

FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008



MITCHELL COUNTY REGIONAL HEALTH CENTER

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**MITCHELL COUNTY REGIONAL HEALTH CENTER
BOARD OF TRUSTEES AND HEALTH CENTER OFFICIALS
JUNE 30, 2009 AND 2008**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John Lessard	Chairperson	November 30, 2010
Chuck Laures	Vice Chairperson	November 30, 2014
Jan Moody	Secretary/Treasurer	November 30, 2012
Pat Rourick	Member	November 30, 2012
Don Hendrickson	Member	November 30, 2014
Jean Brumm	Member	November 30, 2010
Larry Abel	Member	November 30, 2014

Health Center Officials

Sandy Leggett	Administrator
Alan Streeter	Chief Financial Officer



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The 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, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in the Health Center's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, does not establish a definition of operating revenues and expenses versus non-operating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in non-operating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2009, on our consideration of the 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.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 25 and 26 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 22, 2009

Mitchell County Regional Health Center

Management's Discussion and Analysis

This section of Mitchell County Regional Health Center's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2009. We encourage readers to consider this analysis in conjunction with the financial statements in this report.

Financial Highlights

- The Health Center's total assets increased by \$720,022 or 4.14%. A significant portion of this increase represents the increase in cash due to the payback from Medicare and Medicaid for previous cost reports. In 2008, the Health Center's total assets increased by \$221,204 or 1.29%. A significant portion of that increase represented investments in capital equipment and buildings.
- The Health Center's assets exceeded liabilities by \$12,811,418 at June 30, 2009. In 2008, the Health Center's assets exceeded liabilities by \$11,987,429 at June 30, 2008.
- During the year, the Health Center's total patient revenues increased 1.14% to \$21,968,356 while the operating expenses decreased .127% to \$16,379,962. The Health Center had income from operations of \$124,282 before affiliation agreement expenses, which is .75% of total operating revenues. In the previous year, the Health Center's total patient revenues increased 5.13% to \$16,511,688 while the operating expenses increased 6.02% to \$16,400,745. The Health Center had income from operations of \$110,943 before affiliation agreement expenses, which is .67% of total operating revenues.
- The Health Center made capital equipment and building investments totaling \$423,379 during the fiscal year. The source of funding for these items was derived from operations. In 2008, the Health Center made capital equipment and building investments totaling \$1,055,953. The source of funding for those items was derived from operations and notes payable.

Overview of the Financial Statements

The basic financial statements of the Health Center report information using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about its activities.

The balance sheets provide information about the nature and amounts of the Health Center's assets and liabilities. The balance sheet at June 30, 2009, reports total assets of \$18,110,786, total liabilities of \$5,299,368 and net assets of \$12,811,418. The balance sheet at June 30, 2008, reported total assets of \$17,390,764, total liabilities of \$5,403,335 and net assets of \$11,987,429.

The statements of revenues, expenses, and changes in net assets provide information on the Health Center's revenues and expenses. These statements indicate total operating revenues of \$16,504,244 and total operating expenses of \$16,379,962 during fiscal year 2009. The operating income was \$86,979 in 2009, compared to an operating income of \$5,415 in 2008.

There are notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. There are also several supplementary schedules that provide the reader detail about the source of the Health Center's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

Long-Term Debt

As of June 30, 2009 and 2008, Mitchell County Regional Health Center had \$3,131,743 and \$3,517,454, respectively, in short-term and long-term debt. The debt was incurred to update the facility and continue to invest in new equipment and technology.

Factors Bearing on Financial Future

The Health Center continued to improve its financial position during the current year. However, the condition of the economy continues to be a concern for Administration. Some of the realities that may potentially become challenges for the Health Center are as follows:

- The Health Center has facilities that require constant maintenance and upkeep.
- Technology continues to expand and as current technology becomes outdated this will present ongoing challenges to maintain up-to-date technology at a reasonable cost.
- Potential changes in federal and state reimbursement for patient services.

Requests for Information

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer at the following address:

Mitchell County Regional Health Center
616 North Eighth Street
Osage, Iowa 50461-1456

MITCHELL COUNTY REGIONAL HEALTH CENTER
BALANCE SHEETS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,520,385	\$ 2,287,984
Investments - Note 4	254,315	200,000
Receivables		
Patient, net of estimated uncollectibles		
of \$836,000 in 2009 and \$914,000 in 2008	1,994,111	2,217,740
Current portion of pledges receivable	44,333	38,914
Succeeding year property tax	535,274	516,461
Other	47,070	96,966
Supplies	367,213	359,684
Prepaid expense	171,687	89,355
Total current assets	<u>6,934,388</u>	<u>5,807,104</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for capital improvements	1,344,674	1,024,142
Restricted under debt agreements	275,000	328,454
Restricted by master affiliation agreement with MMC-NI	303,394	266,091
Total assets limited as to use or restricted	<u>1,923,068</u>	<u>1,618,687</u>
CAPITAL ASSETS, net - Note 5	<u>9,220,570</u>	<u>9,889,117</u>
OTHER ASSETS		
Pledges receivable, net of current portion	-	40,000
Debt issue costs, net of accumulated amortization		
of \$19,864 in 2009 and \$16,768 in 2008	32,760	35,856
Total other assets	<u>32,760</u>	<u>75,856</u>
Total assets	<u>\$ 18,110,786</u>	<u>\$ 17,390,764</u>

See notes to financial statements.

