



Financial Statements
June 30, 2010 and 2009

Mitchell County Regional Health Center

MITCHELL COUNTY REGIONAL HEALTH CENTER

Table of Contents

	<u>Page</u>
BOARD OF TRUSTEES AND HEALTH CENTER OFFICIALS	1
INDEPENDENT AUDITOR’S REPORT	2-3
MANAGEMENT’S DISCUSSION AND ANALYSIS	4-5
BASIC FINANCIAL STATEMENTS	
Balance Sheets	6
Statements of Revenues, Expenses, and Changes in Net Assets	7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-25
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Cash Basis)	26
Notes to Required Supplementary Information – Budgetary Reporting	27
SUPPLEMENTARY INFORMATION	
Independent Auditor’s Report on Supplementary Information Schedules	28
Net Patient Service Revenue	29-30
Other Operating Revenues	31
Operating Expenses	32-34
Patient Receivables and Allowance for Doubtful Accounts and Collection Statistics	35
Supplies and Prepaid Expense	36
Statistical Information (Unaudited)	37
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	38-39
SCHEDULE OF FINDINGS AND RESPONSES	40-42

**MITCHELL COUNTY REGIONAL HEALTH CENTER
BOARD OF TRUSTEES AND HEALTH CENTER OFFICIALS
JUNE 30, 2010 AND 2009**

<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
Jean Brumm	Member	November 30, 2010
Pat Rourick	Member	November 30, 2012
Don Hendrickson	Member	November 30, 2014
Larry Abel	Member	November 30, 2014

Health Center Officials

Sandy Leggett	Administrator
Alan Streeter	Chief Financial Officer



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, 2010 and 2009, 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, 2010 and 2009, and the changes in financial position and its 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 18, 2010, 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 26 and 27 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.

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

Dubuque, Iowa
October 18, 2010

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, 2010. 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 \$535,089 or 2.95%. A significant portion of this increase represents investments in capital equipment and buildings. In 2009, the Health Center's total assets increased by \$720,022 or 4.14%. A significant portion of that increase represented the increase in cash due to the payback from Medicare and Medicaid for previous cost reports.
- The Health Center's assets exceeded liabilities by \$13,658,190 at June 30, 2010. In 2009, the Health Center's assets exceeded liabilities by \$12,811,418 at June 30, 2009.
- During the year, the Health Center's total patient revenues increased 7.48% to \$23,611,683 while the operating expenses increased .89% to \$16,525,100. This minimal percentage increase is due to the diligence and focus of the Health Center's senior leadership in monitoring daily the salaries and expenses in relationship to volumes. The Health Center had income from operations of \$170,672 before affiliation agreement expenses, which is 1.02% of total operating revenues. In the previous 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.
- The Health Center made capital equipment and building investments totaling \$571,573 during the fiscal year. The source of funding for these items was derived from operations. In 2009, the Health Center made capital equipment and building investments totaling \$423,379. 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, 2010, reports total assets of \$18,645,875, total liabilities of \$4,987,685 and net assets of \$13,658,190. The balance sheet at June 30, 2009, reported total assets of \$18,110,786, total liabilities of \$5,299,368 and net assets of \$12,811,418.

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 \$16,695,772 and total operating expenses of \$16,525,100 during fiscal year 2010. The operating income was \$111,520 in 2010, compared to an operating income of \$86,979 in 2009.

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, 2010 and 2009, Mitchell County Regional Health Center had \$2,982,616 and \$3,131,743, 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, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,176,329	\$ 3,520,385
Investments - Note 4	255,725	254,315
Receivables		
Patient, net of estimated uncollectibles		
of \$987,000 in 2010 and \$836,000 in 2009	1,967,630	1,994,111
Current portion of promises to give	-	44,333
Succeeding year property tax	568,994	535,274
Other	52,361	47,070
Supplies	384,388	367,213
Prepaid expense	262,997	171,687
Total current assets	<u>7,668,424</u>	<u>6,934,388</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for capital improvements	1,317,290	1,344,674
Restricted under debt agreements	608,979	275,000
Restricted by master affiliation agreement with MMC-NI	362,546	303,394
Total assets limited as to use or restricted	<u>2,288,815</u>	<u>1,923,068</u>
CAPITAL ASSETS, net - Note 5	<u>8,658,971</u>	<u>9,220,570</u>
OTHER ASSETS		
Debt issue costs, net of accumulated amortization		
of \$22,959 in 2010 and \$19,864 in 2009	<u>29,665</u>	<u>32,760</u>
Total assets	<u>\$ 18,645,875</u>	<u>\$ 18,110,786</u>

See notes to financial statements.

