF TRUSTEES	
John Lessard	Chairperson	November 2004
Chuck Laures	Vice Chairperson	November 2008
Keith Eastman	Secretary	November 2006
Jan Moody	Treasurer	November 2006
Don Hendrickson	Member	November 2008
Pat Rourick	Member	November 2006
Jean Brumm	Member	November 2004
	HEALTH CENTER OFFICIALS	
Sylvia Getman	Administrator	
Ed Riley	Director of Finance	

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited the accompanying balance sheets of Mitchell County Regional Health Center as of June 30, 2004 and 2003 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 Health 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 U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mitchell County Regional Health Center as of June 30, 2004 and 2003 and the changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, Mitchell County Regional Health Center adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus;* and Statement No. 38, *Certain Financial Statement Disclosures* as of June 30, 2004. The financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2004 on our consideration of Mitchell County Regional Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Larson, Allen, Weishair & Co., LLP | An Independent Member of Baker Tilly International

The management's discussion and analysis and budgetary comparison information on page 3 through page 7 and page 25 are not a required part of the basic financial statements, but are supplementary information required by U.S generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentations 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 Mitchell County Regional Health Center's basic financial statements. The other supplementary information from pages 26 to 34 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 the audit 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. The statistical data contained in the schedule of statistics on page 35 has been summarized from the Health Center's records and was not subjected to such audit procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on such data.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 24, 2004

MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004

This section of the Mitchell County Regional Health Center annual audited financial report represents management's discussion and analysis of Mitchell County Regional Health Center's financial performance during the fiscal years ended June 30, 2004 and 2003. The analysis will focus on Mitchell County Regional Health Center's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2004 and 2003 Independent Auditors' Report includes audited financial statements that include:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

Financial Highlights

- The Health Center's total assets increased by $300,278 or 2.2% in 2004 and decreased by $129,806 or 1.0% in 2003.
- The Health Center's net assets increased in each of the last two years with a $453,811 or 5.4% increase in 2004 and a $456,069 or 5.8% increase in 2003.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

These financial statements report information about Mitchell County Regional Health Center using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Health Center's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Health Center creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the Health Center's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the Health Center that determines the Health Center's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Required supplementary information to the above statements is provided in:

- Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Assets

Other supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedule of Operating Expenses
- Schedules of Age Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedule of Inventories and Prepaid Expenses
- Schedule of Insurance
- Schedule of Bond Investments
- Comparative Statistics

Financial Analysis of the Health Center

The information from the Balance Sheets and Statements of Revenues, Expenses & Changes in Net Assets have been summarized in the following tables. Tables 1 and 2 report on the net assets of the Health Center and the changes in them. Increases or decreases in net assets are one indicator of whether or not the Health Center's financial health is improving. Other non-financial factors can also have an effect on the Health Center's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Mitchell County Regional Health Center and the surrounding areas.

Table 1: Assets, Liabilities, and Net Assets

	2004	2003	2002
Assets:			
Current Assets	$ 4,891,536	$ 4,239,157	$ 3,798,842
Noncurrent Cash and Investments	648,176	653,081	555,318
Capital Assets, Net	7,717,082	8,114,932	8,342,963
Succeeding Year Property Tax Receivable	503,840	392,000	392,000
Other Assets	48,238	109,424	549,277
Total Assets	$ 13,808,872	$ 13,508,594	$ 13,638,400
Liabilities:			
Total Current Liabilities	$ 1,297,529	$ 1,377,411	$ 1,443,235
Long-Term Debt (Less Current Maturities)	3,164,351	3,349,842	3,869,893
Deferred Revenue from Succeeding Year Property Tax Receivable	503,840	392,000	392,000
Total Liabilities	4,965,720	5,119,253	5,705,128
Total Net Assets	8,843,152	8,389,341	7,933,272
Total Liabilities and Net Assets	$ 13,808,872	$ 13,508,594	$ 13,638,400

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

Table 2: Statement of Revenues, Expenses & Changes in Net Assets

	2004	2003	2002
Operating Revenue	$ 11,849,281	$ 11,386,304	$ 10,252,829
Operating Expenses	11,744,025	11,187,232	10,252,958
Operating Income	105,256	199,072	(129)
Restricted - MMC-NI Share	(52,628)	(99,536)	-
Adjusted Operating Income (Loss)	52,628	99,536	(129)
Non-Operating Revenues (Expenses)	399,882	186,982	404,933
Excess of Revenues over Expenses before Capital Grants and Contributions	452,510	286,518	404,804
Capital Grants and Contributions	1,301	169,551	-
Increase in Net Assets	453,811	456,069	404,804
Net Assets, Beginning of Year	8,389,341	7,933,272	7,528,468
Net Assets, End of Year	$ 8,843,152	$ 8,389,341	$ 7,933,272

Net patient service revenue made up 97.5% in 2004 and 97.4 % in 2003 of the Mitchell County Regional Health Center's total operating revenue. To arrive at net patient service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. In addition, provision for bad debt has been subtracted from the gross patient revenues amount. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2004	2003	2002
Total Patient Service Revenues	$ 15,260,169	$ 13,809,973	$ 13,168,247
Contractual Adjustments and Provisions for Bad Debt	(3,709,739)	(2,720,587)	(3,153,654)
Net Patient Service Revenue	$ 11,550,430	$ 11,089,386	$ 10,014,593
Contractual Adjustments and Provisions for Bad Debt as a Percent of Revenues	24.31%	19.70%	23.95%

Total operating expenses increased $556,793 or 5.0% in 2004 and increased $724,484 or 7.0% in 2003. In 2004 there was a significant increase in Salaries and Wages Expense. This is due primarily to the recruitment and retention of both nursing and radiology staff and the ability to discontinue use of agency services for these two departments.

