

**MITCHELL COUNTY MEMORIAL HOSPITAL
dba: MITCHELL COUNTY REGIONAL HEALTH CENTER**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

**MITCHELL COUNTY REGIONAL HEALTH CENTER
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

BOARD OF TRUSTEES	1
INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
BALANCE SHEETS	9
BALANCE SHEET - FOUNDATION	11
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	12
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS-FOUNDATION	13
STATEMENTS OF CASH FLOWS	14
STATEMENT OF CASH FLOWS - FOUNDATION	16
NOTES TO FINANCIAL STATEMENTS	17
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	32
OTHER SUPPLEMENTARY INFORMATION	
SCHEDULES OF PATIENT SERVICE REVENUES	33
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES AND OTHER REVENUES	35
SCHEDULES OF OPERATING EXPENSES	36
SCHEDULES OF AGED ACCOUNTS RECEIVABLE FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS	38
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES	39
SCHEDULE OF BOND INVESTMENT TRANSACTIONS	40
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>	41
SCHEDULE OF FINDINGS AND RESPONSES	43
INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS	46

**MITCHELL COUNTY REGIONAL HEALTH CENTER
ORGANIZATIONAL DATA
YEAR ENDED JUNE 30, 2012**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
John Lessard	Chairperson	November 2016
Chuck Laures	Vice Chairperson	November 2014
Jan Moody	Secretary/Treasurer	November 2012
Don Hendrickson	Treasurer	November 2014
Pat Rourick	Member	November 2012
Jean Brumm	Member	November 2016
Larry Abel	Member	November 2014
HEALTH CENTER OFFICIALS		
Kevin Ronulfson	Chief Executive Officer	
Alan Streeter (Resigned September 2012)	Chief Financial Officer	



CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited the accompanying balance sheet of Mitchell County Regional Health Center and the related statement of financial position of its discretely presented component unit, Mitchell County Memorial Foundation as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets (Health Center), activities and changes in net assets (Foundation) and cash flows for the year then ended June 30, 2012. 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 audit. The financial statements of Mitchell County Regional Health Center as of June 30, 2011, were audited by other auditors whose report dated October 13, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides 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 (Health Center) and its discretely presented component unit as of June 30, 2012 and the changes in financial position and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

As noted in Note 1 to the financial statements, during the year ended June 30, 2012, the Health Center made the determination to include the Mitchell County Memorial Foundation as a discretely presented component unit.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 17, 2012 on our consideration of Mitchell County Regional Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Trustees
Mitchell County Regional Health Center

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 33 through 40 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 and the Budgetary Comparison Information on page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



CliftonLarsonAllen LLP

Austin, Minnesota
October 17, 2012

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

This section of the Mitchell County Regional Health Center annual audited financial report represents management's discussion and analysis of Mitchell County Regional Health Center's financial performance during the fiscal year ended June 30, 2012. The analysis will focus on Mitchell County Regional Health Center's financial performance as a whole. Please read it in conjunction with the audited financial report.

USING THIS ANNUAL REPORT

The June 30, 2012 and 2011 Independent Auditors' Report includes audited financial statements that include:

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

FINANCIAL HIGHLIGHTS

- The Health Center's total assets increased by \$947,922 or 4.8% in 2012, increased by \$1,173,865 or 6.3% in 2011 and increased by \$574,129 or 3.2% in 2010.
- The Health Center's net assets increased in each of the last two years with a \$1,256,270 or 8.5% increase in 2012, a \$1,071,469 or 7.8% increase in 2011 and increased \$846,772 or 6.6% in 2010.

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

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

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

- Schedules of Patient Service Revenues
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedule of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedule of Inventories and Prepaid Expenses

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE HEALTH CENTER

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

Table 1: Assets, Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current Assets	\$ 7,899,334	\$ 8,648,813	\$ 7,707,464
Noncurrent Cash and Investments	3,180,074	2,768,864	2,288,815
Capital Assets, Net	9,703,820	8,414,534	8,658,971
Other Assets	<u>23,474</u>	<u>26,569</u>	<u>29,665</u>
Total Assets	<u>\$ 20,806,702</u>	<u>\$ 19,858,780</u>	<u>\$ 18,684,915</u>
Liabilities:			
Total Current Liabilities	\$ 3,112,599	\$ 3,072,937	\$ 2,552,929
Long-Term Debt (Less Current Maturities)	<u>1,726,007</u>	<u>2,056,184</u>	<u>2,473,796</u>
Total Liabilities	<u>4,838,606</u>	<u>5,129,121</u>	<u>5,026,725</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	7,643,236	5,962,863	5,706,020
Restricted Under Master Affiliation	649,872	362,546	303,394
Restricted Under Debt Agreement	354,489	486,844	608,979
Unrestricted	<u>7,320,499</u>	<u>7,917,406</u>	<u>7,039,797</u>
Total Net Assets	<u>15,968,096</u>	<u>14,729,659</u>	<u>13,658,190</u>
Total Liabilities and Net Assets	<u>\$ 20,806,702</u>	<u>\$ 19,858,780</u>	<u>\$ 18,684,915</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE HEALTH CENTER (CONTINUED)

Table 2 summarizes information from the statements of revenues, expenses and changes in net assets.