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 6	\$ 508,820	\$ 402,046
Accounts payable		
Trade	185,486	285,551
Due to Affiliated Organization - Note 11	395,561	439,505
Estimated third-party payor settlements	305,000	375,000
Accrued expenses		
Salaries and wages	161,236	138,030
Paid leave	310,627	321,978
Interest	15,272	16,961
Payroll taxes and employee benefits	62,893	55,326
Deferred revenue for succeeding year property tax receivable	<u>568,994</u>	<u>535,274</u>
 Total current liabilities	 2,513,889	 2,569,671
 LONG-TERM DEBT, less current maturities - Note 6	 <u>2,473,796</u>	 <u>2,729,697</u>
 Total liabilities	 <u>4,987,685</u>	 <u>5,299,368</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,706,020	6,121,587
Restricted		
Expendable under master affiliation agreement with MMC-NI	303,394	266,091
Expendable under debt agreements	608,979	275,000
Unrestricted	<u>7,039,797</u>	<u>6,148,740</u>
 Total net assets	 <u>13,658,190</u>	 <u>12,811,418</u>
 Total liabilities and net assets	 <u>\$ 18,645,875</u>	 <u>\$ 18,110,786</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$596,899 in 2010 and \$540,111 in 2009) - Notes 2 and 3	\$ 16,338,873	\$ 16,178,136
Other operating revenues	<u>356,899</u>	<u>326,108</u>
TOTAL OPERATING REVENUES	<u>16,695,772</u>	<u>16,504,244</u>
OPERATING EXPENSES		
Salaries and wages	5,430,034	5,290,634
Employee benefits	1,452,794	1,362,658
Supplies and other expenses	8,380,526	8,480,632
Depreciation	1,121,754	1,073,647
Interest and amortization	<u>139,992</u>	<u>172,391</u>
TOTAL OPERATING EXPENSES	<u>16,525,100</u>	<u>16,379,962</u>
OPERATING INCOME BEFORE AFFILIATION AGREEMENT		
	170,672	124,282
AFFILIATION AGREEMENT EXPENSE	<u>(59,152)</u>	<u>(37,303)</u>
OPERATING INCOME	<u>111,520</u>	<u>86,979</u>
NON-OPERATING REVENUES (EXPENSES)		
County tax revenue	523,901	507,591
Investment income	82,229	92,601
Loss on sale of capital assets	<u>(9,596)</u>	<u>(17,278)</u>
NET NON-OPERATING REVENUES	<u>596,534</u>	<u>582,914</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS		
	708,054	669,893
Capital contributions and grants	<u>138,718</u>	<u>154,096</u>
INCREASE IN NET ASSETS	846,772	823,989
NET ASSETS, BEGINNING OF YEAR	<u>12,811,418</u>	<u>11,987,429</u>
NET ASSETS, END OF YEAR	<u>\$ 13,658,190</u>	<u>\$ 12,811,418</u>

See notes to financial statements.

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 16,295,354	\$ 16,747,765
Payments of salaries and wages	(5,410,612)	(5,285,088)
Payments of supplies and other expenses	(10,144,966)	(10,057,589)
Other receipts and payments, net	<u>350,896</u>	<u>376,416</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,090,672</u>	<u>1,781,504</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax revenue received	<u>524,613</u>	<u>507,179</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(571,573)	(423,379)
Proceeds from sale of capital assets	1,821	1,001
Principal payments on long-term debt	(517,774)	(395,505)
Proceeds from issuance of long-term debt	358,853	-
Interest payments on long-term debt	(128,791)	(160,981)
Payments received on promises to give	44,333	34,581
Capital contributions and grants	<u>138,718</u>	<u>154,096</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(674,413)</u>	<u>(790,187)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	82,229	92,601
(Increase) decrease in investments	(1,410)	(54,315)
Increase in assets limited as to use or restricted	<u>(365,747)</u>	<u>(304,381)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(284,928)</u>	<u>(266,095)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	655,944	1,232,401
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,520,385</u>	<u>2,287,984</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,176,329</u>	<u>\$ 3,520,385</u>

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 111,520	\$ 86,979
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,121,754	1,073,647
Interest and amortization expense considered capital and related financing activity	139,992	172,391
Provision for bad debts	596,899	540,111
Changes in assets and liabilities		
Patient receivables	(570,418)	(316,482)
Estimated third-party payor settlements	(70,000)	346,000
Other receivables	(6,003)	50,308
Supplies	(17,175)	(7,529)
Prepaid expense	(91,310)	(82,332)
Accounts payable - trade and related	(144,009)	(87,135)
Accrued expenses	<u>19,422</u>	<u>5,546</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,090,672</u>	<u>\$ 1,781,504</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 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 organized under Chapter 347 of the Code of Iowa. It is also organized as an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Health Center is exempt from income taxes as a political subdivision. However, the Health Center would be subject to federal income tax on any unrelated business taxable income.