Other Operating Revenue remained steady in 2004 and increased by $58,682 or 24.6% in 2003. This increase reflects the revenue received from the Mason City Clinic for the general surgeon, Dr. Arcovedo. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	2004	2003	2002
Revenues for Expenses of MCRHC:			
Cafeteria	$ 91,321	$ 90,746	$ 83,608
Vending Machine	12,565	9,745	8,859
Rental	24,218	15,900	15,900
Medical Records Transcription Fees	617	636	1,846
Interest Income	23,915	32,542	50,755
Grant Income	20,493	9,945	3,000
Miscellaneous	125,722	137,404	74,268
Total Other Revenues	$ 298,851	$ 296,918	$ 238,236

Health Center Statistical Data

Table 5 shows the Health Center's statistical data. In comparison, there is a direct correlation between utilization changes and revenue changes.

Table 5: Statistical Data

	2004	2003	2002
Patient Days			
Acute	1,822	1,676	1,729
Swing Bed	307	537	613
Newborn	108	119	118
Total	2,237	2,332	2,460
Admissions			
Acute	596	575	646
Swing Bed	42	58	112
Newborn	53	55	52
Total	691	688	810
Discharges			
Acute	591	574	643
Swing Bed	43	57	111
Newborn	52	54	52
Total	686	685	806
Average Length of Stay, Acute	3.1	2.9	2.7
Average Length of Stay, Swing Bed	7.1	9.4	5.5
Beds			
Acute and Swing	25	25	25
Occupancy Percentage			
Acute and Swing, Based on 25 Beds	23.3%	24.3%	25.7%

The Health Center's Cash Flows

The Health Center's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

Capital Assets

At June 30, 2004 the Health Center had $7,717,082 invested in capital assets net of accumulated depreciation. In 2004, the Health Center expended $245,810 to purchase new equipment.

Long Term Debt

Table 6 shows a summary of the Health Center's long term debt outstanding.

Table 6: Long Term Debt

	2004	2003	2002
Hospital Revenue Bonds, Series 1997	$ -	$ -	$ 3,765,000
Hospital Refunding Note, Series 2002	3,338,341	3,475,673	-
Notes Payable	127,932	164,563	200,758
Obligations Under Capital Lease	54,360	64,844	114,191
Deferred Loss on Bond Refinancing	(151,808)	(161,602)	-
Total Long Term Debt	$ 3,368,825	$ 3,543,478	$ 4,079,949

Economic Factors

The Economic trends in our community, as well as our population figures, have stayed relatively stable over the past years, and thus there has been little change in the economic profile of the community.

Agriculture plays an important role in our community's economics. The past year's yields will not have a huge impact on the economic situation of the community.

There appears, at this time, to be no sign of any new industries making a move to our community nor are there any indications of any businesses closing. With that, the economic outlook for our community should remain steady.

Contacting Mitchell County Regional Health Center

The financial report is designed to provide our citizens, customers and creditors with a general overview of Mitchell County Regional Health Center's finances and to demonstrate the Health Center's accountability for money it receives. If you have any questions about this report or need additional information, please contact Health Center administration at Mitchell County Regional Health Center, 616 North Eight Street, Osage, Iowa 50461.

MITCHELL COUNTY REGIONAL HEALTH CENTER
BALANCE SHEETS
JUNE 30, 2004 AND 2003

ASSETS	2004	2003
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,617,886	$ 1,739,549
Patient Receivables, Less Allowance for Uncollectible Accounts (2004, 342,400 ; 2003, $201,200)	1,760,156	1,832,584
Other Receivables	14,826	29,066
Third-Party Payor Settlement Receivable	147,375	298,367
Inventories	255,692	259,390
Prepaid Expenses	95,601	80,201
Total Current Assets	4,891,536	4,239,157
NONCURRENT CASH AND INVESTMENTS		
Internally Designated By Board for Capital Expenditures	251,012	248,545
Restricted Under Bond Agreement for Sinking Fund	65,000	125,000
Restricted by Master Affiliation Agreement with MMC-NI	332,164	279,536
Total Noncurrent Cash and Investments	648,176	653,081
CAPITAL ASSETS, NET	7,717,082	8,114,932
OTHER ASSETS		
Foundation receivable	-	58,091
Unamortized Bond Issue Costs	48,238	51,333
Succeeding Year Property Tax Receivable	503,840	392,000
Total Other Assets	552,078	501,424
Total Assets	$ 13,808,872	$ 13,508,594

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2004	2003
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	$ 204,474	$ 193,636
Accounts Payable	308,199	560,972
Due To Affiliated Organization	360,914	245,336
Accrued Expenses	423,942	377,467
Total Current Liabilities	1,297,529	1,377,411
LONG-TERM DEBT, Less Current Maturities	3,164,351	3,349,842
DEFERRED REVENUE	503,840	392,000
Total Liabilities	4,965,720	5,119,253
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	4,348,257	4,571,454
Restricted		
By Master Affiliation Agreement with MMC-NI	332,164	279,536
Under Bond Agreement for Sinking Fund	65,000	125,000
Unrestricted	4,097,731	3,413,351
Total Net Assets	8,843,152	8,389,341
Total Liabilities and Net Assets	$ 13,808,872	$ 13,508,594

