

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 AND 2004

**MITCHELL COUNTY REGIONAL HEALTH CENTER
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2005 AND 2004**

ORGANIZATIONAL DATA	
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
BALANCE SHEETS	9
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	11
STATEMENTS OF CASH FLOWS	12
NOTES TO FINANCIAL STATEMENTS	14
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	26
OTHER SUPPLEMENTARY INFORMATION	
SCHEDULES OF NET PATIENT SERVICE REVENUES	27
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES AND OTHER REVENUES	29
SCHEDULES OF OPERATING EXPENSES	30
SCHEDULES OF AGED ACCOUNTS RECEIVABLE FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS	32
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES	33
SCHEDULE OF BOND INVESTMENT TRANSACTIONS	34
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)	35
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	36
SCHEDULE OF FINDINGS	38
INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS	39

**MITCHELL COUNTY REGIONAL HEALTH CENTER
ORGANIZATIONAL DATA
YEAR ENDED JUNE 30, 2005**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
John Lessard	Chairperson	November 2010
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 2010
HEALTH CENTER OFFICIALS		
Sylvia Getman	Administrator	
Ed Riley	Director of Finance	

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CPAs, Consultants & Advisors
www.larsonallen.com

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, 2005 and 2004 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.

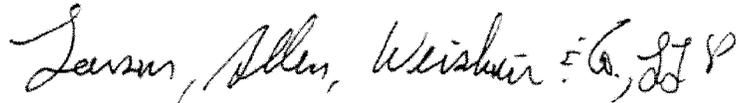
We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2005 and 2004 and the changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2005 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.

The management's discussion and analysis and budgetary comparison information on page 3 through page 8 and page 26 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 27 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

Austin, Minnesota
September 22, 2005

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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 year ended June 30, 2005. 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, 2005 and 2004 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 Hospital's total assets increased by \$498,745 or 3.6% in 2005 and increased by \$300,278 or 2.2% in 2004.
- The Hospital's net assets increased in each of the last two years with a \$724,481 or 8.2% increase in 2005 and a \$453,811 or 5.4% increase in 2004.

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 Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital 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 hospital'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 hospital that determines the hospital's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Net 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
- Comparative Statistics

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

Financial Analysis of the Health Center

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows have been summarized in the following tables. Tables 1 and 2 report on the net assets of the Hospital and the changes in them. Increases or decreases in net assets are one indicator of whether or not the hospital's financial health is improving. Other non-financial factors can also have an effect on the hospital'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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current Assets	\$ 4,867,723	\$ 4,891,536	\$ 4,239,157
Noncurrent Cash and Investments	834,688	648,176	653,081
Capital Assets, Net	7,858,393	7,717,082	8,114,932
Other Assets	<u>746,813</u>	<u>552,078</u>	<u>501,424</u>
Total Assets	<u><u>\$ 14,307,617</u></u>	<u><u>\$ 13,808,872</u></u>	<u><u>\$ 13,508,594</u></u>
Liabilities:			
Total Current Liabilities	\$ 1,204,150	\$ 1,297,529	\$ 1,377,411
Long-Term Debt (Less Current Maturities)	3,026,763	3,164,351	3,349,842
Other Liabilities	<u>509,071</u>	<u>503,840</u>	<u>392,000</u>
Total Liabilities	<u>4,739,984</u>	<u>4,965,720</u>	<u>5,119,253</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt Restricted Under Master Affiliation Agreement with MMC-NI	4,599,356	4,348,257	4,571,454
Restricted Under Debt Agreement Unrestricted	208,576	332,164	279,536
	65,000	65,000	125,000
	<u>4,694,701</u>	<u>4,097,731</u>	<u>3,413,351</u>
Total Net Assets	<u>9,567,633</u>	<u>8,843,152</u>	<u>8,389,341</u>
Total Liabilities and Net Assets	<u><u>\$ 14,307,617</u></u>	<u><u>\$ 13,808,872</u></u>	<u><u>\$ 13,508,594</u></u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net Patient Service Revenue	\$ 11,758,519	\$ 11,550,430	\$ 11,089,386
Other Operating Revenue	322,519	298,851	459,201
Total Revenue	<u>12,081,038</u>	<u>11,849,281</u>	<u>11,548,587</u>
Operating Expenses			
Salaries and Wages	3,636,497	3,404,755	2,846,140
Employee Benefits	1,007,560	856,605	695,285
Professional Fees	2,963,733	2,939,910	3,237,575
Utilities	223,194	209,438	215,089
Management, Legal, and Accounting Fees	410,788	343,864	388,796
Insurance	85,705	77,170	61,290
Supplies and Miscellaneous	3,191,500	3,066,380	2,897,606
Depreciation	628,107	653,085	614,100
Interest and Amortization	181,131	192,818	231,351
Total Operating Expenses	<u>12,328,215</u>	<u>11,744,025</u>	<u>11,187,232</u>
Operating Income	(247,177)	105,256	361,355
Mercy Medical Center Share of Loss	123,588	(52,628)	(99,536)
Non-Operating Revenues (Expenses)			
Tax Revenue	491,165	399,804	404,904
Unrestricted Contributions	-	78	(380,205)
Non-Operating Revenues (Expenses)	<u>491,165</u>	<u>399,882</u>	<u>24,699</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	367,576	452,510	286,518
Capital Grants and Contributions	<u>356,905</u>	<u>1,301</u>	<u>169,551</u>
Increase in Net Assets	724,481	453,811	456,069
Net Assets, Beginning of Year	<u>8,843,152</u>	<u>8,389,341</u>	<u>7,933,272</u>
Net Assets, End of Year	<u>\$ 9,567,633</u>	<u>\$ 8,843,152</u>	<u>\$ 8,389,341</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