Table 2: Statements of Revenues, Expenses and Changes in Net Assets

	2012	2011	2010
Net Patient Service Revenue	\$ 17,533,893	\$ 16,927,030	\$ 16,338,873
Other Operating Revenue	514,277	357,294	356,899
Total Revenue	<u>18,048,170</u>	<u>17,284,324</u>	<u>16,695,772</u>
Operating Expenses:			
Salaries and Wages	5,676,604	5,616,956	5,430,034
Employee Benefits	1,623,347	1,560,917	1,452,794
Supplies and Other Expenses	9,084,261	8,231,893	8,380,526
Depreciation	1,057,710	1,114,882	1,121,754
Interest and Amortization	70,158	134,688	139,992
Total Operating Expenses	<u>17,512,080</u>	<u>16,659,336</u>	<u>16,525,100</u>
Operating Income	536,090	624,988	170,672
Mercy Medical Center Share of Loss	(231,470)	(287,326)	(59,152)
Non-Operating Revenues (Expenses) :			
Tax Revenue	582,935	557,007	523,901
Investment Income	67,791	77,340	82,229
Loss on Sale of Capital Assets	(15,941)	(2,677)	(9,596)
Non-Operating Revenues (Expenses)	<u>634,785</u>	<u>631,670</u>	<u>596,534</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	939,405	969,332	708,054
Capital Grants and Contributions	<u>299,032</u>	<u>102,137</u>	<u>138,718</u>
Increase in Net Assets	1,238,437	1,071,469	846,772
Net Assets - Beginning of Year	<u>14,729,659</u>	<u>13,658,190</u>	<u>12,811,418</u>
Net Assets - End of Year	<u>\$ 15,968,096</u>	<u>\$ 14,729,659</u>	<u>\$ 13,658,190</u>

Net patient service revenue made up 97.2% in 2012, 97.9 % in 2011 and 97.9% in 2010 of the Mitchell County Regional Health Center's total operating revenue. To arrive at net patient service revenue contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2012	2011	2010
Total Patient Service Revenues	\$ 27,868,813	\$ 25,514,811	\$ 13,809,973
Contractual Adjustments and Provisions for Bad Debt	(10,334,920)	(8,587,781)	(2,720,587)
Net Patient Service Revenue	<u>\$ 17,533,893</u>	<u>\$ 16,927,030</u>	<u>\$ 11,089,386</u>
Contractual Adjustments and Provisions for Bad Debt as a Percent of Revenues	<u>37.08%</u>	<u>33.66%</u>	<u>19.70%</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE HEALTH CENTER (CONTINUED)

Net patient service revenue increased \$606,863 or 3.6% in 2012, \$588,157 or 3.6% in 2011 and \$160,737 or 1.0% in 2010. Net patient revenue increased due to increased outpatient revenue, while acute and swing bed days decreased from 2011. Total operating expenses increased \$852,744 or 5.1% in 2012, increased \$134,236 or .8% in 2011 and \$145,138 or .9% in 2010. In 2012, there was a significant increase in Supplies and Other Expense by 10.4%. This is due primarily to an increased investment in minor equipment throughout the facility. We have also seen a substantial increase in our bad debts over the prior years which, is following the national trends.

The Non-Operating Revenue had an increase over the prior year with approximately \$3,115 for changes in tax valuations and losses on equipment sales. Other Operating Revenue increased by \$156,983 or 30.5% in 2012, table 4 shows the detail for this line item.

Table 4: Other Revenues

	2012	2011	2010
Rental	\$ 132,224	\$ 128,582	\$ 125,268
Cafeteria	78,244	82,518	77,414
Lab	16,176	14,661	19,026
Pharmacy Rebates	17,559	27,635	24,234
Vending Machines	11,410	12,368	12,261
Grant Income	60,173	64,760	66,886
Medical Records transcripts	1,931	1,631	1,742
Other	196,560	25,139	30,068
Total Other Revenues	\$ 514,277	\$ 357,294	\$ 356,899

Health Center Statistical Data

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

Table 5: Statistical Data

	2012	2011	2010
Patient Days			
Acute	1,286	1,271	1,399
Swing Bed	1,068	823	768
Total	2,354	2,094	2,167
Admissions			
Acute	342	406	410
Swing Bed	106	88	75
Total	448	494	485
Discharges			
Acute	342	405	410
Swing Bed	89	90	74
Total	431	495	484
Average Length of Stay, Acute	3.8	3.1	3.4
Average Length of Stay, Swing Bed	12	9.1	10.4
Beds			
Acute and Swing	25	25	25
Occupancy Percentage			
Acute and Swing, Based on 25 Beds	25.8%	22.9%	23.7%

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

FINANCIAL ANALYSIS OF THE HEALTH CENTER (CONTINUED)

The Health Center's Cash Flows

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

Capital Assets

At June 30, 2012 the Health Center had \$9,703,820 invested in capital assets net of accumulated depreciation. In 2012, the Health Center expended \$2,366,587 to purchase fixed assets.

Long Term Debt

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

Table 6: Long-Term Debt

	2012	2011	2010
Hospital Refunding Note, Series 2002	\$ 1,925,698	\$ 2,143,338	\$ 2,338,646
Notes Payable	108,874	133,575	434,795
Obligations Under Capital Lease	19,663	95,573	273,430
Deferred Loss on Bond Refinancing	(55,811)	(60,033)	(64,255)
Total Long-Term Debt	\$ 1,998,424	\$ 2,312,453	\$ 2,982,616

Economic Factors

Mitchell County Regional Health Center continues to improve its operational and financial performance. During the Fiscal year 2012 we are highlighting the following items:

1. Implemented an Electronic Health Record in both the Health Center and Home Health/Hospice areas of the organization and entered into our 90 day attestation period for Meaningful Use.
2. Started a \$3.45 Million Emergency/Operating Room Construction Project.
3. Completed building improvements at the St. Ansgar Clinic
4. Capital equipment purchases included new boilers for the Health Center, an Aquilion 32 Slice Computed Tomography (CT) machine and a Vitros 5600 Chemistry Analyzer.

Contacting Mitchell County Regional Health Center

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

**MITCHELL COUNTY REGIONAL HEALTH CENTER
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

ASSETS	2012	2011
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 4,432,794	\$ 5,433,760
Cash-Auxiliary	26,556	43,835
Investments	260,104	258,144
Patient Receivables, Less Allowance for Uncollectible Accounts (2012, \$290,657, 2011, \$299,000)	1,945,965	1,623,056
Other Receivables	53,257	43,251
Succeeding Year Property Tax Receivable	613,347	593,759
Inventories	374,717	385,722
Prepaid Expenses	192,594	267,286
Total Current Assets	7,899,334	8,648,813
NONCURRENT CASH AND INVESTMENTS		
Internally Designated By Board for Capital Expenditures	1,944,243	1,632,148
Restricted Under Bond Agreement	354,489	486,844
Restricted by Master Affiliation Agreement with MMC-NI	881,342	649,872
Total Noncurrent Cash and Investments	3,180,074	2,768,864
CAPITAL ASSETS, NET	9,703,820	8,414,534
OTHER ASSETS		
Unamortized Debt Issue Costs	23,474	26,569
Total Assets	\$ 20,806,702	\$ 19,858,780