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
OPERATING REVENUES		
Net Patient Service Revenues (net of provision for bad debts of $320,368 in 2004 and $147,253 in 2003)	$ 11,550,430	$ 11,089,386
Other Revenues	298,851	296,918
Total Revenues	11,849,281	11,386,304
EXPENSES		
Salaries and Wages	3,404,755	2,846,140
Employee Benefits	856,605	695,285
Professional Fees	2,939,910	3,237,575
Utilities	209,438	215,089
Management, Legal, and Accounting Fees	343,864	388,796
Insurance	76,994	61,290
Supplies and Miscellaneous	3,066,556	2,897,606
Depreciation	653,085	614,100
Interest and Amortization	192,818	231,351
Total Expenses	11,744,025	11,187,232
OPERATING INCOME	105,256	199,072
RESTRICTED - MMC-NI SHARE	(52,628)	(99,536)
ADJUSTED OPERATING INCOME	52,628	99,536
NON-OPERATING GAINS (LOSSES)		
Tax Apportionments	399,804	404,904
Unrestricted Contributions	78	162,283
Write-off Foundation Receivable	-	(380,205)
Net Non-Operating Gains	399,882	186,982
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	452,510	286,518
Capital Contributions and Grants	1,301	169,551
Increase in Net Assets	453,811	456,069
Net Assets Beginning of Year	8,389,341	7,933,272
Net Assets End of Year	$ 8,843,152	$ 8,389,341

See accompanying Notes to Financial Statements.

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	$ 11,773,850	$ 10,311,417
Cash Paid to Employees	(4,213,866)	(3,548,108)
Cash Paid to Suppliers	(6,886,997)	(6,714,589)
Other Receipts and Payments, Net	361,801	339,108
Net Cash Provided by Operating Activies	1,034,788	387,828
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Tax Appropriations	399,804	404,904
Contributions	1,379	232,298
Net Cash Provided by Non-capital Financing Activies	401,183	637,202
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(255,235)	(386,069)
Addition of Deferred Financing Costs	-	(52,624)
Proceeds from Issuance of Long Term Debt	-	3,520,000
Payments on Long Term Debt	(179,470)	(3,894,868)
Change in Due from Foundation	58,091	319,300
Interest Payments on Long-Term Debt	(185,925)	(224,314)
Net Cash Used by Capital Related Financing Activities	(562,539)	(718,575)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Noncurrent Cash and Investments	4,905	(97,763)
Write-off of Foundation Receivable	-	(380,205)
Net Cash Provided (Used) by Investing Activies	4,905	(477,968)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	878,337	(171,513)
Cash and Cash Equivalents - Beginning	1,739,549	1,911,062
CASH AND CASH EQUIVALENTS - ENDING	$ 2,617,886	$ 1,739,549

See accompanying Notes to Financial Statements.

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from Operations	$ 52,628	$ 99,536
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Interest Expense and Amortization	192,818	231,351
Restricted MMC-NI Share of Operating Income	52,628	99,536
Depreciation	653,085	614,100
Decrease (Increase) in -		
Patient Receivables	72,428	(288,835)
Third Party Payor Settlements Receivable	150,992	(298,367)
Other Receivables	14,240	5,131
Inventories	3,698	(42,685)
Prepaid Expenses	(15,400)	12,928
Increase (Decrease) in -		
Accounts Payable	(252,773)	110,393
Accrued Salaries, Wages, Benefits and Other	47,494	(6,683)
Third Party Payor Settlements Payable	-	(190,767)
Due to Affiliated Organization	62,950	42,190
Net Cash Provided by Operating Activities	$ 1,034,788	$ 387,828
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Assets Acquired Under Capital Leases	$ 4,817	$ -

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mitchell County Regional Health Center (the Health Center) is the county hospital of Mitchell County organized under Chapter 347, Code of Iowa. The Health Center provides health care services under the name of Mitchell County Regional Health Center (the Health Center) in accordance with a Master Affiliation Agreement dated September 1, 1994 and discussed further in Note 11. Services are provided primarily to residents of Mitchell County and the surrounding area in northeastern Iowa, through hospital-based services in Osage, Iowa and physician clinic services in Osage, St. Ansgar, Stacyville and Riceville Iowa

A. Reporting Entity

For financial reporting purposes, the Health Center has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Health Center has also 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 Health Center are such that exclusion would cause the Health Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria including appointing a voting majority of an organization's governing body, and (1) the ability of the Health Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Health Center. The Health Center has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

C. Basis of Accounting

The Health Center has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments;* Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Disclosures* in these financial statements effective July 1, 2003. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation. The GASB pronouncements established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentations of net assets, and the inclusion of management's discussion and analysis.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, the Health Center applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the balance sheets:

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Health Center considers savings accounts and all other highly liquid investments (excluding restricted assets) with a maturity of three months or less when purchased to be cash equivalents. The Health Center defines Restricted Cash and Cash Equivalents in the same manner, but excludes these in the Statement of Cash Flows.

Patient Receivables - Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts. Patients and residents are not required to provide collateral for services rendered. Payment for services is required within 60 days of receipt of invoice or claim submitted. Accounts past due more than 120 days are considered individually for collection, and may be turned over to collection agents at this time. In addition, an allowance is estimated for other accounts based on historical experience. At June 30, 2004 and 2003, the allowance for uncollectible accounts was $342,400 and $201,200, respectively.

Inventory - Inventory is valued at cost using the first-in, first-out method.

Unamortized Bond Issuance Costs and Expense - Note issue costs of $52,624 from the Series 2002 Hospital Refunding Revenue Note are being amortized over the life of the note using the straight-line method. As of June 30, 2004 and 2003, accumulated amortization was $4,386 and $1,291, respectively. In addition, the remaining unamortized issue costs from the Series 1997 Hospital Revenue Bonds refunded during 2003 (see Note 7) are recorded as a deferred loss from refinancing and are presented as a reduction of long-term debt, and are being amortized on the straight line method over the remaining useful life of the Series 1997 Hospital Revenue Bonds. The gross amount of the deferred loss is $165,683. As of June 30, 2004 and 2003, accumulated amortization was $13,875 and $4,081, respectively. Total amortization expense for the note issue costs and deferred loss from refinancing was $12,890 and $11,574 for the years ended June 30, 2004 and 2003, respectively.