Net patient service revenue made up 97.3% in 2005 and 97.5 % in 2004 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. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total Patient Service Revenues	\$ 15,466,025	\$ 15,260,169	\$ 13,809,973
Contractual Adjustments and Provisions for Bad Debt	(3,707,506)	(3,709,739)	(2,720,587)
Net Patient Service Revenue	<u>\$ 11,758,519</u>	<u>\$ 11,550,430</u>	<u>\$ 11,089,386</u>
Contractual Adjustments and Provisions for Bad Debt as a Percent of Revenues	<u>23.97%</u>	<u>24.31%</u>	<u>19.70%</u>

Net patient service revenue increased \$208,089 or 1.8% in 2005 and \$461,044 or 4.2% in 2004. Net patient revenue increased due to increased outpatient revenue, while acute and swing bed days decreased from 2004. Total operating expenses increased \$584,190 or 5.0% in 2005 and increased \$556,793 or 5.0% in 2004. In 2005 there was a significant increase in Salaries and Wages Expense by 6.8%. This is due primarily to the recruitment and retention of nursing staff and the ability to reduce use of agency services. Professional Fees increased over the prior year due to the addition of Dr. Touney to the Osage Clinic. We have also seen a substantial increase in our bad debts over the prior years which is following the national trends.

Other Operating Revenue increased by \$23,668 or 7.3% in 2005. The Non-Operating Revenue had a significant increase over the prior year with approximately \$92,000 in additional tax support related to the ambulance subsidy. Table 4 shows the detail for this line item.

Table 4: Other Revenues

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cafeteria	\$ 63,064	\$ 91,321	\$ 90,746
Vending Machine	11,971	12,565	9,745
Rental	20,010	24,218	15,900
Medical Records Transcription Fees	694	617	636
Interest Income	46,509	23,915	194,825
Grant Income	53,171	20,493	9,945
Miscellaneous	127,100	125,722	137,404
Total Other Revenues	<u>\$ 322,519</u>	<u>\$ 298,851</u>	<u>\$ 459,201</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Patient Days			
Acute	1,509	1,822	1,676
Swing Bed	393	307	537
Newborn	30	108	119
Total	<u>1,932</u>	<u>2,237</u>	<u>2,332</u>
Admissions			
Acute	552	596	575
Swing Bed	61	42	58
Newborn	16	53	55
Total	<u>629</u>	<u>691</u>	<u>688</u>
Discharges			
Acute	552	591	574
Swing Bed	61	43	57
Newborn	18	52	54
Total	<u>631</u>	<u>686</u>	<u>685</u>
Average Length of Stay, Acute	<u>2.7</u>	<u>3.1</u>	<u>2.9</u>
Average Length of Stay, Swing Bed	<u>6.4</u>	<u>7.1</u>	<u>9.4</u>
Beds			
Acute and Swing	25	25	25
Occupancy Percentage			
Acute and Swing, Based on 25 Beds	20.8%	23.3%	24.3%

The Hospital's Cash Flows

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

Capital Assets

At June 30, 2005 the Hospital had \$7,858,393 invested in capital assets net of accumulated depreciation. In 2005, the Hospital expended \$769,420 to purchase fixed assets.