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 334,577	\$ 422,056
Accounts Payable		
Trade	481,274	288,199
Due To Affiliated Organization	396,178	621,370
Estimated Third-Party Payor Settlements	656,289	568,000
Custodial Funds - Auxiliary	26,556	43,835
Accrued Expenses	604,378	535,718
Deferred Taxes	613,347	593,759
Total Current Liabilities	<u>3,112,599</u>	<u>3,072,937</u>
LONG-TERM DEBT , Less Current Maturities	<u>1,726,007</u>	<u>2,056,184</u>
Total Liabilities	4,838,606	5,129,121
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	7,643,236	5,962,863
Restricted:		
By Master Affiliation Agreement with MMC-NI	649,872	362,546
Under Bond Agreement	354,489	486,844
Unrestricted	7,320,499	7,917,406
Total Net Assets	<u>15,968,096</u>	<u>14,729,659</u>
Total Liabilities and Net Assets	<u>\$ 20,806,702</u>	<u>\$ 19,858,780</u>

**MITCHELL COUNTY MEMORIAL FOUNDATION
BALANCE SHEET
JUNE 30, 2012**

	<u>2012</u>
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 91,875
Assets Limited as to Use	40,854
Total Assets	<u>\$ 132,729</u>
LIABILITIES AND NET ASSETS	
NET ASSETS	
Restricted:	
For Projects	\$ 21,651
For Scholarships	2,739
For Miscellaneous Services or Items	16,464
Unrestricted	91,875
Total Liabilities and Net Assets	<u>\$ 132,729</u>

MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Net Patient Service Revenues (Net of Provision for Bad Debts of 2012, \$681,835, 2011, \$594,772)	\$ 17,533,893	\$ 16,927,030
Other Revenues	514,277	357,294
Total Revenues	18,048,170	17,284,324
EXPENSES		
Salaries and Wages	5,676,604	5,616,956
Employee Benefits	1,623,347	1,560,917
Supplies and Other Expenses	9,084,261	8,231,893
Depreciation	1,057,710	1,114,882
Interest and Amortization	70,158	134,688
Total Expenses	17,512,080	16,659,336
OPERATING INCOME	536,090	624,988
Affiliation Agreement Expense	(231,470)	(287,326)
ADJUSTED OPERATING INCOME	304,620	337,662
NON-OPERATING GAINS		
County Tax Revenue	582,935	557,007
Investment Income	67,791	77,340
Gain (Loss) on Sale of Capital Assets	(15,941)	(2,677)
Net Non-Operating Gains	634,785	631,670
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	939,405	969,332
Capital Contributions and Grants	299,032	102,137
INCREASE IN NET ASSETS	1,238,437	1,071,469
Net Assets - Beginning of Year	14,729,659	13,658,190
NET ASSETS - END OF YEAR	\$ 15,968,096	\$ 14,729,659

**MITCHELL COUNTY MEMORIAL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR JUNE 30, 2012**

	2012
OPERATING REVENUES	
Contributions	\$ 20,185
Interest Income	1,125
Total Operating Revenues	21,310
EXPENSES	
Contributions to Mitchell County Regional Health Center	17,363
Supplies and Miscellaneous	200
Total Expenses	17,563
INCREASE IN NET ASSETS	3,747
Net Assets - Beginning of Year	128,982
Net Assets - End of Year	\$ 132,729

**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 17,299,273	\$ 17,534,604
Cash Paid to Employees	(7,231,291)	(5,629,635)
Cash Paid to Suppliers	(9,030,681)	(9,757,237)
Other Receipts and Payments, Net	272,801	366,375
Net Cash Provided by Operating Activities	1,310,102	2,514,107
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Tax Appropriations	582,935	557,036
Net Cash Provided by Non-capital Financing Activities	582,935	557,036
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(2,366,587)	(876,071)
Payments on Long-Term Debt	(421,878)	(514,170)
Proceeds from Sale of Capital Assets	3,650	2,949
Interest Payments on Long-Term Debt	(62,841)	(123,429)
Capital Grants/Contributions	299,032	102,137
Net Cash Used by Capital Related Financing Activities	(2,548,624)	(1,408,584)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	67,791	77,340
Increase in Investments	(260,104)	(2,419)
Sale of Investments	258,144	-
Proceeds from the Sale of Noncurrent Cash and Investments	370,702	122,135
Purchase of Noncurrent Cash and Investments	(781,912)	(602,184)
Net Cash Used by Investing Activities	(345,379)	(405,128)
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,000,966)	1,257,431
 Cash and Cash Equivalents - Beginning	5,433,760	4,176,329
 CASH AND CASH EQUIVALENTS - ENDING	\$ 4,432,794	\$ 5,433,760

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
RECONCILIATION OF ADJUSTED OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Adjusted Operating Income	\$ 304,620	\$ 337,662
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Interest Expense and Amortization	70,158	134,688
Provision for Bad Debts	681,835	594,772
Depreciation	1,057,710	1,114,882
(Increase) Decrease in:		
Patient Receivables	(1,004,744)	(250,198)
Third-Party Payor Settlements Receivable	88,289	263,000
Other Receivables	(10,006)	9,081
Supplies	11,005	(1,334)
Prepaid Expenses	74,692	(4,289)
Increase (Decrease) in:		
Accounts Payable	193,075	328,522
Due to Affiliated Organization	(225,192)	-
Accrued Salaries, Wages, Benefits and Other	68,660	(12,679)
Net Cash Provided by Operating Activities	\$ 1,310,102	\$ 2,514,107

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY MEMORIAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2012**

	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 3,747
Net Cash Provided by Operating Activities	<u>3,747</u>
INCREASE IN CASH AND CASH EQUIVALENTS	3,747
Cash and Cash Equivalents - Beginning	<u>88,128</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 91,875</u>

See accompanying Notes to Financial Statements.