Capital Assets, Net – Capital Assets are stated on the basis of cost. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the depreciable assets. It is the Health Center's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures less than $2,500 are expensed as incurred. Capital expenditures of $2,500 or greater are capitalized and amortized over the useful life of the asset.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Net Assets (Continued)

Investments – Investments are valued at purchase cost or fair market value at date of acquisition if donated. Investments consist primarily of savings accounts, money market accounts, and certificates of deposits.

Property Tax Receivable - 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 the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of 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.

Noncurrent Cash and Investments – Noncurrent cash and investments include assets which have been internally designated by the Health Center's Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Health Center for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

E. Contributions

From time to time the Health Center receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. 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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

F. Restricted Resources

When the Health Center has both restricted and unrestricted resources available to finance a particular program, it is the Health Center's policy to use restricted resources before unrestricted resources.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Operating Revenues and Expenses

The Health Center's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Health Center's principal activity. Nonexchange revenues, including interest income, taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating gains (losses). Operating expenses are all expenses incurred to provide health care services, including interest expense.

H. Net Patient Service Revenue

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.

I. Charity Care

The Health Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided during the years ending June 30, 2004 and 2003 was $10,523 and $13,164, respectively.

J. County Tax Revenues

Taxes levied to finance the current year are included in nonoperating gains (losses).

NOTE 2 DESIGNATED NET ASSETS

Of the $4,097,731 and $3,413,351 of unrestricted net assets at June 30, 2004 and 2003, respectively, the Board of Trustees has designated $251,012 and $248,545, respectively, for capital expenditures. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Designated funds are reflected in noncurrent cash and investments.

NOTE 3 NET PATIENT SERVICE REVENUE

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare

The Health Center has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Health Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Health Center. The Health Center's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2002.

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid
The Health Center has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Health Center's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2002.

Other
The Health Center has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

A summary of patient service revenue and contractual adjustments is as follows:

	June 30, 2004	June 30, 2003
Total Patient Service Revenue	$ 15,260,169	$ 13,809,973
Contractual Adjustments:		
Medicare	(2,238,798)	(1,789,210)
Medicaid	(171,539)	54,541
Provision for Bad Debt	(320,368)	(147,253)
Other	(979,034)	(838,665)
Total Contractual Adjustments and Bad Debts	(3,709,739)	(2,720,587)
Net Patient Service Revenue	$ 11,550,430	$ 11,089,386

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Health Center at June 30, 2004 and 2003 consisted of the following:

	2004	2003
Receivable from Patients and Their Insurance Carriers	$ 1,473,931	$ 1,296,317
Receivable from Medicare	517,487	650,288
Receivable from Medicaid	111,138	87,179
Total Patient Receivables	2,102,556	2,033,784
Less Allowance for Doubtful Accounts	(342,400)	(201,200)
Patient Receivables, Net	$ 1,760,156	$ 1,832,584

NOTE 5 DEPOSITS AND INVESTMENTS

The Health Center's deposits at June 30, 2004 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 insure there will be no loss of public funds.

The Health 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 Health Center and the Treasurer of the State of Iowa; 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 Health Center's cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Health Center at year end. The Health Center's cash equivalents and investments are all category 1, which means that the cash equivalents and investments are insured or registered or the securities are held by the Health Center or its agent in the Health Center's name.

At June 30, 2004 and 2003, the Health Center had bank balances as follows:

	2004	2003
Insured or Collateralized by Iowa Insurance Trust	$ 3,326,362	$ 2,985,769
Carrying Amount	$ 3,266,062	$ 2,392,630

The carrying amount of deposits shown above are included in the Health Center's balance sheets as follows:

	2004	2003
Deposits	$ 3,266,062	$ 2,392,630
Included in the following balance sheet captions		
Cash and Cash Equivalents	$ 2,617,886	$ 1,739,549
Noncurrent Cash and Investments		
Internally Designated By Board for Capital Expenditures	251,012	248,545
Internally Designated By Bond Agreement for Sinking Fund	65,000	125,000
Restricted by Master Affiliation Agreement with MMC-NI	332,164	279,536
	$ 3,266,062	$ 2,392,630

NOTE 6 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2004 and 2003 are as follows:

Capital Assets	July 1, 2003	Additions	(Retirements)	June 30, 2004
Land	$ 106,999	$ -	$ -	$ 106,999
Land Improvements	311,711	-	-	311,711
Building	9,764,088	3,630	-	9,767,718
Leasehold Improvements	55,257	-	-	55,257
Equipment	4,661,729	245,810	(508,189)	4,399,350
Construction in Progress	9,394	10,612	-	20,006
Totals	14,909,178	260,052	(508,189)	14,661,041
Accumulated Depreciation				
Land Improvements	125,071	21,971	-	147,042
Building	3,062,751	317,863	-	3,380,614
Leasehold Improvements	49,736	983	-	50,719
Movable Equipment	3,556,688	312,268	(503,372)	3,365,584
Totals	6,794,246	$ 653,085	$ (503,372)	6,943,959
	$ 8,114,932			$ 7,717,082