The Health Center's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America 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 the following categories/components:

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

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Health Center.

Expendable – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

(continued on next page)

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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.

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. 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 Board of Trustees 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.

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.

Supplies

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

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. Assets limited as to use or restricted that are available for obligations classified as current liabilities are reported in current assets.

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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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 did not record any allowances for uncollectible pledges as of June 30, 2010 and 2009, respectively.

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, 2010 and 2009.

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, 2010 AND 2009

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.

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.

Investment Income

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

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.

Advertising Costs

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

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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Accounting for Uncertainty in Taxes

The Health Center has adopted the provisions of FASB Accounting Standards Codification Topic 740-10 (previously Financial Interpretation No. 48, *Accounting for the Uncertainty in Income Taxes*), on July 1, 2009. The implementation of this standard had no impact on the financial statements. As of both the date of adoption, and as of June 30, 2010, the unrecognized tax benefit accrual was zero.

The Health Center will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Subsequent Events

The Health Center has evaluated subsequent events through October 18, 2010, the date which the financial statements were available to be issued.

Reclassifications

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

Other Significant Accounting Policies

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

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 \$44,871 and \$4,233 for the years ended June 30, 2010 and 2009, respectively. The estimated costs of the charges foregone, based upon an overall cost-to-charge ratio calculation, for the years ended June 30, 2010 and 2009, were \$31,000 and \$3,000, 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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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, 2008.

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.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Health Center may incur a liability for a claims overpayment at a future date. The Health Center is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Health Center's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Health Center and CMS.

Revenue from the Medicare and Medicaid programs accounted for approximately 47% and 4%, respectively, of the Health Center's net patient service revenue for the year ended June 30, 2010, and 49% and 3%, respectively, of the Health Center's net patient service revenue for the year ended June 30, 2009.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Total patient service revenue	<u>\$ 23,566,812</u>	<u>\$ 21,964,123</u>
Contractual adjustments:		
Medicare	(3,834,818)	(2,818,529)
Medicaid	(320,237)	(394,167)
Other	<u>(2,475,985)</u>	<u>(2,033,180)</u>
Total contractual adjustments	<u>(6,631,040)</u>	<u>(5,245,876)</u>
Net patient service revenue	16,935,772	16,718,247
Provision for bad debts	<u>(596,899)</u>	<u>(540,111)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 16,338,873</u>	<u>\$ 16,178,136</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

The Health Center's deposits in banks at June 30, 2010 and 2009, were entirely covered by Federal Depository Insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to 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, 2010 and 2009, the Health Center's amounts of cash and deposits are as follows:

	<u>2010</u>	<u>2009</u>
Checking and savings accounts	<u>\$ 2,078,815</u>	<u>\$ 1,713,068</u>
Certificates of deposit	<u>465,725</u>	<u>464,315</u>
Total deposits	<u>\$ 2,544,540</u>	<u>\$ 2,177,383</u>
Included in the following balance sheet captions:		
Investments	<u>\$ 255,725</u>	<u>\$ 254,315</u>
Assets limited as to use or restricted	<u>2,288,815</u>	<u>1,923,068</u>
	<u>\$ 2,544,540</u>	<u>\$ 2,177,383</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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, 2010 and 2009, are as follows:

	Balance June 30, 2009	Additions	Deductions	Transfers	Balance June 30, 2010
Cost					
Land	\$ 229,512	\$ -	\$ -	\$ -	\$ 229,512
Land improvements	488,847	17,000	-	-	505,847
Buildings	11,974,362	19,888	-	40,464	12,034,714
Leasehold improvements	55,257	-	-	-	55,257
Major movable equipment	5,285,734	105,011	(330,062)	325,562	5,386,245
Construction in progress	4,781	429,674	-	(366,026)	68,429
Total	<u>18,038,493</u>	<u>\$ 571,573</u>	<u>\$ (330,062)</u>	<u>\$ -</u>	<u>18,280,004</u>
Accumulated depreciation					
Land improvements	337,142	\$ 36,780	\$ -	\$ -	373,922
Buildings	4,772,449	469,432	-	-	5,241,881
Leasehold improvements	54,197	424	-	-	54,621
Major movable equipment	3,654,135	615,117	(318,643)	-	3,950,609
Total	<u>8,817,923</u>	<u>\$ 1,121,753</u>	<u>\$ (318,643)</u>	<u>\$ -</u>	<u>9,621,033</u>
Capital assets, net	<u>\$ 9,220,570</u>				<u>\$ 8,658,971</u>
	Balance June 30, 2008	Additions	Deductions	Transfers	Balance June 30, 2009
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	575,903	358,182	-	(929,304)	4,781
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	4,071,848	552,060	(919,523)	(50,250)	3,654,135
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>

(continued on next page)

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 6 - LONG-TERM DEBT

A schedule of changes in long-term debt for 2010 and 2009, is as follows:

	Balance June 30, 2009	Additions	(Payments) Amortization	Balance June 30, 2010	Amounts Due Within One Year
Hospital Refunding Revenue					
Note, Series 2002	\$ 2,541,184	\$ -	\$ (202,538)	\$ 2,338,646	\$ 195,308
USDA Loan	-	358,853	(91,423)	267,430	101,864
Promissory notes	180,290	-	(22,925)	157,365	23,791
Notes payable	37,364	-	(27,364)	10,000	10,000
Obligations under capital leases - Note 7	441,382	-	(167,952)	273,430	177,857
	3,200,220	358,853	(512,202)	3,046,871	508,820
Deferred loss on bond refinancing	(102,838)	-	9,794	(93,044)	-
Accumulated amortization on deferred loss	34,361	-	(5,572)	28,789	-
Total long-term debt	\$ 3,131,743	\$ 358,853	\$ (507,980)	\$ 2,982,616	\$ 508,820
Less current maturities				(508,820)	
Long-term debt, less current maturities				\$ 2,473,796	

	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	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	

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, 2010 and 2009.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

Year Ending June 30,	Long-term debt		
	Principal	Interest	Total
2011	\$ 508,820	\$ 128,779	\$ 637,599
2012	409,206	108,058	517,264
2013	321,811	93,188	414,999
2014	251,820	80,748	332,568
2015	263,808	68,610	332,418
2016-2020	1,291,406	148,876	1,440,282
	<u>\$ 3,046,871</u>	<u>\$ 628,259</u>	<u>\$ 3,675,130</u>

Hospital Refunding Revenue Note, Series 2002:

The Health Center entered into a note payable with First Citizens National Bank, Mason City, Iowa, on February 1, 2003, in the amount of \$3,520,000. The purpose of the note payable was to refund the 1997 Hospital Revenue Bonds in order to reduce the overall effective interest rates on the outstanding bond obligation. Payments of principal and interest at 4.75% are payable monthly through February 2020, with variable interest rate to be adjusted on August 1, 2011 based on 130% of the 7 year U.S. Treasury Note. The note is collateralized by patient service revenue of the Health Center.

USDA Loan:

The Health Center entered into a Distance Learning and Telemedicine Combination Loan and Grant with the United States Department of Agriculture (Rural Utilities Service) on February 13, 2008, for a maximum amount of \$659,000 (\$527,200 in loan proceeds and \$131,800 in grant funds). The Health Center has drawn \$358,853 from the Distance Learning and Telemedicine (DLT) loan funds and \$89,713 from the DLT grant. There remains a balance of \$168,437 and \$42,087 to be drawn down in loan proceeds and grant funds, respectively. Payments of principal and interest at 1.89% are payable monthly through February of 2013. The Health Center is to maintain cash deposits equal to the outstanding principal balance as collateral.

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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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.

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, 2010 and 2009, for all operating leases was \$129,049 and \$126,237 respectively. The capitalized leased assets consist of:

	<u>2010</u>	<u>2009</u>
Major movable equipment	\$ 823,200	\$ 823,200
Less accumulated amortization (included as depreciation on the accompanying financial statements)	<u>(634,016)</u>	<u>(445,680)</u>
	<u>\$ 189,184</u>	<u>\$ 377,520</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>
2011	\$ 188,658	\$ 102,856
2012	78,444	75,682
2013	20,185	55,946
2014	-	39,075
2015	<u>-</u>	<u>32,747</u>
Total minimum lease payments	287,287	<u>\$ 306,306</u>
Less interest	<u>(13,857)</u>	
Present value of minimum lease payments - Note 6	<u>\$ 273,430</u>	

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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.