(This page intentionally left blank)

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Mitchell County Regional Health Center (the Health Center) is the county hospital of Mitchell County organized under Chapter 347, Code of Iowa. The Health Center provides health care services under the name of Mitchell County Regional Health Center (the Health Center) in accordance with a Master Affiliation Agreement dated September 1, 1994 and discussed further in Note 12. 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.

Tax Exempt Status

The Health Center is an Iowa non-profit 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 subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

Mitchell County Regional Health Center believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Health Center would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Reporting Entity

For financial reporting purposes, the Health Center has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Health Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health Center are such that exclusion would cause the Health Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria including appointing a voting majority of an organization's governing body, and (1) the ability of the Health Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Health Center. The Health Center has identified one component unit which is required to be reported in accordance with the Governmental Accounting Standards Board criteria.

The Mitchell County Memorial Foundation (the Foundation) is a not-for-profit entity legally separate from Mitchell County Regional Health Center. The Health Center does not appoint a voting majority of the Foundation's Board of Directors or in any way impose its will over the Foundation. During the year ending June 30, 2012, it was decided that because the foundation has the potential to provide benefits to the Health Center, the Foundation is included as a discrete component presentation during the year ending June 30, 2012.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

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 (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.

Mitchell County Regional Health Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Health Center has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

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.

Patient Receivable

Mitchell County Regional Health Center provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 120 days are individually analyzed for collectability. Amounts for which no payments have been received are written off using management's judgment on a per account basis. In addition, an allowance is estimated for other accounts based on historical experience of the Health Center. At June 30, 2012 and 2011, the allowance for uncollectible accounts was approximately \$291,000 and \$299,000, respectively.

Inventories

The inventories are recorded at the lower of cost or market using the latest invoice cost, which approximates the first-in, first-out method.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Noncurrent Cash and Investments

Noncurrent cash and investments includes assets set aside by the board of directors for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes. Noncurrent cash and investments also include assets held by the bank for use in an ongoing construction project and those restricted under bond agreements.

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, included in current liabilities as Deferred Taxes.

Capital Assets

Capital assets are reported at cost, if purchased, or at fair market value on the date received, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the property. It is the Health Center's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures greater than \$5,000 are capitalized and depreciated over the life of the asset. Capital expenditures less than \$5,000 are expensed when incurred.

Net Assets

Net assets of the Health Center are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are non-capital net assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Health Center. Unrestricted net assets are the remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted net assets.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Medicare cost reports through June 30, 2010 have been settled by the intermediary.

Contributions

From time to time the Health Center receives contributions from individuals and private organizations. Revenue contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Operating Revenues and Expenses

Mitchell County Regional 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 transactions associated with providing health care services – the Health Center's principal activity. Other revenues, including interest income, grants and contributions received for the purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Charity Care

Mitchell County Regional Health Center provides care to patients who meet certain criteria under its charity care policy without a charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, an adjustment has been recorded to offset the revenue recorded. Charity care provided during the years ended June 30, 2012 and 2011 was \$22,685 and \$45,509, respectively.

In addition, the Health System 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, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unamortized Bond Issue Costs

Bond issue costs are being amortized over the life of the bonds using the straight-line method. Amortization expense was \$3,095 and \$3,095 for the years ended June 30, 2012 and 2011, respectively.

Electronic Health Record Incentive Payments

As discussed in Note 4, the Health Center received funds under the Electronic Health Records (EHR) Incentive Program during 2012. The Health Center recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured the Health Center will meet all meaningful use objectives and any other specific grant requirements that are applicable, e.g., electronic transmission of quality measures to CMS in the second and subsequent payment years.

Change in Reporting Entity

The Health Center has made the determination to include the Mitchell County Memorial Foundation (the Foundation) as a discretely presented component unit in the current year. This decision was made as the financial statements of the Foundation are considered material to the Health Center and contributions from the Foundation primarily benefit the Health Center.

Subsequent Events

The Health Center has evaluated subsequent events through October 17, 2012, the date which the financial statements were available to be issued.

NOTE 2 DESIGNATED NET ASSETS

Of the \$7,220,056 and \$7,917,406 of unrestricted net assets at June 30, 2012 and 2011, respectively, the board of trustees has designated \$1,944,243 and \$1,632,148 as of June 30, 2012 and 2011, respectively for capital expenditures. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

NOTE 3 NET PATIENT SERVICE REVENUE

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

Medicare

The Health Center has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Health Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Health Center. The Health Center's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2010.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid

The Health Center has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Health Center's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2010.

Other

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

Net patient and resident service revenue increased approximately, \$50,000 for the year ended June 30, 2012 due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments in excess of amounts previously estimated, and years that are no longer subject to audits, reviews, and investigations.

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

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

	June 30,	
	2012	2011
Total Patient Service Revenue	\$ 27,868,813	\$ 25,514,811
Contractual Adjustments:		
Medicare	(5,876,343)	(4,749,912)
Medicaid	(456,690)	(376,333)
Provision for Bad Debt	(681,835)	(594,772)
Other	(3,320,052)	(2,866,764)
Total Contractual Adjustments and Bad Debts	(10,334,920)	(8,587,781)
Net Patient Service Revenue	\$ 17,533,893	\$ 16,927,030

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Health Center continuing to meet the escalating meaningful use criteria. For the first payment year, the Health Center must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Health Center must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four year period. For Health Centers that do not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by $\frac{1}{4}$, $\frac{1}{2}$, and $\frac{3}{4}$.

The Health Center demonstrated meaningful use to the 90-day period ended during the 90 period ended September 30, 2011, and received their first tentative incentive payment of \$139,970 in May 2012. This amount is recognized as other operating revenue in the statements of revenues, expenses, and changes in net assets. The final amount of this payment will be determined based on information from the Health Centers' Medicare cost report. Events could occur that would cause the final payment to differ materially upon final settlement.