Capital Assets	July 1, 2002	Additions	(Retirements)	June 30, 2003
Land	$ 67,276	$ 39,723	$ -	$ 106,999
Land Improvements	311,711	-	-	311,711
Building	8,845,565	918,523	-	9,764,088
Leasehold Improvements	55,257	-	-	55,257
Equipment	4,530,090	151,479	(19,840)	4,661,729
Construction in Progress	733,050	152,141	(875,797)	9,394
Totals	14,542,949	1,261,866	(895,637)	14,909,178
Accumulated Depreciation				
Land Improvements	102,457	22,614	-	125,071
Building	2,765,964	296,787	-	3,062,751
Leasehold Improvements	48,752	984	-	49,736
Movable Equipment	3,282,813	293,715	(19,840)	3,556,688
Totals	6,199,986	$ 614,100	$ (19,840)	6,794,246
	$ 8,342,963			$ 8,114,932

NOTE 6 CAPITAL ASSETS (CONTINUED)

Construction in progress at June 30, 2004 and 2003 consists of preliminary costs associated with the construction of a new clinic in St. Ansgar. The project is expected to be completed in calendar 2005 at an estimated cost of $1.6 million. The clinic will be financed through a block grant of $400,000, noninterest bearing and low interest USDA notes payable of $300,000, a fund raising campaign expected to raise approximately $300,000 and the remainder will be through the Health Center's reserves.

NOTE 7 LONG-TERM DEBT

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Hospital Refunding Note, Series 2002	$ 3,475,673	$ -	$ (137,332)	$ 3,338,341	$ 146,533
Notes Payable	164,563	-	(36,631)	127,932	41,117
Obligations Under Capital Lease	64,844	4,817	(15,301)	54,360	16,824
	3,705,080	4,817	(189,264)	3,520,633	204,474
Deferred Loss on Bond Refinancing	(161,602)	-	9,794	(151,808)	-
Total Long-Term Debt	$ 3,543,478	$ 4,817	$ (179,470)	$ 3,368,825	$ 204,474

	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
Hospital Revenue Bonds, Series 1997	$ 3,765,000	$ -	$ (3,765,000)	$ -	$ -
Hospital Refunding Note, Series 2002	-	3,520,000	(44,327)	3,475,673	140,153
Notes Payable	200,758	-	(36,195)	164,563	38,315
Obligations Under Capital Lease	114,191	-	(49,347)	64,844	15,168
	4,079,949	3,520,000	(3,894,869)	3,705,080	193,636
Deferred Loss on Bond Refinancing	-	(165,683)	4,081	(161,602)	-
Total Long-Term Debt	$ 4,079,949	$ 3,354,317	$ (3,890,788)	$ 3,543,478	$ 193,636

NOTE 7 LONG-TERM DEBT (CONTINUED)

Hospital Revenue Bonds Series 1997:

On December 1, 1997 the Board of Supervisors of Mitchell County authorized the issuance of the $4,000,000 Hospital Revenue Bond, Series 1997 to be funded by Norwest Investment and Management Trust of Des Moines, IA. The purpose of the bonds was to finance a construction project for the expansion, improving and equipping the current facilities of the Health Center. The bonds are payable solely from revenues of the Health Center and do not constitute indebtedness of the County. The bonds bear interest at rates varying from 4.75% to 6.5%, with interest payments due semi-annually on each December 1 and June 1. Principal payments are due each December 1, until the bonds are fully matured on December 1, 2019. The Bonds were refunded with the issuance of a note payable on February 1, 2003, in order to obtain a lower interest rate.

Hospital Refunding Revenue Note, Series 2002:

The Health Center entered into a note payable with First Citizens National Bank, Mason City, Iowa on February 1, 2003, in the amount of $3,520,000. The purpose of the note payable was to refund the 1997 Hospital Revenue Bonds in order to reduce the overall effective interest rates on the outstanding bond obligation. Payments of principal and interest at 4.75% are payable monthly through February 2020. The note is collateralized by the patient revenues of the Health Center

Notes Payable:

The Health Center has entered into two notes for certain equipment. The first note, entered into during fiscal year 2002, is for ultrasound equipment and is for a term of five years and bears interest at a rate of 7.00%, with payments of principal and interest of $1,434 due semi-monthly. The second note, also entered into during fiscal year 2002, is for mammography equipment and is for a period of five years and bears interest at a rate of 7.00%, with payments of principal and interest of $592 due semi-monthly. The notes are collateralized by the patient revenues of the Health Center.

Obligations Under Capital Lease:

The Health Center has entered into three capital leases for equipment. The first lease, entered into during fiscal year 2002, is for a copier and is for a period of five years and bears interest at a rate of 6.79%, with payments of principal and interest of $182 due monthly. The second lease, also entered into during fiscal year 2002, is for an ambulance and is for a period of five years and bears interest at a rate of 5.19%, with payments of principal and interest of $16,393 due annually. The third lease, entered into during fiscal year 2004, is for a copier and is for a period five years and bears interest at a rate of 7.4%, with payments of principal and interest of $96 due monthly. The total capitalized cost of equipment under the capital leases is $86,405 and $81,588 with accumulated depreciation of $20,096 and $19,935 at June 30, 2004 and 2003, respectively. The leases are collateralized by the leased equipment.

NOTE 7 LONG-TERM DEBT (CONTINUED)

Aggregate future payments of principal and interest on long-term debt obligations are as follows:

	Long Term Debt		Obligations Under Capital Lease	
Years Ending June 30:	Principal	Interest	Principal	Interest
2005	$ 187,650	$ 163,157	$ 16,824	$ 2,910
2006	198,609	152,198	17,731	2,003
2007	203,118	141,974	17,795	1,028
2008	169,416	132,762	1,031	125
2009	177,641	124,537	979	43
2010-2014	1,026,249	484,640	-	-
2015-2019	1,300,751	210,138	-	-
2020-2024	202,839	3,543	-	-
	$ 3,466,273	$ 1,412,949	$ 54,360	$ 6,109

NOTE 8 PENSION AND RETIREMENT BENEFITS

The Health 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 3.70% of their annual salary and the Health Center is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 was $176,000, $161,900, and $150,100, respectively, equal to the required contributions for each year.