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 6	\$ 402,046	\$ 389,933
Accounts payable		
Trade	285,551	311,456
Related party	439,505	500,735
Estimated third-party payor settlements	375,000	29,000
Accrued expenses		
Salaries and wages	138,030	127,212
Paid leave	321,978	334,387
Interest	10,365	11,059
Payroll taxes and employee benefits	61,922	55,571
Deferred revenue for succeeding year property tax receivable	<u>535,274</u>	<u>516,461</u>
 Total current liabilities	 2,569,671	 2,275,814
 LONG-TERM DEBT, less current maturities - Note 6	 <u>2,729,697</u>	 <u>3,127,521</u>
 Total liabilities	 <u>5,299,368</u>	 <u>5,403,335</u>
NET ASSETS		
Invested in capital assets, net of related debt	6,121,587	6,407,519
Restricted		
By master affiliation agreement with MMC-NI	266,091	180,000
Under debt agreements	275,000	328,454
Unrestricted	<u>6,148,740</u>	<u>5,071,456</u>
 Total net assets	 <u>12,811,418</u>	 <u>11,987,429</u>
 Total liabilities and net assets	 <u>\$ 18,110,786</u>	 <u>\$ 17,390,764</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$540,111 in 2009 and \$704,560 in 2008) - Notes 2 and 3	\$ 16,178,136	\$ 16,149,255
Other operating revenues	<u>326,108</u>	<u>362,433</u>
TOTAL OPERATING REVENUES	<u>16,504,244</u>	<u>16,511,688</u>
OPERATING EXPENSES		
Salaries and wages	5,290,634	5,467,683
Employee benefits	1,362,658	1,459,103
Supplies and other expenses	8,480,632	8,332,402
Depreciation	1,073,647	954,920
Interest and amortization	<u>172,391</u>	<u>186,637</u>
TOTAL OPERATING EXPENSES	<u>16,379,962</u>	<u>16,400,745</u>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT	124,282	110,943
AFFILIATION AGREEMENT EXPENSE	<u>(37,303)</u>	<u>(105,528)</u>
OPERATING INCOME	<u>86,979</u>	<u>5,415</u>
NON-OPERATING REVENUES (EXPENSES)		
Tax revenue	507,591	502,061
Investment income	92,601	97,289
Gain (loss) on sale of capital assets	<u>(17,278)</u>	<u>2,824</u>
NET NON-OPERATING REVENUES	<u>582,914</u>	<u>602,174</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	669,893	607,589
Capital contributions and grants	<u>154,096</u>	<u>150,000</u>
INCREASE IN NET ASSETS	823,989	757,589
NET ASSETS, BEGINNING OF YEAR	<u>11,987,429</u>	<u>11,229,840</u>
NET ASSETS, END OF YEAR	<u>\$ 12,811,418</u>	<u>\$ 11,987,429</u>

See notes to financial statements.

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 16,747,765	\$ 15,843,271
Payments of salaries and wages	(5,285,874)	(5,387,540)
Payments of supplies and other expenses	(10,058,283)	(9,998,898)
Other receipts and payments, net	<u>376,416</u>	<u>310,772</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,780,024</u>	<u>767,605</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	<u>507,179</u>	<u>502,397</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(421,900)	(838,391)
Proceeds from sale of capital assets	1,002	2,824
Principal payments on long-term debt	(395,244)	(361,821)
Interest payments on long-term debt	(161,242)	(174,889)
Payments received on promises to give	34,581	50,000
Capital contributions and grants	<u>154,096</u>	<u>150,000</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(788,707)</u>	<u>(1,172,277)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	92,601	97,289
(Increase) decrease in investments	(54,315)	278,985
Increase in assets limited as to use or restricted	<u>(304,381)</u>	<u>(535,118)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(266,095)</u>	<u>(158,844)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,232,401	(61,119)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,287,984</u>	<u>2,349,103</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,520,385</u>	<u>\$ 2,287,984</u>

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 86,979	\$ 5,415
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,073,647	954,920
Interest and amortization expense considered capital and related financing activity	172,391	186,637
Provision for bad debts	540,111	704,560
Changes in assets and liabilities		
Patient receivables	(316,482)	(597,544)
Estimated third-party payor settlements	346,000	(413,000)
Other receivables	50,308	(51,661)
Supplies	(7,529)	(23,274)
Prepaid expense	(82,332)	(38,333)
Accounts payable - trade and related	(87,135)	(39,892)
Accrued expenses	4,066	79,777
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,780,024</u>	<u>\$ 767,605</u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH
INVESTING AND FINANCING ACTIVITIES**

The Health Center entered into capital lease obligations for new equipment in the amount of \$184,952 in 2008.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Mitchell County Memorial Hospital, d/b/a Mitchell County Regional Health Center (Health Center), consists of a 25-bed acute care hospital located in Osage, Iowa. The Health Center is the county hospital of Mitchell County and is organized under Chapter 347 of the Code of Iowa. The Health Center provides health care services in accordance with a Master Affiliation Agreement 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. The Health Center is exempt from income taxes as a political subdivision.

The Health Center's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, the Health Center has included all funds, organizations, 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 include 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 which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The balance sheet displays the Health Center's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, it is generally the Health Center's policy to use restricted resources first.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Measurement Focus and 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 Health Center reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Health Center applies all applicable GASB pronouncements for proprietary funds 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 Procedure.

Use of Estimates

The preparation of financial statements in conformity with 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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased, excluding assets limited as to use or restricted or investments.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 Auditor. The succeeding year property tax receivable represents taxes certified by the Board of Trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the County Auditor 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.

Supplies

Supplies are valued at cost using the first-in, first-out method.

Investments

Investments are valued at purchase cost, or fair market value at the date of acquisition if donated. Investments consist of non-negotiable certificates of deposit.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets donated for Health Center operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation in the financial statements. The estimated useful lives of capital assets are as follows:

Land improvements	8-20 years
Buildings and leasehold improvements	5-56 years
Major movable equipment	3-25 years

Promises to Give

Contributions are recognized at the date the promise is received. Contributions that are restricted by the donor are reported as other operating revenues if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets depending on the nature of the restrictions.

The Health Center uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis. The Health Center has recorded an allowance for uncollectible pledges of approximately \$0 and \$12,000 as of June 30, 2009 and 2008, respectively.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Assets Limited as to Use or Restricted

Assets limited as to use or restricted 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 revenues (expenses) to the extent expended within the period.