NOTE 5 ESTIMATED AMOUNTS DUE FROM AND DUE TO CONTRACTING AGENCIES

Mitchell County Regional Health Center's has entered into reimbursement agreements with the Social Security Administration and Hospital Service, Inc. of Iowa for services rendered to Medicare, Medicaid and Wellmark patients. The reimbursements are based on the costs of caring for these patients as determined by cost findings prepared annually. However, reimbursements cannot exceed the charges for the patient service. Medicare and Medicaid allow any excess of cost over charges to be carried forward and recovered in the subsequent two years. Recovery is limited to the extent the cost finding for either year shows an excess of charges over costs.

Under the reimbursement agreements, interim payments at prevailing rates have been made to the Health Center during the year. The annual cost report indicated the Health Center owed the agencies approximately \$656,000 and \$568,000 at June 30, 2012 and June 30, 2011, respectively.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 6 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Health Center at June 30, 2012 and 2011 consisted of the following:

	2012	2011
Receivable from Patients and Their Insurance Carriers	\$ 1,301,103	\$ 1,327,229
Receivable from Medicare	907,726	552,355
Receivable from Medicaid	27,793	42,472
Total Patient Receivables	2,236,622	1,922,056
Less: Allowance for Doubtful Accounts	(290,657)	(299,000)
Patient Receivables, Net	\$ 1,945,965	\$ 1,623,056

NOTE 7 DEPOSITS AND INVESTMENTS

The Health Center's deposits at June 30, 2012 were entirely covered by Federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Health Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Health Center and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

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

	2012	2011
Cash and Cash Equivalents	\$ 4,432,794	\$ 5,433,760
Noncurrent Cash and Investments		
Internally Designated By Board for Capital Expenditures	1,944,243	1,632,148
Internally Designated By Bond Agreement for Sinking Fund	354,489	486,844
Restricted by Master Affiliation Agreement with MMC-NI	881,342	649,872
Total	\$ 7,612,868	\$ 8,202,624

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 8 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2012 and 2011 are as follows:

	July 1, 2011	Additions	(Retirements)	June 30, 2012
Capital Assets				
Land	\$ 229,512	\$ -	\$ -	\$ 229,512
Land Improvements	505,847	-	-	505,847
Building	12,148,472	-	(21,034)	12,127,438
Leasehold Improvements	55,257	-	-	55,257
Equipment	5,650,747	389,706	(1,050,793)	4,989,660
Construction in Progress	115,546	1,976,881	-	2,092,427
Totals	<u>18,705,381</u>	<u>2,366,587</u>	<u>(1,071,827)</u>	<u>20,000,141</u>
Accumulated Depreciation				
Land Improvements	397,547	23,349		420,896
Building	5,701,243	457,614	(10,867)	6,147,990
Leasehold Improvements	55,045	213		55,258
Movable Equipment	4,137,012	576,534	(1,041,369)	3,672,177
Totals	<u>10,290,847</u>	<u>\$ 1,057,710</u>	<u>\$ (1,052,236)</u>	<u>10,296,321</u>
	<u>\$ 8,414,534</u>			<u>\$ 9,703,820</u>
	July 1, 2010	Additions	Transfers (Retirements)	June 30, 2011
Capital Assets				
Land	\$ 229,512	\$ -	\$ -	\$ 229,512
Land Improvements	505,847	-	-	505,847
Building	12,034,714	-	113,758	12,148,472
Leasehold Improvements	55,257	-	-	55,257
Equipment	5,386,245	411,433	(146,931)	5,650,747
Construction in Progress	68,429	464,638	(417,521)	115,546
Totals	<u>18,280,004</u>	<u>876,071</u>	<u>(450,694)</u>	<u>18,705,381</u>
Accumulated Depreciation				
Land Improvements	373,922	23,625	-	397,547
Building	5,241,881	459,362	-	5,701,243
Leasehold Improvements	54,621	424	-	55,045
Movable Equipment	3,950,609	631,471	(445,068)	4,137,012
Totals	<u>9,621,033</u>	<u>\$ 1,114,882</u>	<u>\$ (445,068)</u>	<u>10,290,847</u>
	<u>\$ 8,658,971</u>			<u>\$ 8,414,534</u>

In February 2012, the Health Center entered into a contract to upgrade the Emergency and Operating Room, Construction in progress at June 30, 2012 and 2011 mainly consists of construction costs associated with the project. There are three phases; the first phase of the project was completed by June 30, 2012. The total cost of the project is estimated to be \$2,387,000 which will be funded using internal funds.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 9 LONG-TERM DEBT

	Balance July 1, 2011	Additions	(Payments)	Balance June 30, 2012	Amounts Due Within One Year
Hospital Refunding Note, Series 2002	\$ 2,143,338	\$ -	\$ (217,640)	\$ 1,925,698	\$ 227,096
Heartland Cooperative Notes Payable	133,575	-	(24,701)	108,874	25,658
USDA Loan	165,787	-	(103,627)	62,160	62,160
Obligations Under Capital Lease	95,573	-	(75,910)	19,663	19,663
	<u>2,538,273</u>	<u>-</u>	<u>(421,878)</u>	<u>2,116,395</u>	<u>334,577</u>
Deferred Loss on Bond Refinancing	(60,033)	-	4,222	(55,811)	-
Total Long-Term Debt	<u>\$ 2,478,240</u>	<u>\$ -</u>	<u>\$ (417,656)</u>	<u>\$ 2,060,584</u>	<u>\$ 334,577</u>

	Balance July 1, 2010	Additions	(Payments) Amortization	Balance June 30, 2011	Amounts Due Within One Year
Hospital Refunding Note, Series 2002	\$ 2,338,646	\$ -	\$ (195,308)	\$ 2,143,338	\$ 217,639
Notes Payable					
Heartland Cooperative Equipment Loan	157,365	-	(23,790)	133,575	24,701
	10,000	-	(10,000)	-	-
USDA Loan	267,430	-	(101,643)	165,787	103,806
Obligations Under Capital Lease	273,430	-	(177,857)	95,573	75,910
	<u>3,046,871</u>	<u>-</u>	<u>(508,598)</u>	<u>2,538,273</u>	<u>422,056</u>
Deferred Loss on Bond Refinancing	(64,255)	-	4,222	(60,033)	-
Total Long-Term Debt	<u>\$ 2,982,616</u>	<u>\$ -</u>	<u>\$ (504,376)</u>	<u>\$ 2,478,240</u>	<u>\$ 422,056</u>

Hospital Refunding Revenue Note, Series 2002

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

USDA Loan

A USDA letter of credit was entered into June 27, 2008 and requires monthly payments of principal and interest of \$8,837 through February 2013. An interest rate of 1.89% is charged on the loan.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 9 LONG TERM DEBT (CONTINUED)

Notes Payable

In 2005, the Health Center entered into two promissory notes with Heartland Power Cooperative for \$240,000 and \$60,000. The 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 notes was to fund the construction of the St. Ansgar Clinic in St. Ansgar, Iowa. Annual payments of \$18,700 with 0% interest and \$6,000 including interest of 2% are due through September 2015.