NOTE 9 COUNTY TAX APPORTIONMENTS

The Health Center has received from Mitchell County tax apportionments of $399,804 and $404,904 in 2004 and 2003, respectively. These funds have been used to finance expenditures for remodeling and major repairs as well as to finance current working capital requirements.

NOTE 10 OPERATING LEASES

The Health Center rents space for the satellite clinic operations in three area communities. Rental expense for the period ending June 30, 2004 and 2003 amounted to $36,699 and $35,613, respectively. The following is a schedule by years of future minimum rentals under the rental agreements as of June 30, 2004:

2005	$ 36,506
2006	36,730
2007	36,961

NOTE 11 RELATED ORGANIZATIONS

Master Affiliation Agreement

Mitchell County Regional Health Center operates under a Master Affiliation Agreement with Mercy Medical Center - North Iowa to provide hospital, physician, and other health care services in Mitchell County and the North Central Iowa region under the name of Mitchell County Regional Health Center. As a part of the Master Affiliation Agreement, MCRHC entered into a professional services agreement with Mercy Medical Center - North Iowa whereby Mercy Medical Center - North Iowa provides physician medical services as well as staff employees in support of the physician medical services. Amounts paid to Mercy Medical Center - North Iowa for the provision of these services amounted to $1,858,500 and $1,588,900 for the years ended June 30, 2004 and 2003, respectively.

Operating gains and losses from the operation of MCRHC services in Mitchell County are shared in accordance to the formulas outlined in the Master Affiliation Agreement. Total operating gains to be allocated between Mercy Medical Center - North Iowa and MCMH amounted to $105,256 and $199,072 for the years ended June 30, 2004 and, 2003, respectively.

Management Services Agreement

The Health Center has a contractual arrangement with Mercy Medical Center - North Iowa under which Mercy Medical Center - North Iowa provides administrative staff, management consultation, and other services to the Health Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Health Center. Expenses for the administrative and management services received for the years ended June 30, 2004 and 2003 were $406,761 and $341,472, respectively.

Due to/From Affiliated Organization

As of June 30, 2004 and 2003 Mitchell County Regional Health Center's records reflect a due to Mercy Medical Center - North Iowa of $378,216 and $326,531, respectively, for the various services and distributions related to these agreements.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Health Center Risk Management

The Health Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of the Health Center's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Health Center has insurance coverage to provide protection for professional liability losses on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

REQUIRED SUPPLEMENTARY INFORMATION

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MITCHELL COUNTY REGIONAL HEALTH CENTER
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2004

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

	General Fund	Accrual Adjustments	Cash Basis	Amended Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	$ 399,804	$ -	$ 399,804	$ 391,524	$ 8,280
Estimated Other Revenues/Receipts	11,850,660	286,370	12,137,030	11,435,687	701,343
	12,250,464	286,370	12,536,834	11,827,211	709,623
Expenses/disbursements	11,796,653	(138,156)	11,658,497	11,810,426	(151,929)
Net	453,811	424,526	878,337	16,785	861,552
Balance beginning of year	8,389,341	(6,649,792)	1,739,549	3,401,579	(1,662,030)
Balance end of year	$ 8,843,152	$ (6,225,266)	$ 2,617,886	$ 3,418,364	$ (800,478)

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OTHER SUPPLEMENTARY INFORMATION

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003

	TOTAL	
	2004	2003
PATIENT CARE SERVICES		
Medical and Surgical	$ 1,132,421	$ 1,022,859
Intensive Care Unit	7,983	16,093
Nursery	47,049	50,493
Long Term Care	71,931	118,713
Total	1,259,384	1,208,158
OTHER PROFESSIONAL SERVICES		
Operating Room	832,383	789,198
Labor and Delivery Room	50,418	39,917
Anesthesiology	379,379	348,949
Radiology	2,096,358	2,035,954
Laboratory	1,829,340	1,655,551
Respiratory Therapy	21,256	9,658
Physical Therapy	264,568	281,181
Speech Therapy	19,917	34,604
Blood Supplies	69,322	45,328
Electrocardiology	420,154	346,393
Medical and Surgical Supplies	273,985	466,566
Pharmacy	1,219,497	785,697
Vascular Lab	63,689	58,925
Audiology	70,398	-
Emergency Room	1,500,417	1,153,168
Ambulance	415,328	328,601
Osage Clinic	2,908,108	2,805,585
St. Ansgar Clinic	1,300,713	1,158,593
Stacyville Clinic	112,359	110,976
Riceville Clinic	163,719	160,135
Total	14,011,308	12,614,979
Charity Care	(10,523)	(13,164)
Total Patient Service Revenues	15,260,169	13,809,973
Adjustments to Patient Services Revenues	(3,709,739)	(2,720,587)
Net Patient Service Revenues	$ 11,550,430	$ 11,089,386