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**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

Long Term Debt

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

Table 6: Long Term Debt

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Hospital Refunding Note, Series 2002	\$ 3,196,534	\$ 3,338,341	\$ 3,475,673
Notes Payable	166,921	127,932	164,563
Obligations Under Capital Lease	37,596	54,360	64,844
Deferred Loss on Bond Refinancing	<u>(142,014)</u>	<u>(151,808)</u>	<u>(161,602)</u>
 Total Long Term Debt	 <u>\$ 3,259,037</u>	 <u>\$ 3,368,825</u>	 <u>\$ 3,543,478</u>

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.

At this time there appears 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, 2005 AND 2004**

ASSETS	2005	2004
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,259,951	\$ 2,617,886
Patient Receivables, Less Allowance for Uncollectible		
Accounts (2005, \$368,100, 2004, \$342,400)	1,674,211	1,760,156
Other Receivables	13,396	14,826
Current Portion of Pledges Receivable	138,800	-
Third-Party Payor Settlement Receivable	489,483	147,375
Inventories	246,429	255,692
Prepaid Expenses	45,453	95,601
Total Current Assets	4,867,723	4,891,536
NONCURRENT CASH AND INVESTMENTS		
Internally Designated By Board for Capital Expenditures	561,112	251,012
Restricted Under Bond Agreement for Sinking Fund	65,000	65,000
Restricted by Master Affiliation Agreement with MMC-NI	208,576	332,164
Total Noncurrent Cash and Investments	834,688	648,176
CAPITAL ASSETS, NET	7,858,393	7,717,082
OTHER ASSETS		
Pledges Receivable, Net of Current Portion	192,600	-
Unamortized Debt Issue Costs	45,142	48,238
Succeeding Year Property Tax Receivable	509,071	503,840
Total Other Assets	746,813	552,078
Total Assets	\$ 14,307,617	\$ 13,808,872

See accompanying Notes to Financial Statements.

	<u>2005</u>	<u>2004</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 232,274	\$ 204,474
Accounts Payable	452,454	308,199
Due To Affiliated Organization	197,429	360,914
Accrued Expenses	<u>321,993</u>	<u>423,942</u>
Total Current Liabilities	1,204,150	1,297,529
LONG-TERM DEBT, Less Current Maturities	3,026,763	3,164,351
DEFERRED REVENUE	<u>509,071</u>	<u>503,840</u>
Total Liabilities	4,739,984	4,965,720
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	4,599,356	4,348,257
Restricted		
By Master Affiliation Agreement with MMC-NI	208,576	332,164
Under Bond Agreement for Sinking Fund	65,000	65,000
Unrestricted	<u>4,694,701</u>	<u>4,097,731</u>
Total Net Assets	<u>9,567,633</u>	<u>8,843,152</u>
Total Liabilities and Net Assets	<u>\$ 14,307,617</u>	<u>\$ 13,808,872</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
OPERATING REVENUES		
Net Patient Service Revenues (net of provision for bad debts of (2005, \$420,459, 2004, \$320,368)	\$ 11,758,519	\$ 11,550,430
Other Revenues	322,519	298,851
Total Revenues	12,081,038	11,849,281
EXPENSES		
Salaries and Wages	3,636,497	3,404,755
Employee Benefits	1,007,560	856,605
Professional Fees	2,963,733	2,939,910
Utilities	223,194	209,438
Management, Legal, and Accounting Fees	410,788	343,864
Insurance	85,705	77,170
Supplies and Miscellaneous	3,191,500	3,066,380
Depreciation	628,107	653,085
Interest and Amortization	181,131	192,818
Total Expenses	12,328,215	11,744,025
OPERATING INCOME (LOSS)	(247,177)	105,256
RESTRICTED - MMC-NI SHARE	123,588	(52,628)
ADJUSTED OPERATING INCOME (LOSS)	(123,589)	52,628
NON-OPERATING GAINS		
Tax Apportionments	491,165	399,804
Unrestricted Contributions	-	78
Net Non-Operating Gains	491,165	399,882
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES		
	367,576	452,510
Capital Contributions and Grants	356,905	1,301
Increase in Net Assets	724,481	453,811
Net Assets Beginning of Year	8,843,152	8,389,341
Net Assets End of Year	\$ 9,567,633	\$ 8,843,152