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, 2010 and 2009, and its results of operations, and changes in net assets for the years then ended follows:

	<u>(Unaudited)</u> <u>2010</u>	<u>(Unaudited)</u> <u>2009</u>
Assets	<u>\$ 116,671</u>	<u>\$ 130,176</u>
Net assets	<u>\$ 116,671</u>	<u>\$ 130,176</u>
Revenues	\$ 58,306	\$ 64,867
Expenses	<u>72,311</u>	<u>74,931</u>
Revenues less than expenses	<u>(14,005)</u>	<u>(10,064)</u>
Net assets, beginning of year	<u>130,176</u>	<u>140,240</u>
Net assets, end of year	<u>\$ 116,671</u>	<u>\$ 130,176</u>

For the years ended June 30, 2010 and 2009, the Foundation contributed approximately \$69,000 and \$72,000, 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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

Plan members are required to contribute 4.30% of their annual covered salary, and the Health Center is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Plan members were required to contribute 4.10% and 3.90% of their annual covered salary, and the Health Center was required to contribute 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2009 and 2008, respectively. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$356,945, \$331,986, and \$320,568, respectively, equal to the required contributions for each year.

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 \$2,338,323 and \$2,440,200 for the years ended June 30, 2010 and 2009, respectively.

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 \$59,152 and \$37,303 for the year ended June 30, 2010 and 2009, respectively.

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, 2010 and 2009, were \$730,115 and \$717,612, 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, 2010 and 2009, the Health Center's records reflect an amount due to MMC-NI of \$395,561 and \$439,505, respectively, for the various services and distributions related to these agreements. At June 30, 2010, the Health Center also had a note payable of \$10,000 (Note 6) due to MMC-NI.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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.

Litigations, Claims, and Other Disputes

The Health Center is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will not be material to the financial position of the Health Center.

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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	37%	37%
Medicaid	2%	4%
Blue Cross	23%	21%
Other third-party payors and patients	38%	38%
	<u>100%</u>	<u>100%</u>



Required Supplementary Information
June 30, 2010 and 2009

Mitchell County Regional Health Center

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, 2010

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 523,901	\$ 712	\$ 524,613	\$ 538,453	\$ (13,840)
Estimated other revenues/receipts	<u>16,907,123</u>	<u>365,081</u>	<u>17,272,204</u>	<u>17,165,144</u>	<u>107,060</u>
	17,431,024	365,793	17,796,817	17,703,597	93,220
Expenses/disbursements	<u>16,584,252</u>	<u>189,464</u>	<u>16,773,716</u>	<u>17,160,018</u>	<u>386,302</u>
Net	846,772	176,329	1,023,101	543,579	<u>\$ 479,522</u>
Balance, beginning of year	<u>12,811,418</u>	<u>(7,113,650)</u>	<u>5,697,768</u>	<u>6,412,605</u>	
Balance, end of year	<u>\$ 13,658,190</u>	<u>\$ (6,937,321)</u>	<u>\$ 6,720,869</u>	<u>\$ 6,956,184</u>	

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

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, 2010.

For the year ended June 30, 2010, the Health Center's expenditures did not exceed the amount budgeted.



Supplementary Information
June 30, 2010 and 2009

Mitchell County Regional Health Center



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

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

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the Schedules of Statistical Information on page 37 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, the 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 18, 2010

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2010 AND 2009

	TOTAL	
	2010	2009
PATIENT CARE SERVICES		
Medical and surgical	\$ 1,390,903	\$ 1,362,058
Nursery	-	42,705
Swing-bed	<u>325,454</u>	<u>320,522</u>
Subtotal	<u>1,716,357</u>	<u>1,725,285</u>
OTHER PROFESSIONAL SERVICES		
Operating and recovery room	1,235,889	1,076,531
Labor and delivery room	90	31,731
Anesthesiology	795,528	640,220
Radiology	4,116,990	3,949,859
Laboratory	2,478,150	2,255,904
Blood supplies	104,591	69,331
Respiratory therapy	15,867	15,283
Physical therapy	567,638	542,544
Speech therapy	78,890	73,777
Electrocardiography	610,001	546,277
Medical and surgical supplies	450,352	380,137
Pharmacy	2,046,906	1,562,095
Cardiac rehabilitation	148,210	126,662
Sleep lab	221,892	156,689
Emergency room	1,806,590	1,656,223
Ambulance	594,823	581,422
Osage clinic	4,226,505	4,319,687
St. Ansgar clinic	1,957,211	1,827,316
Stacyville clinic	131,906	125,327
Riceville clinic	<u>307,297</u>	<u>306,056</u>
Subtotal	<u>21,895,326</u>	<u>20,243,071</u>
Total	23,611,683	21,968,356
Charity care	<u>(44,871)</u>	<u>(4,233)</u>
Total patient service revenue	<u>23,566,812</u>	<u>21,964,123</u>