During the year ending June 30, 2005, the Health Center entered into two notes for equipment which were paid in full during the year ending June 30, 2011.

The notes are collateralized by the patient revenues of the Health Center.

Obligations Under Capital Lease

The Health Center has entered into four capital leases for equipment. The first lease, entered into during fiscal year 2007, is for a period of five years and bears interest at a rate of 6.00%, with payments of principal and interest of \$10,362 due monthly. The second lease, also 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 third 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 fourth lease, also entered into during fiscal year 2008, is for a period of five years and bears an interest rate of 5.75%, with payments of principal and interest of \$2,019 due monthly.

The total capitalized cost of equipment under the capital leases is \$818,383 with accumulated depreciation of \$818,383 and \$786,710 at June 30, 2012 and 2011, respectively. The leases are collateralized by the leased equipment.

The aggregate future principal and interest payment requirements for the next five years for long-term debt are as follows:

Year Ending June 30,	Long Term Debt		Obligations Under Capital Lease	
	Principal	Interest	Principal	Interest
2013	\$ 314,914	\$ 59,229	\$ 19,663	\$ 522
2014	260,583	50,882	-	-
2015	268,669	42,677	-	-
2016	277,020	34,206	-	-
2017	255,645	25,461	-	-
2018 - 2022	719,901	29,714	-	-
Total	<u>\$ 2,096,732</u>	<u>\$ 242,169</u>	<u>\$ 19,663</u>	<u>\$ 522</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 9 LONG TERM DEBT (CONTINUED)

Operating Leases - Equipment

The Health Center leases certain equipment under operating lease arrangement. Future operating lease obligations relating to equipment through 2017 are below.

Year Ending June 30,	Operating Leases
2013	\$ 20,223
2014	3,351

NOTE 10 PENSION AND RETIREMENT BENEFITS

The Health Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual salary and the Health Center is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 was approximately \$450,000, \$385,700 and \$356,900, respectively, equal to the required contributions for each year.

NOTE 11 OPERATING LEASES – RENTAL AGREEMENTS

The Health Center rents space for the satellite clinic operations in two area communities. Rental expense for the period ending June 30, 2012 and 2011 amounted to \$16,862 and \$16,862, respectively. The space is rented on a month to month basis.

The Health Center has entered into a rental agreement effective 2009. The rental agreement is for the community center in St. Ansgar. 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.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 12 RELATED ORGANIZATIONS

Master Affiliation Agreement

Mitchell County Regional Health Center operates under a Master Affiliation Agreement with Mercy Medical Center - North Iowa to provide hospital, physician, and other health care services in Mitchell County and the North Central Iowa region under the name of Mitchell County Regional Health Center. As a part of the Master Affiliation Agreement, the Health Center entered into a professional services agreement with Mercy Medical Center - North Iowa whereby Mercy Medical Center - North Iowa provides physician medical services as well as staff employees in support of the physician medical services. Amounts paid to Mercy Medical Center - North Iowa for the provision of these services amounted to \$2,221,771 and \$2,163,831 for the years ended June 30, 2012 and 2011, respectively.

Operating gains and losses from the operation of the Health Center services in Mitchell County are shared in accordance to the formulas outlined in the Master Affiliation Agreement. Total operating gains to be allocated between Mercy Medical Center - North Iowa and MCMH amounted to \$231,470 and \$287,326 for the years ended June 30, 2012 and 2011, respectively.

Management Services Agreement

The Health Center has a contractual arrangement with Mercy Medical Center - North Iowa under which Mercy Medical Center - North Iowa provides administrative staff, management consultation, and other services to the Health Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Health Center. Expenses for the administrative and management services received for the years ended June 30, 2012 and 2011 were \$819,209 and \$711,822 respectively.

Due to/From Affiliated Organization

As of June 30, 2012 and 2011 Mitchell County Regional Health Center's records reflect a due to Mercy Medical Center - North Iowa of \$396,178 and \$621,370, respectively, for the various services and distributions related to these agreements.

NOTE 13 COMMITMENTS AND CONTINGENCIES

Health Center Risk Management

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

Malpractice Insurance

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

(This page intentionally left blank)

REQUIRED SUPPLEMENTARY INFORMATION

(This page intentionally left blank)

**MITCHELL COUNTY REGIONAL HEALTH CENTER
BUDGETARY COMPARISON SCHEDULE OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012**

	General Fund	Accrual Adjustments	Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 582,935	\$ -	\$ 582,935	\$ 593,759	\$ (10,824)
Estimated Other Revenues/Receipts	18,399,052	(456,505)	17,942,547	19,306,743	(1,364,196)
	<u>18,981,987</u>	<u>(456,505)</u>	<u>18,525,482</u>	<u>19,900,502</u>	<u>(1,375,020)</u>
Expenses/disbursements Net	17,743,550	1,371,688	19,115,238	19,833,653	(718,415)
	<u>1,238,437</u>	<u>(1,828,193)</u>	<u>(589,756)</u>	<u>66,849</u>	<u>(656,605)</u>
Balance - Beginning of Year	<u>14,729,659</u>	<u>(6,527,035)</u>	<u>8,202,624</u>	<u>7,866,265</u>	<u>336,359</u>
Balance - End of Year	<u><u>\$ 15,968,096</u></u>	<u><u>\$ (8,355,228)</u></u>	<u><u>\$ 7,612,868</u></u>	<u><u>\$ 7,933,114</u></u>	<u><u>\$ (320,246)</u></u>

NOTE 1 – BUDGETARY COMPARISON

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

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures, however, it was not amended for the year ended June 30, 2012. Formal and legal budgetary control is based on total expenditures. The Health Center did not exceed the amounts budgeted for total expenditures for the fiscal year ending June 30, 2012.