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 11,502,356	\$ 11,773,850
Cash Paid to Employees	(4,744,042)	(4,213,866)
Cash Paid to Suppliers	(6,669,824)	(6,886,997)
Other Receipts and Payments, Net	282,622	361,801
Net Cash Provided by Operating Activities	371,112	1,034,788
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Tax Appropriations	491,165	399,804
Contributions	356,905	1,379
Net Cash Provided by Non-capital Financing Activities	848,070	401,183
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(769,420)	(255,235)
Proceeds from Issuance of Long Term Debt	85,000	-
Payments on Long Term Debt	(204,582)	(189,264)
Change in Pledges Receivable	(331,400)	58,091
Interest Payments on Long-Term Debt	(170,203)	(176,131)
Net Cash Used by Capital Related Financing Activities	(1,390,605)	(562,539)
 CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Noncurrent Cash and Investments	(186,512)	4,905
Net Cash Provided (Used) by Investing Activities	(186,512)	4,905
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(357,935)	878,337
 Cash and Cash Equivalents - Beginning	2,617,886	1,739,549
 CASH AND CASH EQUIVALENTS - ENDING	\$ 2,259,951	\$ 2,617,886

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (247,177)	\$ 105,256
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Interest Expense and Amortization	181,131	192,818
Depreciation	628,107	653,085
Decrease (Increase) in -		
Patient Receivables	85,945	72,428
Third Party Payor Settlements Receivable	(342,108)	150,992
Other Receivables	1,430	14,240
Inventories	9,263	3,698
Prepaid Expenses	50,148	(15,400)
Increase (Decrease) in -		
Accounts Payable	144,255	(252,773)
Accrued Salaries, Wages, Benefits and Other	(99,985)	47,494
Due to Affiliated Organization	(39,897)	62,950
Net Cash Provided by Operating Activities	\$ 371,112	\$ 1,034,788
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Equipment acquired under capital lease obligations	\$ -	\$ 4,817

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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

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.

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.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 an original maturity of three months or less 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, 2005 and 2004, the allowance for uncollectible accounts was \$368,100 and \$342,400, respectively.

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

Unamortized Debt 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, 2005 and 2004, accumulated amortization was \$7,482 and \$4,386, respectively. In addition, the remaining unamortized issue costs from the Series 1997 Hospital Revenue Bonds refunded during 2003 (see Note 8) 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, 2005 and 2004, accumulated amortization was \$23,669 and \$13,875, respectively. Total amortization expense for the note issue costs and deferred loss from refinancing was \$12,890 and \$12,890 for the years ended June 30, 2005 and 2004, 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. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. 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 \$5,000 are expensed as incurred. Capital expenditures of \$5,000 or greater are capitalized and amortized over the useful life of the asset.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004

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 restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted 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.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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 and non-exchange transactions associated with providing health care services – the Health Center's principal activity. Nonexchange revenues, including taxes and unrestricted 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, 2005 and 2004 was \$29,645 and \$10,523, 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 \$4,694,701 and \$4,097,731 of unrestricted net assets at June 30, 2005 and 2004, respectively, the Board of Trustees has designated \$561,112 and \$251,012, 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.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

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.

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.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

	June 30,	
	2005	2004
Total Patient Service Revenue	\$ 15,466,025	\$ 15,260,169
Contractual Adjustments:		
Medicare	(1,942,733)	(2,238,798)
Medicaid	(259,548)	(171,539)
Provision for Bad Debt	(420,459)	(320,368)
Other	(1,084,766)	(979,034)
Total Contractual Adjustments and Bad Debts	<u>(3,707,506)</u>	<u>(3,709,739)</u>
Net Patient Service Revenue	<u>\$ 11,758,519</u>	<u>\$ 11,550,430</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Health Center at June 30, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,241,835	\$ 1,473,931
Receivable from Medicare	668,397	517,487
Receivable from Medicaid	<u>132,079</u>	<u>111,138</u>
Total Patient Receivables	2,042,311	2,102,556
Less Allowance for Doubtful Accounts	<u>(368,100)</u>	<u>(342,400)</u>
Patient Receivables, Net	<u><u>\$ 1,674,211</u></u>	<u><u>\$ 1,760,156</u></u>

NOTE 5 DEPOSITS AND INVESTMENTS

The Health Center's deposits at June 30, 2005 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 carrying amount of deposits are included in the Health Center's balance sheets as follows:

	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 2,259,951	\$ 2,617,886
Noncurrent Cash and Investments		
Internally Designated By Board for Capital Expenditures	561,112	251,012
Internally Designated By Bond Agreement for Sinking Fund	65,000	65,000
Restricted by Master Affiliation Agreement with MMC-NI	<u>208,576</u>	<u>332,164</u>
	<u><u>\$ 3,094,639</u></u>	<u><u>\$ 3,266,062</u></u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 6 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2005 and 2004 are as follows:

Capital Assets	July 1, 2004	Additions	(Retirements)	June 30, 2005
Land	\$ 106,999	\$ 69,513	\$ -	\$ 176,512
Land Improvements	311,711	-	-	311,711
Building	9,767,718	-	-	9,767,718
Leasehold Improvements	55,257	-	-	55,257
Equipment	4,399,351	226,117	(59,796)	4,565,672
Construction in Progress	20,006	473,790	-	493,796
Totals	14,661,042	769,420	(59,796)	15,370,666
Accumulated Depreciation				
Land Improvements	147,042	21,921	-	168,963
Building	3,380,614	314,186	-	3,694,800
Leasehold Improvements	50,719	983	-	51,702
Movable Equipment	3,365,587	291,017	(59,796)	3,596,808
Totals	6,943,962	\$ 628,107	\$ (59,796)	7,512,273
	<u>\$ 7,717,080</u>			<u>\$ 7,858,393</u>
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	4,661,732	245,810	(508,189)	4,399,353
Construction in Progress	9,394	10,612	-	20,006
Totals	14,909,181	260,052	(508,189)	14,661,044
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	3,556,691	312,268	(503,372)	3,365,587
Totals	6,794,249	\$ 653,085	\$ (503,372)	6,943,962
	<u>\$ 8,114,932</u>			<u>\$ 7,717,082</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 6 CAPITAL ASSETS (CONTINUED)

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

NOTE 7 PLEDGES RECEIVABLE

The Health Center received pledges related to the construction of the clinic building in St. Ansgar, Iowa. Pledges receivable, net of related discounts, are reflected below.

	2005
Pledges Receivable	\$ 352,600
Discount on Pledges Receivable	(21,200)
Net Pledges Receivable	331,400
Less Current Portion	(138,800)
Patient Receivables, Net	\$ 192,600

NOTE 8 LONG-TERM DEBT

	Balance July 1, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
Hospital Refunding Note, Series 2002	\$ 3,338,341	\$ -	\$ (141,807)	\$ 3,196,534	\$ 154,483
Notes Payable	127,932	85,000	(46,011)	166,921	60,039
Obligations Under Capital Lease	54,360	-	(16,764)	37,596	17,752
	3,520,633	85,000	(204,582)	3,401,051	232,274
Deferred Loss on Bond Refinancing	(151,808)	-	9,794	(142,014)	-
Total Long-Term Debt	\$ 3,368,825	\$ 85,000	\$ (194,788)	\$ 3,259,037	\$ 232,274

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 8 LONG-TERM DEBT (CONTINUED)

	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	<u>\$ 3,543,478</u>	<u>\$ 4,817</u>	<u>\$ (179,470)</u>	<u>\$ 3,368,825</u>	<u>\$ 204,474</u>

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 three 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 third note, entered into during the current fiscal year, is for telemetry equipment and is for a term of five years and bears interest at a rate of 3.95%. 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 with accumulated depreciation of \$70,896 and \$49,998 at June 30, 2005 and 2004, respectively. The leases are collateralized by the leased equipment.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 7 LONG-TERM DEBT (CONTINUED)

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

Years Ending June 30:	Long Term Debt		Obligations Under Capital Lease	
	Principal	Interest	Principal	Interest
2006	\$ 214,522	\$ 155,499	\$ 17,752	\$ 1,993
2007	220,895	144,210	17,785	1,028
2008	186,666	134,335	1,031	125
2009	195,588	125,412	1,028	45
2010	198,629	116,082	-	-
2011-2015	1,076,070	434,816	-	-
2016-2020	1,271,085	147,589	-	-
	<u>\$ 3,363,455</u>	<u>\$ 1,257,943</u>	<u>\$ 37,596</u>	<u>\$ 3,191</u>

NOTE 9 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, 2005, 2004, and 2003 was \$205,500, \$193,300 and \$161,900, respectively, equal to the required contributions for each year.