INPATIENT		OUTPATIENT	
2010	2009	2010	2009
\$ 1,266,003	\$ 1,294,378	\$ 124,900	\$ 67,680
-	42,705	-	-
325,454	320,522	-	-
1,591,457	1,657,605	124,900	67,680
135,758	157,273	1,100,131	919,258
-	31,646	90	85
69,515	102,564	726,013	537,656
272,763	293,194	3,844,227	3,656,665
325,630	325,086	2,152,520	1,930,818
44,662	27,482	59,929	41,849
1,153	4,088	14,714	11,195
137,985	149,833	429,653	392,711
30,099	24,899	48,791	48,878
57,340	68,603	552,661	477,674
74,513	92,363	375,839	287,774
693,145	573,880	1,353,761	988,215
-	-	148,210	126,662
-	-	221,892	156,689
198,883	151,854	1,607,707	1,504,369
76,021	89,219	518,802	492,203
698,356	383,639	3,528,149	3,936,048
488,517	423,770	1,468,694	1,403,546
39,860	39,478	92,046	85,849
83,188	69,874	224,109	236,182
3,427,388	3,008,745	18,467,938	17,234,326
\$ 5,018,845	\$ 4,666,350	\$ 18,592,838	\$ 17,302,006

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Total patient service revenue	<u>\$ 23,566,812</u>	<u>\$ 21,964,123</u>
Contractual adjustments:		
Medicare	(3,834,818)	(2,818,529)
Medicaid	(320,237)	(394,167)
Other	<u>(2,475,985)</u>	<u>(2,033,180)</u>
Total contractual adjustments	<u>(6,631,040)</u>	<u>(5,245,876)</u>
Net patient service revenue	16,935,772	16,718,247
Provision for bad debts	<u>(596,899)</u>	<u>(540,111)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 16,338,873</u>	<u>\$ 16,178,136</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OTHER OPERATING REVENUES		
Rental income	\$ 125,268	\$ 105,531
Meals sold	77,414	67,012
Grant revenues	66,886	78,050
Pharmacy rebates	24,234	10,870
Laboratory revenues	19,026	16,125
Vending machines	12,261	13,494
Medical records transcription fees	1,742	904
Other	<u>30,068</u>	<u>34,122</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 356,899</u>	 <u>\$ 326,108</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 122,021	\$ 143,186
Supplies and other expenses	10,041	13,189
	<u>132,062</u>	<u>156,375</u>
ADULTS AND PEDIATRICS		
Salaries and wages	962,240	976,122
Supplies and other expenses	86,296	182,628
	<u>1,048,536</u>	<u>1,158,750</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	202,202	202,486
Supplies and other expenses	238,647	167,447
	<u>440,849</u>	<u>369,933</u>
ANESTHESIOLOGY		
Salaries and wages	220,606	201,160
Supplies and other expenses	61,820	127,028
	<u>282,426</u>	<u>328,188</u>
RADIOLOGY		
Salaries and wages	72,005	44,891
Supplies and other expenses	757,570	790,461
	<u>829,575</u>	<u>835,352</u>
LABORATORY		
Salaries and wages	354,043	354,860
Supplies and other expenses	322,940	290,861
	<u>676,983</u>	<u>645,721</u>
BLOOD SUPPLIES		
Salaries and wages	4,008	4,692
Supplies and other expenses	66,019	47,278
	<u>70,027</u>	<u>51,970</u>
RESPIRATORY THERAPY		
Salaries and wages	1,245	893
Supplies and other expenses	198	3,145
	<u>1,443</u>	<u>4,038</u>
PHYSICAL THERAPY		
Salaries and wages	196,284	212,051
Supplies and other expenses	12,489	10,363
	<u>208,773</u>	<u>222,414</u>
SPEECH THERAPY		
Supplies and other expenses	25,551	29,715
CARDIAC REHABILITATION		
Salaries and wages	59,455	57,747
Supplies and other expenses	6,938	2,196
	<u>66,393</u>	<u>59,943</u>