Debt Issue Costs

Debt issue costs are amortized over the period the related debt is outstanding using the straight-line method.

Compensated Absences

Health Center employees accumulate a limited amount of earned but unused paid leave hours for subsequent use or for payment upon termination, death, or retirement. The cost of paid leave is recorded as a current liability on the balance sheet and is included in accrued expenses. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009 and 2008.

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.

Operating Revenues and Expenses

The Health Center's statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – the Health Center's principal activity. Non-exchange revenues, including interest income, taxes, grants, and unrestricted contributions, are reported as non-operating revenues (expenses). Operating expenses are all expenses incurred to provide health care services, including interest expense.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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 and a provision for uncollectible accounts. 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.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred.

Charity Care

To fulfill its mission of community service, 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. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Health Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

Investment Income

Interest on cash and deposits is included in non-operating revenues and expenses.

County Tax Revenue

Taxes are included in non-operating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Reclassification

Certain items from the 2008 financial statements have been reclassified to conform to the current year presentation.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 2 - CHARITY CARE AND COMMUNITY BENEFITS

The Health Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$4,233 and \$59,344 for the years ended June 30, 2009 and 2008, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2009 and 2008, were \$3,000 and \$44,000, respectively.

In addition, the Health Center provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and for some services the payments are less than the cost of rendering the services provided.

The Health Center also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

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 is licensed as a Critical Access Hospital (CAH). The Health Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Health Center and are subject to audits thereof by the Medicare fiscal intermediary. The Health Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2007.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicaid fiscal intermediary. The Health Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2007.

Other Payors: The Health Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Health Center under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 49% and 3%, respectively, of the Health Center's net patient service revenue for the year ended June 30, 2009, and 46% and 4%, respectively, of the Health Center's net patient service revenue for the year ended June 30, 2008.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2009 and 2008, is as follows:

	<u>2009</u>	<u>2008</u>
Total patient service revenue	<u>\$ 21,964,123</u>	<u>\$ 21,661,551</u>
Contractual adjustments:		
Medicare	(2,818,529)	(2,649,552)
Medicaid	(394,167)	(270,196)
Other	<u>(2,033,180)</u>	<u>(1,887,988)</u>
Total contractual adjustments	<u>(5,245,876)</u>	<u>(4,807,736)</u>
Net patient service revenue	<u>16,718,247</u>	16,853,815
Provision for bad debts	<u>(540,111)</u>	<u>(704,560)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 16,178,136</u>	<u>\$ 16,149,255</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

The Health Center's deposits in banks at June 30, 2009 and 2008, were entirely covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to 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 Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

At June 30, 2009 and 2008, the Health Center's amounts of cash and deposits are as follows:

	<u>2009</u>	<u>2008</u>
Checking and savings accounts	<u>\$ 1,713,068</u>	\$ 1,355,233
Certificates of deposit	<u>464,315</u>	<u>463,454</u>
Total deposits	<u>\$ 2,177,383</u>	<u>\$ 1,818,687</u>
Included in the following balance sheet captions:		
Investments	\$ 254,315	\$ 200,000
Assets limited as to use or restricted	<u>1,923,068</u>	<u>1,618,687</u>
	<u>\$ 2,177,383</u>	<u>\$ 1,818,687</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The Health Center's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Health Center. Maturities are consistent with this policy.

NOTE 5 - CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2009 and 2008, are as follows:

	Balance <u>June 30, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	Balance <u>June 30, 2009</u>
Cost					
Land	\$ 229,512	\$ -	\$ -	\$ -	\$ 229,512
Land improvements	456,735	-	(28,798)	60,910	488,847
Buildings	12,431,639	-	(662,367)	205,090	11,974,362
Leasehold improvements	55,257	-	-	-	55,257
Major movable equipment	5,477,154	65,197	(919,921)	663,304	5,285,734
Construction in progress	<u>575,903</u>	<u>358,182</u>	<u>-</u>	<u>(929,304)</u>	<u>4,781</u>
Total	<u>19,226,200</u>	<u>\$ 423,379</u>	<u>\$ (1,611,086)</u>	<u>\$ -</u>	<u>18,038,493</u>
Accumulated depreciation					
Land improvements	269,864	\$ 41,267	\$ (24,239)	\$ 50,250	337,142
Buildings	4,941,598	479,896	(649,045)	-	4,772,449
Leasehold improvements	53,773	424	-	-	54,197
Major movable equipment	<u>4,071,848</u>	<u>552,060</u>	<u>(919,523)</u>	<u>(50,250)</u>	<u>3,654,135</u>
Total	<u>9,337,083</u>	<u>\$ 1,073,647</u>	<u>\$ (1,592,807)</u>	<u>\$ -</u>	<u>8,817,923</u>
Capital assets, net	<u>\$ 9,889,117</u>				<u>\$ 9,220,570</u>
	Balance <u>June 30, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	Balance <u>June 30, 2008</u>
Cost					
Land	\$ 229,512	\$ -	\$ -	\$ -	\$ 229,512
Land improvements	456,735	-	-	-	456,735
Buildings	12,183,786	-	-	247,853	12,431,639
Leasehold improvements	55,257	-	-	-	55,257
Major movable equipment	5,622,381	112,175	(472,576)	215,174	5,477,154
Construction in progress	<u>126,623</u>	<u>912,307</u>	<u>-</u>	<u>(463,027)</u>	<u>575,903</u>
Total	<u>18,674,294</u>	<u>\$ 1,024,482</u>	<u>\$ (472,576)</u>	<u>\$ -</u>	<u>19,226,200</u>
Accumulated depreciation					
Land improvements	208,927	\$ 37,308	\$ -	\$ 23,629	269,864
Buildings	4,486,070	455,543	-	(15)	4,941,598
Leasehold improvements	53,349	424	-	-	53,773
Major movable equipment	<u>4,106,394</u>	<u>461,644</u>	<u>(472,576)</u>	<u>(23,614)</u>	<u>4,071,848</u>
Total	<u>8,854,740</u>	<u>\$ 954,919</u>	<u>\$ (472,576)</u>	<u>\$ -</u>	<u>9,337,083</u>
Capital assets, net	<u>\$ 9,819,554</u>				<u>\$ 9,889,117</u>