NOTE 10 COUNTY TAX APPORTIONMENTS

The Health Center has received from Mitchell County tax apportionments of \$491,165 and \$399,804 in 2005 and 2004, respectively. These funds have been used to finance expenditures for remodeling and major repairs as well as to finance current working capital requirements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 11 OPERATING LEASES

The Health Center rents space for the satellite clinic operations in two area communities. Rental expense for the period ending June 30, 2005 and 2004 amounted to \$41,316 and \$36,699, respectively. The following is a schedule by years of future minimum rentals under the rental agreements as of June 30, 2004:

	<u>Year Ending June 30:</u>	<u>Amount</u>
2006		\$ 36,730
2007		36,961

NOTE 12 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, the Health Center 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 \$2,371,307 and \$1,858,500 for the years ended June 30, 2005 and 2004, respectively.

Operating gains and losses from the operation of the Health Center 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 (\$247,177) and \$105,256 for the years ended June 30, 2005 and 2004, 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, 2005 and 2004 were \$346,710 and \$309,902, respectively.

Due to/From Affiliated Organization

As of June 30, 2005 and 2004 Mitchell County Regional Health Center's records reflect a due to Mercy Medical Center - North Iowa of \$263,519 and \$378,216, respectively, for the various services and distributions related to these agreements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 13 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, 2005**

	General Fund	Accrual Adjustments	Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 491,165	\$ -	\$ 491,165	\$ 503,840	\$ (12,675)
Estimated Other Revenues/Receipts	12,437,943	(296,060)	12,141,883	14,017,907	(1,876,024)
	12,929,108	(296,060)	12,633,048	14,521,747	(1,888,699)
Expenses/disbursements	12,204,627	599,844	12,804,471	13,890,311	(1,085,840)
Net	724,481	(895,904)	(171,423)	631,436	(802,859)
Balance beginning of year	8,843,152	(5,577,090)	3,266,062	4,005,081	(739,019)
Balance end of year	<u>\$ 9,567,633</u>	<u>\$ (6,472,994)</u>	<u>\$ 3,094,639</u>	<u>\$ 4,636,517</u>	<u>\$ (1,541,878)</u>

NOTE 1 – BUDGETARY COMPARISON

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

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, however, it was not amended for the year ended June 30, 2005. Formal and legal budgetary control is based on total expenditures.

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OTHER SUPPLEMENTARY INFORMATION

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
PATIENT CARE SERVICES		
Medical and Surgical	\$ 1,062,375	\$ 1,132,421
Intensive Care Unit	4,168	7,983
Nursery	15,136	47,049
Long Term Care	101,100	71,931
Total	1,182,779	1,259,384
OTHER PROFESSIONAL SERVICES		
Operating Room	554,345	832,383
Labor and Delivery Room	12,153	50,418
Anesthesiology	271,530	379,379
Radiology	2,413,612	2,096,358
Laboratory	1,713,702	1,829,340
Respiratory Therapy	14,998	21,256
Physical Therapy	272,145	264,568
Speech Therapy	31,547	19,917
Blood Supplies	83,609	69,322
Electrocardiology	494,816	420,154
Medical and Surgical Supplies	166,500	273,985
Pharmacy	1,107,412	1,219,497
Vascular Lab	62,069	63,689
Audiology	78,568	70,398
Emergency Room	1,693,704	1,500,417
Ambulance	422,452	415,328
Osage Clinic	3,312,312	2,908,108
St. Ansgar Clinic	1,340,802	1,300,713
Stacyville Clinic	114,499	112,359
Riceville Clinic	152,116	163,719
Total	14,312,891	14,011,308
Charity Care	(29,645)	(10,523)
Total Patient Service Revenues	15,466,025	15,260,169
Adjustments to Patient Services Revenues	(3,707,506)	(3,709,739)
Net Patient Service Revenues	\$ 11,758,519	\$ 11,550,430

INPATIENT		OUTPATIENT	
2005	2004	2005	2004
\$ 891,986	\$ 998,496	\$ 170,389	\$ 133,925
4,168	7,983	-	-
15,136	47,049	-	-
101,100	71,931	-	-
<u>1,012,390</u>	<u>1,125,459</u>	<u>170,389</u>	<u>133,925</u>
29,574	177,539	524,771	654,844
11,913	49,509	240	909
24,599	92,683	246,931	286,696
167,409	157,823	2,246,203	1,938,535
325,172	348,172	1,388,530	1,481,168
823	1,738	14,175	19,518
63,469	55,102	208,676	209,466
20,179	9,995	11,368	9,922
31,367	32,919	52,242	36,403
64,521	59,825	430,295	360,329
39,510	116,711	126,990	157,274
517,673	568,909	589,739	650,588
-	-	62,069	63,689
-	-	78,568	70,398
9,939	8,979	1,683,765	1,491,438
77,843	97,529	344,609	317,799
-	-	3,312,312	2,908,108
-	-	1,340,802	1,300,713
-	-	114,499	112,359
-	-	152,116	163,719
<u>1,383,991</u>	<u>1,777,433</u>	<u>12,928,900</u>	<u>12,233,875</u>
<u>\$ 2,396,381</u>	<u>\$ 2,902,892</u>	<u>\$ 13,099,289</u>	<u>\$ 12,367,800</u>