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ELECTROCARDIOGRAPHY		
Supplies and other expenses	\$ <u>104,287</u>	\$ 83,871
MEDICAL AND SURGICAL SUPPLIES		
Salaries and wages	18,852	23,107
Supplies and other expenses	<u>179,773</u>	<u>149,213</u>
	<u>198,625</u>	<u>172,320</u>
PHARMACY		
Salaries and wages	113,538	105,305
Supplies and other expenses	<u>550,595</u>	<u>434,266</u>
	<u>664,133</u>	<u>539,571</u>
EMERGENCY ROOM		
Salaries and wages	348,900	243,178
Supplies and other expenses	<u>292,280</u>	<u>445,513</u>
	<u>641,180</u>	<u>688,691</u>
AMBULANCE		
Salaries and wages	146,552	135,355
Supplies and other expenses	<u>38,826</u>	<u>28,971</u>
	<u>185,378</u>	<u>164,326</u>
SLEEP LAB		
Salaries and wages	7,460	5,585
Supplies and other expenses	<u>37,593</u>	<u>31,104</u>
	<u>45,053</u>	<u>36,689</u>
OSAGE CLINIC		
Salaries and wages	585,493	518,684
Supplies and other expenses	<u>2,164,402</u>	<u>2,313,506</u>
	<u>2,749,895</u>	<u>2,832,190</u>
ST. ANSGAR CLINIC		
Salaries and wages	257,235	240,881
Supplies and other expenses	<u>1,093,968</u>	<u>1,053,477</u>
	<u>1,351,203</u>	<u>1,294,358</u>
STACYVILLE CLINIC		
Salaries and wages	20,179	19,857
Supplies and other expenses	<u>93,053</u>	<u>87,299</u>
	<u>113,232</u>	<u>107,156</u>
RICEVILLE CLINIC		
Salaries and wages	60,035	58,957
Supplies and other expenses	<u>144,827</u>	<u>144,419</u>
	<u>204,862</u>	<u>203,376</u>
HEALTH INFORMATION MANAGEMENT		
Salaries and wages	296,886	306,337
Supplies and other expenses	<u>19,660</u>	<u>22,372</u>
	<u>316,546</u>	<u>328,709</u>
FOOD AND NUTRITION		
Salaries and wages	172,695	168,988
Supplies and other expenses	<u>95,209</u>	<u>91,922</u>
	<u>267,904</u>	<u>260,910</u>

(continued)

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATION OF PLANT		
Salaries and wages	\$ 186,876	\$ 200,160
Supplies and other expenses	386,814	410,852
	<u>573,690</u>	<u>611,012</u>
ENVIRONMENTAL SERVICES		
Salaries and wages	138,196	150,496
Supplies and other expenses	42,911	46,880
	<u>181,107</u>	<u>197,376</u>
LAUNDRY		
Salaries and wages	18,651	23,148
Supplies and other expenses	41,647	41,471
	<u>60,298</u>	<u>64,619</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	864,377	892,508
Supplies and other expenses	1,506,172	1,431,185
	<u>2,370,549</u>	<u>2,323,693</u>
UNASSIGNED EXPENSES		
Depreciation	1,121,754	1,073,647
Interest and amortization	139,992	172,391
Employee benefits	1,452,794	1,362,658
	<u>2,714,540</u>	<u>2,608,696</u>
TOTAL OPERATING EXPENSES	<u>\$ 16,525,100</u>	<u>\$ 16,379,962</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR
DOUBTFUL ACCOUNTS AND COLLECTION STATISTICS
JUNE 30, 2010 AND 2009**

Age of Accounts	2010		2009	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 1,791,107	60.63%	\$ 1,814,567	64.12%
31 to 90 days	621,465	21.03%	527,569	18.64%
91 to 150 days	171,727	5.81%	161,222	5.70%
150 days and over	370,191	12.53%	326,572	11.54%
	<u>2,954,490</u>	<u>100.00%</u>	<u>2,829,930</u>	<u>100.00%</u>
Less: Allowance for doubtful accounts	(347,009)		(316,418)	
Allowance for contractual adjustments	<u>(639,851)</u>		<u>(519,401)</u>	
Net	<u>\$ 1,967,630</u>		<u>\$ 1,994,111</u>	