INPATIENT		OUTPATIENT	
2004	2003	2004	2003
$ 998,496	$ 879,293	$ 133,925	$ 143,566
7,983	16,093	-	-
47,049	50,493	-	-
71,931	118,713	-	-
1,125,459	1,064,592	133,925	143,566
177,539	138,173	654,844	651,025
49,509	39,701	909	216
92,683	75,224	286,696	273,725
157,823	233,230	1,938,535	1,802,724
348,172	354,749	1,481,168	1,300,802
1,738	1,511	19,518	8,147
55,102	51,021	209,466	230,160
9,995	19,121	9,922	15,483
32,919	22,220	36,403	23,108
59,825	65,142	360,329	281,251
116,711	171,918	157,274	294,648
568,909	409,194	650,588	376,503
-	-	63,689	58,925
-	-	70,398	-
8,979	64,122	1,491,438	1,089,046
97,529	92,161	317,799	236,440
-	-	2,908,108	2,805,585
-	-	1,300,713	1,158,593
-	-	112,359	110,976
-	-	163,719	160,135
1,777,433	1,737,487	12,233,875	10,877,492
(10,523)	(13,164)	-	-
$ 2,892,369	$ 2,788,915	$ 12,367,800	$ 11,021,058

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MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES AND OTHER REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003

HOSPITAL	2004	2003
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	$ 2,238,798	$ 1,789,210
Contractual Adjustments - Medicaid	171,539	(54,541)
Provision for Bad Debt	320,368	147,253
Other Allowances and Adjustments	979,034	838,665
Total Adjustments	$ 3,709,739	$ 2,720,587
OTHER REVENUES		
Cafeteria	$ 91,321	$ 90,746
Vending Machines	12,565	9,745
Rental	24,218	15,900
Medical Records Transcription Fees	617	636
Interest Income	23,915	32,542
Grant Income	20,493	9,945
Miscellaneous	125,722	137,404
Total Other Revenues	$ 298,851	$ 296,918

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003

	TOTAL	
	2004	2003
Capital Related Costs - Building and Fixtures	$ 346,901	$ 326,473
Capital Related Costs - Moveable Equipment	306,184	287,627
Employee Benefits	856,605	695,285
Administrative and General	1,294,134	1,195,072
Operation of Plant	290,521	271,963
Laundry and Linen	33,939	31,962
Housekeeping	120,857	99,181
Dietary	198,532	193,118
Nursing Administration	64,533	73,894
Coronary Care Unit	4,584	4,199
Pharmacy	348,515	230,502
Medical Records	181,323	185,267
Adults and Pediatrics	790,016	842,288
Operating Room	239,865	201,128
Anesthesiology	267,006	234,116
Radiology	772,231	985,510
Laboratory	711,401	641,030
Blood	66,172	43,009
Respiratory Therapy	7,345	2,226
Physical Therapy	170,448	164,598
Speech Pathology	22,503	29,006
Electrocardiology	74,802	59,862
Cardiac Rehabilitation	27,674	28,561
Sleep Lab	22,626	-
Medical Supplies	116,902	153,377
Osage Clinic	2,120,402	2,062,795
St. Ansger Clinic	1,019,203	921,001
Stacyville Clinic	99,874	107,612
Riceville Clinic	141,043	119,127
Emergency	696,299	637,267
Ambulance	138,767	128,825
Interest Expense	192,818	231,351
TOTAL	$ 11,744,025	$ 11,187,232

SALARIES		OTHER	
2004	2003	2004	2003
$ -	$ -	$ 346,901	$ 326,473
-	-	306,184	287,627
-	-	856,605	695,285
454,018	376,711	840,116	818,361
74,911	60,706	215,610	211,257
9,398	9,209	24,541	22,753
101,078	81,242	19,779	17,939
126,523	123,423	72,009	69,695
60,380	71,702	4,153	2,192
-	-	4,584	4,199
11,746	11,181	336,769	219,321
172,768	171,735	8,555	13,532
688,876	507,710	101,140	334,578
131,849	113,021	108,016	88,107
-	-	267,006	234,116
19,129	58,312	753,102	927,198
307,532	279,584	403,869	361,446
4,330	3,963	61,842	39,046
6,887	1,828	458	398
-	-	170,448	164,598
-	-	22,503	29,006
-	-	74,802	59,862
24,403	24,333	3,271	4,228
3,512	-	19,114	-
7,644	7,305	109,258	146,072
372,493	287,979	1,747,909	1,774,816
305,576	245,661	713,627	675,340
34,000	32,521	65,874	75,091
48,746	17,469	92,297	101,658
321,959	249,584	374,340	387,683
116,997	110,961	21,770	17,864
-	-	192,818	231,351
$ 3,404,755	$ 2,846,140	$ 8,339,270	$ 8,341,092

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF AGED ACCOUNTS RECEIVABLE FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2004 AND 2003

Analysis of Aging

Age of Accounts (by Date of Discharge)	2004 Amount	2004 Percent	2003 Amount	2003 Percent
1-30 days (Includes Patients in Hospital on June 30)	$ 1,222,813	48.2 %	$ 1,297,625	52.7 %
31-90 Days	599,574	23.6	594,179	24.2
91-180 Days	336,138	13.3	342,035	13.9
181 Days and Over	377,435	14.9	226,305	9.2
Total Accounts Receivable	$ 2,535,960	100.0 %	$ 2,460,144	100.0 %
ALLOWANCES				
Contractual - Medicare/Medicaid	$ 433,404		$ 426,360	
Doubtful Accounts	342,400		201,200	
Net Accounts Receivable	$ 1,760,156		$ 1,832,584	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	$ 32,523		$ 30,785	
Days of net Revenue in net Accounts Receivable at Year End	54		60	