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**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUES AND OTHER REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 1,942,733	\$ 2,238,798
Contractual Adjustments - Medicaid	259,548	171,539
Provision for Bad Debt	420,459	320,368
Other Allowances and Adjustments	1,084,766	979,034
Total Adjustments	\$ 3,707,506	\$ 3,709,739
OTHER REVENUES		
Cafeteria	\$ 63,064	\$ 91,321
Vending Machines	11,971	12,565
Rental	20,010	24,218
Medical Records Transcription Fees	694	617
Interest Income	46,509	23,915
Grant Income	53,171	20,493
Miscellaneous	127,100	125,722
Total Other Revenues	\$ 322,519	\$ 298,851

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
Capital Related Costs - Building and Fixtures	\$ 335,876	\$ 346,901
Capital Related Costs - Moveable Equipment	292,231	306,184
Employee Benefits	1,007,560	856,605
Administrative and General	1,540,052	1,294,134
Operation of Plant	344,140	290,521
Laundry and Linen	36,029	33,939
Housekeeping	132,896	120,857
Dietary	212,604	198,532
Nursing Administration	77,140	64,533
Coronary Care Unit	1,488	4,584
Pharmacy	360,176	348,515
Medical Records	202,862	181,323
Adults and Pediatrics	986,442	790,016
Operating Room	271,674	239,865
Anesthesiology	279,767	267,006
Radiology	763,085	772,231
Laboratory	688,547	711,401
Blood	68,641	66,172
Respiratory Therapy	863	7,345
Physical Therapy	173,983	170,448
Speech Pathology	30,415	22,503
Electrocardiology	128,357	74,802
Cardiac Rehabilitation	37,906	27,674
Sleep Lab	26,740	22,626
Medical Supplies	72,014	116,902
Osage Clinic	2,240,219	2,120,402
St. Ansgar Clinic	959,904	1,019,203
Stacyville Clinic	89,065	99,874
Riceville Clinic	118,837	141,043
Emergency	524,939	696,299
Ambulance	142,632	138,767
Interest Expense	181,131	192,818
TOTAL	\$ 12,328,215	\$ 11,744,025

SALARIES		OTHER	
2005	2004	2005	2004
\$ -	\$ -	\$ 335,876	\$ 346,901
-	-	292,231	306,184
-	-	1,007,560	856,605
525,921	454,018	1,014,131	840,116
87,102	74,911	257,038	215,610
10,671	9,398	25,358	24,541
104,429	101,078	28,467	19,779
144,430	126,523	68,174	72,009
67,069	60,380	10,071	4,153
-	-	1,488	4,584
12,512	11,746	347,664	336,769
180,631	172,768	22,231	8,555
919,242	688,876	67,200	101,140
122,068	131,849	149,606	108,016
-	-	279,767	267,006
16,901	19,129	746,184	753,102
318,273	307,532	370,274	403,869
4,145	4,330	64,496	61,842
589	6,887	274	458
-	-	173,983	170,448
-	-	30,415	22,503
-	-	128,357	74,802
35,355	24,403	2,551	3,271
2,531	3,512	24,209	19,114
11,219	7,644	60,795	109,258
418,943	372,493	1,821,276	1,747,909
296,276	305,576	663,628	713,627
25,429	34,000	63,636	65,874
51,829	48,746	67,008	92,297
164,815	321,959	360,124	374,340
116,117	116,997	26,515	21,770
-	-	181,131	192,818
<u>\$ 3,636,497</u>	<u>\$ 3,404,755</u>	<u>\$ 8,691,718</u>	<u>\$ 8,339,270</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF AGED ACCOUNTS RECEIVABLE FROM
PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2005		2004	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital on June 30)	\$ 1,302,590	53.5 %	\$ 1,222,813	48.2 %
31-90 Days	452,393	18.6	599,574	23.6
91-180 Days	269,782	11.1	336,138	13.3
181 Days and Over	412,034	16.8	377,435	14.9
Total Accounts Receivable	<u>\$ 2,436,799</u>	<u>100.0 %</u>	<u>\$ 2,535,960</u>	<u>100.0 %</u>
ALLOWANCES				
Contractual -				
Medicare/Medicaid	394,488		433,404	
Doubtful Accounts	<u>368,100</u>		<u>342,400</u>	
Net Accounts Receivable	<u>\$ 1,674,211</u>		<u>\$ 1,760,156</u>	
Net Patient Service Revenue per Calendar Day (excluding bad debt)	<u>\$ 33,367</u>		<u>\$ 32,523</u>	
Days of net Revenue in net Accounts Receivable at Year End	<u>50</u>		<u>54</u>	