(continued on next page)

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 6 - LONG-TERM DEBT

A schedule of changes in long-term debt for 2009 and 2008, is as follows:

	Balance June 30, 2008	Additions	(Payments) Amortization	Balance June 30, 2009	Amounts Due Within One Year
Hospital Refunding Revenue					
Note, Series 2002	\$ 2,716,364	\$ -	\$ (175,180)	\$ 2,541,184	\$ 183,805
Promissory notes	202,391	-	(22,101)	180,290	22,925
Notes payable	70,311	-	(32,947)	37,364	27,363
Obligations under capital leases - Note 7	601,087	-	(159,705)	441,382	167,953
	3,590,153	-	(389,933)	3,200,220	402,046
Deferred loss on bond refinancing	(112,632)	-	9,794	(102,838)	-
Accumulated amortization on deferred loss	39,933	-	(5,572)	34,361	-
Total long-term debt	\$ 3,517,454	\$ -	\$ (385,711)	\$ 3,131,743	\$ 402,046
Less current maturities				(402,046)	
Long-term debt, less current maturities				\$ 2,729,697	

	Balance June 30, 2007	Additions	(Payments) Amortization	Balance June 30, 2008	Amounts Due Within One Year
Hospital Refunding Revenue					
Note, Series 2002	\$ 2,882,971	\$ -	\$ (166,607)	\$ 2,716,364	\$ 175,180
Promissory notes	223,708	-	(21,317)	202,391	22,101
Notes payable	102,561	-	(32,250)	70,311	32,947
Obligations under capital leases	552,211	184,951	(136,075)	601,087	159,705
	3,761,451	184,951	(356,249)	3,590,153	389,933
Deferred loss on bond refinancing	(122,426)	-	9,794	(112,632)	-
Accumulated amortization on deferred loss	45,505	-	(5,572)	39,933	-
Total long-term debt	\$ 3,684,530	\$ 184,951	\$ (352,027)	\$ 3,517,454	\$ 389,933
Less current maturities				(389,933)	
Long-term debt, less current maturities				\$ 3,127,521	

The Health Center is subject to certain covenants under the bond agreement including a requirement to maintain certain measures of financial performance and maintain a sinking fund account. The Health Center was in compliance with these covenants for the years ended June 30, 2009 and 2008.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 patient service revenue of the Health Center.

Promissory Notes:

The Health Center entered into two promissory notes with Heartland Power Cooperative, Thompson, Iowa, on September 1, 2005, in the amounts of \$240,000 and \$60,000. These notes have been discounted using an imputed interest rate of 5%. The discount of \$51,077 is reported with long-term debt and will be amortized over the life of the related debt using the straight-line method. The purpose of the promissory notes was to build the new St. Ansgar Clinic in St. Ansgar, Iowa. The notes are due in annual installments of \$24,000 at zero percent interest and \$6,000 including interest at 2% through September 2015, respectively.

Notes Payable:

The Health Center entered into two notes for certain equipment. The first note, entered into during fiscal year 2005, is for telemetry equipment and is for a term of five years and bears interest at a rate of 3.95%, with payments of principal and interest of \$1,569 due monthly. The note is collateralized by the patient service revenue of the Health Center. The second note, entered into during the 2006 fiscal year, is due to MMC-NI (Note 11) and is for a cataract microscope with a term of five years and bears zero percent interest with payments of principal of \$1,250 due monthly.

Obligations Under Capital Leases:

The Health Center entered into five capital leases for equipment. The first agreement, entered into during fiscal year 2004, is for a period of five years and bears interest at a rate of 7.4%, with payments of principal and interest of \$96 due monthly. The second lease, entered into during fiscal year 2007, is for a period of five years and bears interest at a rate of 6.0%, with payments of principal and interest of \$10,362 due monthly. The third lease, entered into during fiscal year 2007, is for a period of five years and bears interest at a rate of 6.0%, with payments of principal and interest of \$1,884 due monthly. The fourth lease, entered into during fiscal year 2008, is for a period of five years and bears interest at a rate of 3.59%, with payments of principal and interest of \$1,457 due monthly. The fifth lease, entered into during fiscal year 2008, is for a period of five years and bears interest at a rate of 5.75%, with payments of principal and interest of \$2,019 due monthly.

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

<u>Year Ending</u> <u>June 30,</u>	<u>Long-term debt</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 402,046	\$ 147,177
2011	404,503	127,052
2012	302,691	108,530
2013	257,622	95,221
2014	249,417	83,120
2015-2019	1,345,871	225,377
2020-2024	238,070	4,935
	<u>\$ 3,200,220</u>	<u>\$ 791,412</u>

(continued on next page)

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 7 - LEASES

The Health Center leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2009 and 2008, for all operating leases was \$126,237 and \$111,112 respectively. The capitalized leased assets consist of:

	<u>2009</u>	<u>2008</u>
Major movable equipment	\$ 823,200	\$ 823,200
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(445,680)</u>	<u>(256,540)</u>
	<u>\$ 377,520</u>	<u>\$ 566,660</u>

Minimum future lease payments for noncancelable capital and operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2010	\$ 188,658	\$ 84,220
2011	188,658	77,759
2012	78,444	54,269
2013	20,185	11,682
2014	-	10,053
Total minimum lease payments	475,945	<u>\$ 237,983</u>
Less interest	<u>(34,563)</u>	
Present value of minimum lease payments - Note 6	<u>\$ 441,382</u>	

NOTE 8 - LEASE COMMITMENT

During 2009, the Health Center entered into a lease agreement with the City of St. Ansgar for the St. Ansgar Community Center. The Health Center agreed to lease the building to the City of St. Ansgar for \$1 per year for twenty years, with an additional ten-year renewal option.