(This page intentionally left blank)

OTHER SUPPLEMENTARY INFORMATION

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2012 AND 2011**

	Total	
	2012	2011
PATIENT AND RESIDENT SERVICE REVENUE		
Medical and Surgical	\$ 1,408,037	\$ 1,329,104
Swing Bed	445,518	319,046
Total Patient and Resident Service Revenue	<u>1,853,555</u>	<u>1,648,150</u>
OTHER PROFESSIONAL SERVICE REVENUE		
Operating Room	1,081,836	1,283,692
Emergency Room	2,330,641	2,155,541
Blood Supplies	91,347	109,685
Anesthesiology	805,683	856,407
Radiology and Ultrasound	4,770,147	4,706,837
Laboratory	3,362,024	2,682,290
Respiratory Therapy	39,904	17,233
Physical Therapy	774,659	634,662
Speech Therapy	103,088	102,004
Electrocardiology	697,431	658,409
Medical and Surgical Supplies	563,285	449,963
Pharmacy	2,446,964	1,857,783
Ambulance	716,126	664,626
Sleep Lab	180,652	199,240
Cardiac Rehabilitation	98,661	138,860
Osage Clinic	5,048,804	4,862,489
St. Ansgar Clinic	2,386,043	2,038,681
Stacyville Clinic	164,287	146,649
Riceville Clinic	376,361	347,119
Total Other Professional Service Revenue	<u>26,037,943</u>	<u>23,912,170</u>
Gross Patient and Resident Charges	27,891,498	25,560,320
Charity Care	<u>(22,685)</u>	<u>(45,509)</u>
Total Patient Service Revenues	27,868,813	25,514,811
CONTRACTUAL ADJUSTMENTS		
Medicare	(5,876,343)	(4,749,912)
Medicaid	(456,690)	(376,333)
Commercial and Other	<u>(3,320,052)</u>	<u>(2,866,764)</u>
Total Contractual Adjustments	<u>(9,653,085)</u>	<u>(7,993,009)</u>
Patient and Resident Service Revenues, Net of Contractual Adjustments	18,215,728	17,521,802
Provision for Bad Debts	<u>(681,835)</u>	<u>(594,772)</u>
Net Patient and Resident Service Revenues	<u>\$ 17,533,893</u>	<u>\$ 16,927,030</u>

Inpatient		Outpatient	
2012	2011	2012	2011
1,258,911	\$ 1,204,940	\$ 149,126	\$ 124,164
445,518	319,046	-	-
<u>1,704,429</u>	<u>1,523,986</u>	<u>149,126</u>	<u>124,164</u>
9,771	59,954	1,072,065	1,223,738
224,232	220,800	2,106,409	1,934,741
36,120	34,202	55,227	75,483
13,216	30,209	792,467	826,198
380,957	330,353	4,389,190	4,376,484
326,060	284,868	3,035,964	2,397,422
20,953	4,386	18,951	12,847
203,120	161,664	571,539	472,998
60,836	48,695	42,252	53,309
72,791	68,869	624,640	589,540
184,356	55,280	378,929	394,683
617,848	623,829	1,829,116	1,233,954
82,459	81,987	633,667	582,639
-	-	180,652	199,240
-	-	98,661	138,860
587,287	471,893	4,461,517	4,390,596
670,366	504,675	1,715,677	1,534,006
57,556	44,289	106,731	102,360
114,265	83,007	262,096	264,112
<u>3,662,193</u>	<u>3,108,960</u>	<u>22,375,750</u>	<u>20,803,210</u>
<u>\$ 5,366,622</u>	<u>\$ 4,632,946</u>	<u>\$ 22,524,876</u>	<u>\$ 20,927,374</u>

(This page intentionally left blank)

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUES AND OTHER REVENUES
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 5,876,343	\$ 4,749,912
Contractual Adjustments - Medicaid	456,690	376,333
Provision for Bad Debt	681,835	594,772
Other Allowances and Adjustments	3,320,052	2,866,764
Total Adjustments	\$ 10,334,920	\$ 8,587,781
OTHER REVENUES		
Rental	\$ 132,224	\$ 128,582
Cafeteria	78,244	82,518
Lab	16,176	14,661
Pharmacy Rebates	17,559	27,635
Vending Machines	11,410	12,368
Grant Income	60,173	64,760
Medical Records transcripts	1,931	1,631
Other	196,560	25,139
Total Other Revenues	\$ 514,277	\$ 357,294

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011**

	Total	
	2012	2011
Employee Benefits	\$ 1,623,347	\$ 1,560,917
Administrative and General	2,673,255	2,475,909
Operation of Plant	615,362	583,900
Laundry and Linen	58,347	55,732
Environment	167,493	166,322
Dietary	284,206	265,326
Adults and Pediatrics	1,101,124	1,040,195
Nursing	95,105	99,561
Operating and Recovery Room	363,992	360,190
Anesthesiology	254,302	292,049
Radiology	733,186	749,777
Laboratory	674,563	660,780
Blood	56,962	69,594
Respiratory Therapy	1,381	1,235
Physical Therapy	234,432	217,247
Speech Therapy	30,229	34,596
Electrocardiology	115,475	104,983
Medical and Surgical Supplies	131,637	160,210
Pharmacy and Intravenous Therapy	706,863	571,571
Cardiac Rehabilitation	38,528	56,161
Emergency	788,188	626,668
Health Information Management	258,263	321,753
Sleep	35,432	44,118
Ambulance	285,687	178,218
Osage Clinic	3,151,901	3,020,831
St. Ansgar Clinic	1,545,643	1,366,343
Stacyville Clinic	124,985	117,400
Riceville Clinic	234,324	208,180
Depreciation Expense	1,057,710	1,114,882
Interest Expense	70,158	134,688
Total Operating Expenses	<u>\$ 17,512,080</u>	<u>\$ 16,659,336</u>