Analysis of Allowance for Doubtful Accounts

	2004 Amount	2004 Percent of Net Patient Service Revenue	2003 Amount	2003 Percent of Net Patient Service Revenue
Beginning Balance	$ 201,200		$ 199,190	
Add:				
Provision for Doubtful Accounts	320,368	3.8 %	147,253	1.9 %
Recoveries Previously Written Off	(75,733)	(0.9)%	(97,676)	(1.3)%
	244,635		49,577	
Deduct:				
Accounts Written Off	(103,435)	(1.2)%	(47,567)	(0.6)%
Ending Balance	$ 342,400		$ 201,200	

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2004 AND 2003

	June 30, 2004	June 30, 2003
INVENTORY		
Central Stores and Central Supply	$ 197,823	$ 209,399
Pharmacy	57,869	49,991
TOTAL INVENTORY	$ 255,692	$ 259,390
PREPAID EXPENSES		
Insurance	$ 29,162	$ 14,297
Other	66,439	65,904
TOTAL PREPAID EXPENSES	$ 95,601	$ 80,201

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF INSURANCE
YEAR ENDED JUNE 30, 2004

The following is a schedule of insurance in force for Mitchell County Regional Health Center for the fiscal year ended June 30, 2004.

Insurer	Coverage Type	Effective Dates	Coverage Amount
Virginia Surety	Worker's Compensation and Employers	March 2004 to March 2005	$ 500,000
St. Paul Fire and Marine	Medical Professional Liability - Each Person	February 2004 to February 2005	$ 1,000,000
	Medical Professional Liability - Total Facility		3,000,000
	Builders Risk		4,400,000
	Business Property - Computer		220,000
Firemen's Fund	Directors and Officers Liability	April 2004 to April 2005	$ 1,000,000
Allstate Insurance	Business Property - Buildings	July 2003 to June 2004	$ 117,000
	Business Property - Contents		200,000
	Comprehensive Liability		1,000,000
	Fire and Specified Peril Legal Liability		50,000

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF BOND INVESTMENT TRANSACTIONS
YEAR ENDED JUNE 30, 2004

	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004
Bond Sinking Fund				
2002 Hospital Refunding Revenue Note	$ 125,000	$ -	$ (60,000)	$ 65,000
	$ 125,000	$ -	$ (60,000)	$ 65,000

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF COMPARATIVE STATISTICS (UNAUDITED)
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
PATIENT DAYS		
Acute	1,822	1,676
Swingbed	307	537
Newborn	108	119
ADMISSIONS		
Acute	596	575
Swingbed	42	58
Newborn	53	55
DISCHARGES		
Acute	591	574
Swingbed	43	57
Newborn	52	54
AVERAGE LENGTH OF STAY		
Acute	3.1	2.9
Swingbed	7.1	9.4
LICENSED BEDS	25	25

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*

Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited the financial statements of Mitchell County Regional Health Center as of and for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa 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 Mitchell County Regional Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Mitchell County Regional Health Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as item 04-I-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described to be a material weakness. We have also noted other matters involving the internal control over financial reporting, which we have reported to management of Mitchell County Regional Health Center in a separate letter dated September 24, 2004

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mitchell County Regional Health Center's financial statements are free of material misstatements, 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 an instance of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the Schedule of Findings.

This report is intended solely for the information and use of the officials, employees and constituents of Mitchell County Regional Health Center and other parties to whom Mitchell County Regional Health 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.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 24, 2004

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I – Findings Related to Financial Statements

Material Weakness

04-I-1 Health Center Credit Card

A large number of Health Center employees have authorization to use the credit card without prior approval. Due to the large number of users, a wide range of charges are made on a monthly basis, many of which lack supporting documentation and formal approval for the payment of the invoices, as required by the Health Center's credit card policy.

Recommendation

We recommend monitoring compliance with these policies and modification to include access restrictions, approval prior to use, and documented approval by someone other than the user for all expenses incurred.

Response

We have revised our credit card policies as suggested.

Conclusion

Response accepted.

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II - Findings Related to Required Statutory Reporting:

04-II-1 Official Depositories
A resolution of official depository banks has been approved by the governing board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-II-2 Certified Budget
Health Center disbursements during the year ended June 30, 2004 did not exceed budgeted amounts, as amended. However, the Health Center did not file the budget in accordance with the specified time frame. It was not filed until subsequent to May 31, 2004.

Recommendation
If a budget amendment is required in the future, it should be filed prior to the May 1 deadline as required by the Code of Iowa

Response
Future budget amendments, if required, will be filed prior to the May 1 deadline

Conclusion
Response accepted

04-II-3 Questionable Expenditures
We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-4 Travel Expense
No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

04-II-5 Business Transactions
No business transactions between the Health Center and Health Center officials and/or employees were noted.

04-II-6 Board Minutes
Board minutes were examined and appeared to give a condensed, accurate account of business transacted by the Board.

04-II-7 Deposits and Investments
We noted no instance of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health Center's investment policy.

04-II-8 Publication of Bills Allowed and Salaries
Chapter 374.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Health Center published schedules of bills allowed and a schedule of salaries paid as required by the Code.

INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS

Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited, in accordance with U.S. generally accepted auditing standards and Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mitchell County Regional Health Center as of June 30, 2004, and have issued our report thereon dated September 24, 2004.

In connection with our audit, nothing came to our attention that caused us to believe that the Health Center was not in compliance with any of the terms, covenants, provisions, or conditions of Section Seventeen "Covenants Regarding the Operation of the Health Center," and Section Fifteen "Patient rates and Charges" of the loan agreement dated November 1, 2002, relating to the issue of $3,520,000 Hospital Refunding Revenue Note with First Citizens National Bank, Mason City, Iowa, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Trustees, management of Mitchell County Regional Health Center, and the County of Mitchell, Iowa and is not intended to be and should not be used by anyone other than these specified parties.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 24, 2004