NOTE 9 - FOUNDATION

The Mitchell County Memorial Foundation (Foundation) was formed to solicit funds to further the quality and availability of health care services in the Mitchell County area. The Foundation is authorized by the Health Center to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts to be distributed to the providers of health care services, the timing of such distributions, and the purposes for which the funds are to be used.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Since Mitchell County Regional Health Center has an economic interest in the Foundation, a summary of the Foundation's assets, liabilities, and net assets as of June 30, 2009 and 2008, and its results of operations, and changes in net assets for the years then ended follows:

	<u>(Unaudited)</u> <u>2009</u>	<u>(Unaudited)</u> <u>2008</u>
Assets	<u>\$ 130,176</u>	<u>\$ 140,240</u>
Net assets	<u>\$ 130,176</u>	<u>\$ 140,240</u>
Revenues	<u>\$ 64,867</u>	<u>\$ 98,665</u>
Expenses	<u>74,931</u>	<u>59,796</u>
Revenues in excess of (less than) expenses	<u>(10,064)</u>	<u>38,869</u>
Net assets, beginning of year	<u>140,240</u>	<u>101,371</u>
Net assets, end of year	<u>\$ 130,176</u>	<u>\$ 140,240</u>

For the years ended June 30, 2009 and 2008, the Foundation contributed approximately \$72,000 and \$55,000, respectively, to the Health Center for various projects.

NOTE 10 - 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 4.10% of their annual covered salary, and the Health Center is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary, and the Health Center was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$331,986, \$320,568, and \$268,713, respectively, equal to the required contributions for each year.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 11 - RELATED PARTY TRANSACTIONS

Master Affiliation Agreement

The Health Center has a Master Affiliation Agreement with Mercy Medical Center – North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Mitchell County and surrounding counties in northeastern Iowa. As a part of this Master Affiliation Agreement, the Health Center entered into a Professional Service Agreement with MMC-NI whereby MMC-NI provides professional medical services as well as staff employees in support of the physician medical services. Amounts paid to MMC-NI for the provision of these services amounted to \$2,440,200 and \$2,506,642 for the years ended June 30, 2009 and 2008, respectively.

Through June 30, 2008, operating gains and losses from the operations of the Health Center and MMC-NI services are shared equally in accordance with the formulas outlined in the Master Affiliation Agreement. Total operating gains (losses) to be allocated to MMC-NI amounted to \$105,528 for the year ended June 30, 2008.

The Health Center's Master Affiliation Agreement with MMC-NI was amended effective July 1, 2008. Operating gains that are less than \$125,000 are allocated entirely to the Health Center. Operating gains in excess of \$125,000 and all operating losses are shared equally between the Health Center and MMC-NI. Total operating gains (losses) to be allocated to MMC-NI amounted to \$37,303 for the year ended June 30, 2009.

Management Services Agreement

The Health Center has a contractual agreement with MMC-NI under which MMC-NI 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 for the years ended June 30, 2009 and 2008, were \$717,612 and \$349,061, respectively.

Due to and from Affiliated Organization

The Health Center purchases various other patient care related services from MMC-NI in addition to those mentioned above. As of June 30, 2009 and 2008, the Health Center's records reflect an amount due to MMC-NI of \$439,505 and \$500,735, respectively, for the various services and distributions related to these agreements. At June 30, 2009, the Health Center also had a note payable of \$25,000 (Note 6) due to MMC-NI.

NOTE 12 - CONTINGENCIES

Malpractice Insurance

The Health Center has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. 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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Litigation

The Health Center is involved in litigation arising in the normal course of business. In consultation with legal counsel, it is not practical to assess the likelihood of an unfavorable outcome at this time; however, the Health Center intends to vigorously defend the litigation.

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Health Center is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

NOTE 13 - 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. The Health Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 14 - CONCENTRATION OF CREDIT RISK

The Health Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	37%	28%
Medicaid	4%	3%
Blue Cross	21%	20%
Other third-party payors and patients	38%	49%
	<u>100%</u>	<u>100%</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 15 – SUBSEQUENT EVENT

On July 24, 2009, the Health Center received grant proceeds of \$89,713 and loan proceeds of \$358,853 from the United States Department of Agriculture for reimbursement of qualified expenditures related to electronic health records expenditures.

The Health Center has evaluated subsequent events through October 22, 2009, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION



MITCHELL COUNTY REGIONAL HEALTH CENTER
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2009

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 507,591	\$ (412)	\$ 507,179	\$ 516,461	\$ (9,282)
Estimated other revenues/receipts	<u>16,733,663</u>	<u>672,386</u>	<u>17,406,049</u>	<u>18,471,328</u>	<u>(1,065,279)</u>
	17,241,254	671,974	17,913,228	18,987,789	(1,074,561)
Expenses/disbursements	<u>16,417,265</u>	<u>(95,134)</u>	<u>16,322,131</u>	<u>17,409,847</u>	<u>1,087,716</u>
Net	823,989	767,108	1,591,097	1,577,942	\$ 13,155
Balance, beginning of year	<u>11,987,429</u>	<u>(7,880,758)</u>	<u>4,106,671</u>	<u>4,301,843</u>	
Balance, end of year	<u>\$12,811,418</u>	<u>\$ (7,113,650)</u>	<u>\$ 5,697,768</u>	<u>\$5,879,785</u>	

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from the Health Center preparing a budget on the cash basis of accounting.

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. The Health Center did not amend its original budget during the year ended June 30, 2009.

For the year ended June 30, 2009, the Health Center's expenditures did not exceed the amount budgeted.