Salaries		Other	
2012	2011	2012	2011
\$ -	\$ -	\$ 1,623,347	\$ 1,560,917
979,212	942,034	1,694,043	1,533,875
205,457	199,836	409,905	384,064
14,114	16,029	44,233	39,703
134,187	132,046	33,306	34,276
180,588	172,102	103,618	93,224
903,519	962,967	197,605	77,228
75,808	84,414	19,297	15,147
158,046	158,231	205,946	201,959
196,205	208,310	58,097	83,739
342,819	338,169	390,367	411,608
355,523	346,173	319,040	314,607
3,427	3,952	53,535	65,642
1,190	1,042	191	193
212,856	205,745	21,576	11,502
-	-	30,229	34,596
-	-	115,475	104,983
19,795	18,726	111,842	141,484
126,478	122,641	580,385	448,930
31,774	54,599	6,754	1,562
346,866	322,231	441,322	304,437
230,626	293,215	27,637	28,538
5,639	7,177	29,793	36,941
208,682	144,575	77,005	33,643
587,166	587,143	2,564,735	2,433,688
282,391	224,298	1,263,252	1,142,045
20,323	16,222	104,662	101,178
53,913	55,079	180,411	153,101
-	-	1,057,710	1,114,882
-	-	70,158	134,688
<u>\$ 5,676,604</u>	<u>\$ 5,616,956</u>	<u>\$ 11,835,476</u>	<u>\$ 11,042,380</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF AGED ACCOUNTS RECEIVABLE FROM
PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2012 AND 2011**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2012		2011	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital on June 30)	\$ 2,268,388	73.3 %	\$ 1,676,917	64.1 %
31-90 Days	386,426	12.5	569,734	21.8
91-180 Days	153,216	5.0	161,883	6.2
181 Days and Over	286,588	9.2	207,522	7.9
Total Accounts Receivable	<u>3,094,618</u>	<u>100.0 %</u>	<u>2,616,056</u>	<u>100.0 %</u>
ALLOWANCES				
Contractual -				
Medicare/Medicaid	857,996		694,000	
Doubtful Accounts	<u>290,657</u>		<u>299,000</u>	
Net Accounts Receivable	<u>\$ 1,945,965</u>		<u>\$ 1,623,056</u>	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>\$ 49,906</u>		<u>\$ 48,005</u>	
Days of Net Revenue in Net Accounts Receivable at Year-End	<u>39</u>		<u>34</u>	

Analysis of Allowance for Doubtful Accounts

	2012		2011	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 299,000		\$ 347,009	
Add:				
Provision for Doubtful Accounts	681,835	3.9 %	594,772	3.5 %
Recoveries Previously Written Off	<u>122,452</u>	0.7 %	<u>273,136</u>	1.6 %
	804,287		867,908	
Deduct:				
Accounts Written Off	<u>(812,630)</u>	-463%	<u>(915,917)</u>	-541%
Ending Balance	<u>\$ 290,657</u>		<u>\$ 299,000</u>	

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
INVENTORY		
Central Stores and Central Supply	\$ 279,363	\$ 297,748
Pharmacy	<u>95,354</u>	<u>87,974</u>
Total Inventory	<u>\$ 374,717</u>	<u>\$ 385,722</u>
PREPAID EXPENSES		
Insurance	\$ 82,242	\$ 76,170
Other	<u>110,352</u>	<u>191,116</u>
Total Prepaid Expenses	<u>\$ 192,594</u>	<u>\$ 267,286</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF BOND INVESTMENT TRANSACTIONS
YEAR ENDED JUNE 30, 2012**

	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Bond Sinking Fund 2002 Hospital Refunding Revenue Note	<u>\$ 486,844</u>	<u>\$ -</u>	<u>\$ (132,355)</u>	<u>\$ 354,489</u>



CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited the financial statements of Mitchell County Regional Health Center as of and for the year ended June 30, 2012, and have issued our report thereon dated October 17, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses listed as items 2012-1 and 2012-2 to be material weaknesses.

Compliance and Other Matters

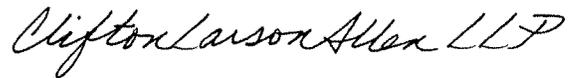
As part of obtaining reasonable assurance about whether Mitchell County Regional Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and agreements, non-compliance with which could have a 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*.

Board of Trustees
Mitchell County Regional Health Center

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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 Mitchell County Regional Health Center's responses, we did not audit the Health Center's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the officials, employees, and constituents of Mitchell County Regional Health Center and other parties to whom Mitchell County Regional Health Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Austin, Minnesota
October 17, 2012

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Part I: Findings Related to the Financial Statements

2012-1 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 the 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, 2012**

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

2012-2 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 statements 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 Mitchell County Regional Health Center's 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 Mitchell County Regional 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, 2012**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 **Certified Budget:** Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted in the general government and business type activities functions.

- II-B-12 **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-12 **Travel Expense:** No expenditures of Health Center money for travel expenses of spouses of Health System officials and/or employees were noted.

- II-D-12 **Business Transactions:** We noted no material business transactions between the Health Center and Health Center officials and/or employees.

- II-E-12 **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.

- II-F-12 **Deposits and Investments:** We noted all Health Center investments to be in compliance with the state statutes regarding investments.

- II-G-12 **Publication of Bills Allowed and Salaries:** Chapter 347.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Health Center published schedules of bills allowed and a schedule of salaries paid as required by the Code.

(This page intentionally left blank)



CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

**INDEPENDENT AUDITORS' REPORT
ON DEBT AGREEMENT COVENANTS**

Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mitchell County Regional Health Center as of June 30, 2012, and have issued our report thereon dated October 17, 2012.

In connection with our audit, nothing came to our attention that caused us to believe that the Health Center was not in compliance with any of the terms, covenants, provisions, or conditions of Section Seventeen "Covenants Regarding the Operation of the Health Center," and Section Fifteen "Patient rates and Charges" of the loan agreement dated February 1, 2003, relating to the issue of \$3,520,000 Hospital Refunding Revenue Note with First Citizens National Bank, Mason City, Iowa, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
October 17, 2012