**ANALYSIS OF ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDING JUNE 30, 2010 AND 2009**

	2010	2009
Beginning balance	\$ 316,418	\$ 469,576
Add:		
Provision for bad debts	596,899	540,111
Recoveries previously written off	230,748	231,077
	<u>827,647</u>	<u>771,188</u>
Less:		
Accounts written off	<u>(797,056)</u>	<u>(924,346)</u>
Ending balance	<u>\$ 347,009</u>	<u>\$ 316,418</u>

COLLECTION STATISTICS

	2010	2009
Net accounts receivable - patients	\$ 1,967,630	\$ 1,994,111
Number of days charges outstanding (1)	44	45
Uncollectible accounts (2)	\$ 702,256	\$ 592,698
Percentage of uncollectible accounts to total charges	3.0%	2.7%

(1) Based on average daily net patient service revenue for April, May, and June.

(2) Includes provision of bad debts, charity care, and collection fees.

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF SUPPLIES AND PREPAID EXPENSE
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
SUPPLIES		
Central supply	\$ 306,900	\$ 282,299
Pharmacy	<u>77,488</u>	<u>84,914</u>
Total supplies	<u>\$ 384,388</u>	<u>\$ 367,213</u>
PREPAID EXPENSE		
Insurance	\$ 72,171	\$ 64,005
Dues and other	<u>190,826</u>	<u>107,682</u>
Total prepaid expense	<u>\$ 262,997</u>	<u>\$ 171,687</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Acute	1,399	1,528
Swing-bed	768	856
Newborn	-	65
Totals	<u>2,167</u>	<u>2,449</u>
ADMISSIONS		
Acute	410	485
Swing-bed	75	75
Newborn	-	30
Totals	<u>485</u>	<u>590</u>
DISCHARGES		
Acute	410	491
Swing-bed	74	65
Newborn	-	30
Totals	<u>484</u>	<u>586</u>
AVERAGE LENGTH OF STAY		
Acute	<u>3.4</u>	<u>3.1</u>
Swing-bed	<u>10.4</u>	<u>13.2</u>
LICENSED BEDS		
	<u>25</u>	<u>25</u>
EMERGENCY ROOM AND OUTPATIENT VISITS		
	<u>17,943</u>	<u>17,334</u>
CLINIC VISITS		
Osage (excluding optometry)	19,663	20,925
Optometry	3,652	3,749
St. Ansgar	9,259	9,266
Stacyville	600	673
Riceville	1,694	1,848



**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 (Health Center) as of June 30, 2010 and 2009, 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 18, 2010. 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 the 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 the Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 Health Center's operations for the year ended June 30, 2010, 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 II of the accompanying Schedule of Findings and Responses. 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.

The Health Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Mitchell County Regional Health Center and other parties to whom the Health Center may report. 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".

Dubuque, Iowa
October 18, 2010

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-10 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.

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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010

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

I-B-10 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.

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.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2010**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010, did not exceed the amount budgeted
- II-B-10 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.
- II-C-10 Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-10 Business Transactions – We noted no material business transactions between the Health Center and Health Center officials and/or employees.
- II-E-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-10 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.
- II-G-10 Publication of Bills Allowed and Salaries – Chapter 347.13(11) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...”. The Health Center published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.



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, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, 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 July 15, 2010. 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. The Health Center adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) on July 1, 2009, as disclosed in the financial statements. Other than the adoption of ASC 740-10, no new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2010. 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 – Management's 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.

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 and resident receivables, 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 were made during the audit:

To adjust Mercy PHO affiliation agreement	\$	55,867
To adjust estimated third-part payor settlements		(11,732)
To adjust contractual allowances		(100,000)
Other adjustments		5,272

The net effect of the adjustments was to decrease net assets by \$50,593.

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 18, 2010.

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.

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 Board of Trustees and management of Mitchell County Regional Health Center, and 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 cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed address and date.

Dubuque, Iowa
October 18, 2010

xc: Ms. Sandy Leggett



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

In planning and performing our audit of the financial statements of Mitchell County Regional Health Center as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Health Center's internal control over financial reporting (internal control) 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 an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Health Center's internal control to be significant deficiencies:

Segregation of Duties

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

Preparation of Financial Statements

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). The 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. 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. 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.

This communication is intended solely for the information and use of the officials, employees, and constituents of Mitchell County Regional Health Center and others within the organization, and 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 18, 2010