SUPPLEMENTARY INFORMATION





CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

The 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, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report on pages 2-3. Our audits were performed for the purpose of forming an opinion on the basic financial statements of Mitchell County Regional Health Center taken as a whole. The supplementary information and the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for the Schedules of Statistical Information on page 36 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements; and, in our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
October 22, 2009

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2009 AND 2008

	TOTAL	
	2009	2008
PATIENT CARE SERVICES		
Medical and surgical	\$ 1,362,058	\$ 1,501,744
Intensive care unit	-	2,772
Nursery	42,705	71,804
Swing-bed	<u>320,522</u>	<u>196,564</u>
Subtotal	<u>1,725,285</u>	<u>1,772,884</u>
OTHER PROFESSIONAL SERVICES		
Operating and recovery room	1,076,531	1,097,467
Labor and delivery room	31,731	51,695
Anesthesiology	640,220	539,839
Radiology	3,949,859	3,656,476
Laboratory	2,255,904	2,285,800
Blood supplies	69,331	86,097
Respiratory therapy	15,283	10,762
Physical therapy	542,544	485,172
Speech therapy	73,777	49,962
Electrocardiography	546,277	648,157
Medical and surgical supplies	380,137	411,999
Pharmacy	1,562,095	1,805,117
Vascular laboratory	126,662	104,404
Audiology	156,689	144,681
Emergency room	1,656,223	1,626,553
Ambulance	581,422	508,880
Osage clinic	4,319,687	4,184,001
St. Ansgar clinic	1,827,316	1,889,938
Stacyville clinic	125,327	103,857
Riceville clinic	<u>306,056</u>	<u>257,154</u>
Subtotal	<u>20,243,071</u>	<u>19,948,011</u>
Total	21,968,356	21,720,895
Charity care	<u>(4,233)</u>	<u>(59,344)</u>
Total patient service revenue	<u>21,964,123</u>	<u>21,661,551</u>

INPATIENT		OUTPATIENT	
2009	2008	2009	2008
\$ 1,294,378	\$ 1,341,249	\$ 67,680	\$ 160,495
-	2,772	-	-
42,705	71,804	-	-
320,522	196,564	-	-
1,657,605	1,612,389	67,680	160,495
157,273	153,014	919,258	944,453
31,646	51,057	85	638
102,564	112,925	537,656	426,914
293,194	260,391	3,656,665	3,396,085
325,086	412,334	1,930,818	1,873,466
27,482	24,655	41,849	61,442
4,088	742	11,195	10,020
149,833	79,404	392,711	405,768
24,899	19,135	48,878	30,827
68,603	88,145	477,674	560,012
92,363	114,163	287,774	297,836
573,880	638,136	988,215	1,166,981
-	-	126,662	104,404
-	-	156,689	144,681
151,854	11,269	1,504,369	1,615,284
89,219	90,837	492,203	418,043
383,639	380,586	3,936,048	3,803,415
423,770	393,258	1,403,546	1,496,680
39,478	31,394	85,849	72,463
69,874	52,424	236,182	204,730
3,008,745	2,913,869	17,234,326	17,034,142
\$ 4,666,350	\$ 4,526,258	\$ 17,302,006	\$ 17,194,637

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Total patient service revenue	<u>\$ 21,964,123</u>	<u>\$ 21,661,551</u>
Contractual adjustments:		
Medicare	(2,818,529)	(2,649,552)
Medicaid	(394,167)	(270,196)
Other	<u>(2,033,180)</u>	<u>(1,887,988)</u>
Total contractual adjustments	<u>(5,245,876)</u>	<u>(4,807,736)</u>
Net patient service revenue	16,718,247	16,853,815
Provision for bad debts	<u>(540,111)</u>	<u>(704,560)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 16,178,136</u>	<u>\$ 16,149,255</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OTHER OPERATING REVENUES		
Rental income	\$ 105,531	\$ 105,901
Grant revenues	78,050	106,056
Meals sold	67,012	70,007
Laboratory revenues	16,125	11,817
Vending machines	13,494	13,401
Pharmacy rebates	10,870	22,108
Medical records transcription fees	904	644
Other	<u>34,122</u>	<u>32,499</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 326,108</u>	 <u>\$ 362,433</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 143,186	\$ 196,923
Supplies and other expenses	13,189	7,957
	<u>156,375</u>	<u>204,880</u>
ADULTS AND PEDIATRICS		
Salaries and wages	976,122	1,086,079
Supplies and other expenses	182,628	406,789
	<u>1,158,750</u>	<u>1,492,868</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	202,486	206,525
Supplies and other expenses	167,447	161,190
	<u>369,933</u>	<u>367,715</u>
ANESTHESIOLOGY		
Salaries and wages	201,160	151,448
Supplies and other expenses	127,028	209,184
	<u>328,188</u>	<u>360,632</u>
RADIOLOGY		
Salaries and wages	44,891	96,612
Supplies and other expenses	790,461	846,372
	<u>835,352</u>	<u>942,984</u>
LABORATORY		
Salaries and wages	354,860	352,529
Supplies and other expenses	290,861	288,834
	<u>645,721</u>	<u>641,363</u>
BLOOD SUPPLIES		
Salaries and wages	4,692	4,574
Supplies and other expenses	47,278	73,785
	<u>51,970</u>	<u>78,359</u>
RESPIRATORY THERAPY		
Salaries and wages	893	449
Supplies and other expenses	3,145	113
	<u>4,038</u>	<u>562</u>
PHYSICAL THERAPY		
Salaries and wages	212,051	194,058
Supplies and other expenses	10,363	16,549
	<u>222,414</u>	<u>210,607</u>
SPEECH THERAPY		
Supplies and other expenses	29,715	22,052
CARDIAC REHABILITATION		
Salaries and wages	57,747	55,229
Supplies and other expenses	2,196	2,895
	<u>59,943</u>	<u>58,124</u>