Analysis of Allowance for Doubtful Accounts

	2005		2004	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 342,400		\$ 201,200	
Add:				
Provision for Doubtful Accounts	420,459	3.6 %	320,368	2.8 %
Recoveries Previously Written Off	<u>122,452</u>	1.0 %	<u>75,733</u>	0.7 %
	542,911		396,101	
Deduct:				
Accounts Written Off	<u>(517,211)</u>	(4.4)%	<u>(254,901)</u>	(2.2)%
Ending Balance	<u>\$ 368,100</u>		<u>\$ 342,400</u>	

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
INVENTORY		
Central Stores and Central Supply	\$ 198,604	\$ 197,823
Pharmacy	47,825	57,869
TOTAL INVENTORY	<u>\$ 246,429</u>	<u>\$ 255,692</u>
PREPAID EXPENSES		
Insurance	\$ 9,888	\$ 29,162
Other	35,565	66,439
TOTAL PREPAID EXPENSES	<u>\$ 45,453</u>	<u>\$ 95,601</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF BOND INVESTMENT TRANSACTIONS
YEAR ENDED JUNE 30, 2005**

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Bond Sinking Fund 2002 Hospital Refunding Revenue Note	\$ 65,000	\$ -	\$ -	\$ 65,000
	<u>\$ 65,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,000</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
 SCHEDULE OF COMPARATIVE STATISTICS (UNAUDITED)
 YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
PATIENT DAYS		
Acute	1,509	1,822
Swingbed	393	307
Newborn	30	108
ADMISSIONS		
Acute	552	596
Swingbed	61	42
Newborn	16	53
DISCHARGES		
Acute	552	591
Swingbed	61	43
Newborn	18	52
AVERAGE LENGTH OF STAY		
Acute	2.7	3.1
Swingbed	6.4	7.1
LICENSED BEDS	25	25

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**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, 2005, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

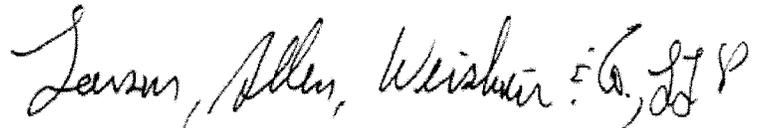
Compliance and Other Matters

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 no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Mitchell County Regional Health Center in a separate letter dated September 22, 2005.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health 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.

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.

A handwritten signature in cursive script that reads "Larson, Allen, Weishair & Co., LLP". The signature is written in black ink and is positioned above the printed name of the firm.

LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 22, 2005

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

- 05-1 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, 2005.
- 05-2 Certified Budget
Health Center disbursements during the year ended June 30, 2005 did not exceed budgeted amounts, as amended.
- 05-3 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.
- 05-4 Travel Expense
No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- 05-5 Business Transactions
No business transactions between the Health Center and Health Center officials and/or employees were noted.
- 05-6 Board Minutes
Board minutes were examined and appeared to give a condensed, accurate account of business transacted by the Board.
- 05-7 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.
- 05-8 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.

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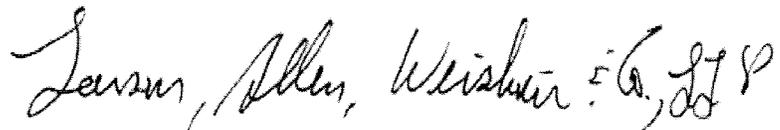
INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS

Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited, in accordance with U.S. generally accepted auditing standards and 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, 2005, and have issued our report thereon dated September 22, 2005.

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

Austin, Minnesota
September 22, 2005