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ELECTROCARDIOGRAPHY		
Supplies and other expenses	\$ 83,871	\$ 118,168
MEDICAL AND SURGICAL SUPPLIES		
Salaries and wages	23,107	19,217
Supplies and other expenses	149,213	140,751
	<u>172,320</u>	<u>159,968</u>
PHARMACY		
Salaries and wages	105,305	24,479
Supplies and other expenses	434,266	484,170
	<u>539,571</u>	<u>508,649</u>
EMERGENCY ROOM		
Salaries and wages	243,178	191,247
Supplies and other expenses	445,513	458,107
	<u>688,691</u>	<u>649,354</u>
AMBULANCE		
Salaries and wages	135,355	126,255
Supplies and other expenses	28,971	29,078
	<u>164,326</u>	<u>155,333</u>
SLEEP LAB		
Salaries and wages	5,585	5,126
Supplies and other expenses	31,104	30,268
	<u>36,689</u>	<u>35,394</u>
OSAGE CLINIC		
Salaries and wages	518,684	539,583
Supplies and other expenses	2,313,506	2,122,421
	<u>2,832,190</u>	<u>2,662,004</u>
ST. ANSGAR CLINIC		
Salaries and wages	240,881	278,483
Supplies and other expenses	1,053,477	1,001,298
	<u>1,294,358</u>	<u>1,279,781</u>
STACYVILLE CLINIC		
Salaries and wages	19,857	20,309
Supplies and other expenses	87,299	86,105
	<u>107,156</u>	<u>106,414</u>
RICEVILLE CLINIC		
Salaries and wages	58,957	57,717
Supplies and other expenses	144,419	117,291
	<u>203,376</u>	<u>175,008</u>
MEDICAL RECORDS		
Salaries and wages	306,337	353,285
Supplies and other expenses	22,372	31,643
	<u>328,709</u>	<u>384,928</u>
DIETARY		
Salaries and wages	168,988	169,954
Supplies and other expenses	91,922	94,356
	<u>260,910</u>	<u>264,310</u>

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATION OF PLANT		
Salaries and wages	\$ 200,160	\$ 202,218
Supplies and other expenses	<u>410,852</u>	<u>420,761</u>
	<u>611,012</u>	<u>622,979</u>
HOUSEKEEPING		
Salaries and wages	150,496	154,765
Supplies and other expenses	<u>46,880</u>	<u>41,492</u>
	<u>197,376</u>	<u>196,257</u>
LAUNDRY		
Salaries and wages	23,148	27,054
Supplies and other expenses	<u>41,471</u>	<u>37,182</u>
	<u>64,619</u>	<u>64,236</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	892,508	953,565
Supplies and other expenses	<u>1,431,185</u>	<u>1,083,591</u>
	<u>2,323,693</u>	<u>2,037,156</u>
UNASSIGNED EXPENSES		
Depreciation	1,073,647	954,920
Interest and amortization	172,391	186,637
Employee benefits	<u>1,362,658</u>	<u>1,459,103</u>
	<u>2,608,696</u>	<u>2,600,660</u>
TOTAL OPERATING EXPENSES	<u>\$ 16,379,962</u>	<u>\$ 16,400,745</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR
DOUBTFUL ACCOUNTS
JUNE 30, 2009 AND 2008**

ANALYSIS OF AGING

Age of Accounts	2009		2008	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 1,814,567	64.12%	\$ 1,635,713	52.23%
31 to 90 days	527,569	18.64%	637,444	20.35%
91 to 150 days	161,222	5.70%	427,702	13.66%
150 days and over	326,572	11.54%	431,043	13.76%
	<u>2,829,930</u>	<u>100.00%</u>	<u>3,131,902</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	(316,418)		(469,576)	
Allowance for contractual adjustments	<u>(519,401)</u>		<u>(444,586)</u>	
Net	<u>\$ 1,994,111</u>		<u>\$ 2,217,740</u>	
Net patient service revenue per calendar day-excluding provision for bad debts	<u>\$ 44,324</u>		<u>\$ 44,245</u>	
Days of net revenue in net accounts receivable at year end	<u>45</u>		<u>50</u>	

ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2009		2008	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning balance	<u>\$ 469,576</u>	<u>2.90%</u>	<u>\$ 360,030</u>	<u>2.23%</u>
Add:				
Provision for bad debts	540,111	3.34%	704,560	4.36%
Recoveries previously written off	<u>231,077</u>	<u>1.43%</u>	<u>453,460</u>	<u>2.81%</u>
	<u>771,188</u>		<u>1,158,020</u>	
Less:				
Accounts written off	<u>(924,346)</u>	<u>5.71%</u>	<u>(1,048,474)</u>	<u>6.49%</u>
Ending balance	<u>\$ 316,418</u>	<u>1.96%</u>	<u>\$ 469,576</u>	<u>2.91%</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
SUPPLIES		
Central supply	\$ 282,299	\$ 287,368
Pharmacy	<u>84,914</u>	<u>72,316</u>
Total supplies	<u>\$ 367,213</u>	<u>\$ 359,684</u>
PREPAID EXPENSE		
Insurance	\$ 64,005	\$ 10,523
Dues and other	<u>107,682</u>	<u>78,832</u>
Total prepaid expense	<u>\$ 171,687</u>	<u>\$ 89,355</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Acute	1,528	1,669
Swing-bed	856	538
Newborn	65	141
Totals	<u>2,449</u>	<u>2,348</u>
ADMISSIONS		
Acute	485	592
Swing-bed	75	70
Newborn	30	55
Totals	<u>590</u>	<u>717</u>
DISCHARGES		
Acute	491	587
Swing-bed	65	68
Newborn	30	55
Totals	<u>586</u>	<u>710</u>
AVERAGE LENGTH OF STAY		
Acute	<u>3.1</u>	<u>2.8</u>
Swing-bed	<u>13.2</u>	<u>7.9</u>
LICENSED BEDS		
	<u>25</u>	<u>25</u>
EMERGENCY ROOM AND OUTPATIENT VISITS		
	<u>17,334</u>	<u>20,470</u>
CLINIC VISITS		
Osage (excluding optometry)	20,925	22,986
Optometry	3,749	3,579
St. Ansgar	9,266	10,622
Stacyville	673	702
Riceville	1,848	1,702



CPAs & BUSINESS ADVISORS

**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**

The 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, 2009 and 2008, as listed in the table of contents, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated October 22, 2009. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mitchell County Regional Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Mitchell County Regional Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mitchell County Regional Health Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mitchell County Regional Health Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of Mitchell County Regional Health Center's financial statements that is more than inconsequential will not be prevented or detected by Mitchell County Regional Health Center's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Mitchell County Regional Health Center's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Mitchell County Regional Health Center are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Mitchell County Regional Health Center's operations for the year ended June 30, 2009, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Mitchell County Regional Health Center and are reported in Part IV of the accompanying Schedule of Findings and Questioned Costs. 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.

Mitchell County Regional Health Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Health Center's responses, we did not audit the Health Center's responses, and accordingly, we express no opinion on them.

We also noted certain additional matters that we reported to management of Mitchell County Regional Health Center in a separate letter dated October 22, 2009.

This report, a public record by law, is intended solely for the information and use of the Finance Committee, Board of Trustees, management, 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mitchell County Regional Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
October 22, 2009



CPAs & BUSINESS ADVISORS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

Compliance

We have audited the compliance of Mitchell County Regional Health Center with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The major federal program of Mitchell County Regional Health Center is identified in the summary of the independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its major federal program is the responsibility of the management of Mitchell County Regional Health Center. Our responsibility is to express an opinion on Mitchell County Regional Health Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mitchell County Regional Health Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mitchell County Regional Health Center's compliance with those requirements.

In our opinion, Mitchell County Regional Health Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Mitchell County Regional Health Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered Mitchell County Regional Health Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mitchell County Regional Health Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in Mitchell County Regional Health Center's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in Mitchell County Regional Health Center's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Mitchell County Regional Health Center's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by Mitchell County Regional Health Center's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-09 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by Mitchell County Regional Health Center's internal control. We did not consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

Mitchell County Regional Health Center's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the Health Center's response, we did not audit Mitchell County Regional Health Center's response, and accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the Finance Committee, Board of Trustees, management, 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 black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 22, 2009

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
United States Department of Agriculture			
Direct Program			
Distance Learning and Telemedicine Loans and Grants	10.855		\$ 448,566
Pass-through program from:			
Mercy Medical Center			
Distance Learning and Telemedicine Loans and Grants	10.855	713-B-17	<u>24,113</u>
Total United States Department of Agriculture			<u>472,679</u>
Department of Health and Human Services			
Pass-through program from:			
Hancock County Health Services			
Research on Healthcare Costs, Quality, and Outcomes	93.226	1 UC1 HS016156-0	6,513
Direct Program			
State Rural Hospital Flexibility Program	93.241		15,000
Direct Program			
State Rural Hospital Flexibility Program	93.241		14,900
Pass-through program from:			
Mercy Medical Center			
State Rural Hospital Flexibility Program	93.241	5889CA01	2,247
Direct Program			
Small Rural Hospital Improvement Grant Program	93.301		8,282
Direct Program			
Small Rural Hospital Improvement Grant Program	93.301		3,191
Pass-through program from:			
Waverly Health Center			
National Bioterrorism Hospital Preparedness Program	93.889	5889BHP02	<u>1,780</u>
Total Department of Health and Human Services			<u>51,913</u>
			<u><u>\$ 524,592</u></u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Mitchell County Regional Health Center and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, but were not considered material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over the major program was disclosed by the audit of the financial statements, but was not considered a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.855 – Distance Learning and Telemedicine Loans and Grants.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Mitchell County Regional Health Center did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Significant Deficiencies:

II-A-09 Segregation of Duties

Criteria – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

Part II: Findings Related to the Financial Statements: (continued)

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Health Center should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Health Center should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of Mitchell County Regional Health Center. Due to the limited number of office employees, management will continue to monitor the Health Center’s operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

II-B-09 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – Mitchell County Regional Health Center does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Health Center. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Health Center management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

Part II: Findings Related to the Financial Statements: (continued)

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Health Center's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

SIGNIFICANT DEFICIENCY

**CFDA Number 10.855: Distance Learning and Telemedicine Loans and Grants
Pass-through Agency Number: 713-B-17
United States Department of Agriculture
Passed through Mercy Medical Center**

III-A-09 Segregation of Duties over Federal Expenditures – A lack of segregation of duties over expenditures, including those related to federal programs, exists in the Finance Department of Mitchell County Regional Health Center. See audit finding II-A-09.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-09 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-B-09 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

IV-C-09 Business Transactions – We noted no material business transactions between the Health Center and Health Center officials and/or employees.

IV-D-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

IV-E-09 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Health Center's investment policy were noted.



CPAs & BUSINESS ADVISORS

To the Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited the financial statements of Mitchell County Regional Health Center for the year ended June 30, 2009, and have issued our report thereon dated October 22, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 9, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Mitchell County Regional Health Center are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the Health Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables, the amounts either owed to or receivable from third-party payors, and depreciation expense.

Collectibility of Patient Receivables – Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

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Depreciation Expense – Management’s estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient receivables, the amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following adjustments, some of which are considered material, were made during the audit:

Revenues in excess of expenses prior to audit adjustments	\$ 648,430
To adjust estimated third-party payor settlements	(87,305)
To adjust amount due to MMC-NI	103,128
Other adjustments	<u>5,640</u>
Revenues in excess of expenses as reported	<u>\$ 669,893</u>

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 22, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Health Center’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Board of Trustees
Mitchell County Regional Health Center
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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Health Center's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

This information is intended solely for the use of the Finance Committee, Board of Trustees, management, officials, employees, and constituents of Mitchell County Regional Health Center and other parties to whom the Health Center may report. The report is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Mitchell County Regional Health Center.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
October 22, 2009

xc: Ms. Sandy Leggett