

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 AND 2013

**MITCHELL COUNTY REGIONAL HEALTH CENTER
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**MITCHELL COUNTY REGIONAL HEALTH CENTER
ORGANIZATIONAL DATA
YEAR ENDED JUNE 30, 2014**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
John Lessard	Chairperson	November 2016
Chuck Laures	Vice Chairperson	November 2014
Jean Brumm	Secretary/Treasurer	November 2016
Cheryl Smalley	Member	November 2014
Jon Koster	Member	November 2018
Betty McCarthy	Member	November 2018
Lynn Kirchgatter	Member	November 2014
HEALTH CENTER OFFICIALS		
Vance Jackson	Interim -Chief Executive Officer	
Shelly Russell	Chief Nursing Officer	

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Mitchell County Regional Health Center, and its discretely presented component unit, the Mitchell County Regional Health Center Foundation, which comprise the statements of net position and balances sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, activities and net assets, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2014.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mitchell County Regional Health Center and its discretely presented component unit, Mitchell County Health Care Foundation, as of June 30, 2014 and 2013 and the changes in the respective changes in their financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 and the budgetary comparison information on page 30 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 statements 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 about 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Mitchell County Regional Health Center as a whole. The supplementary information on pages 30 through 38 is presented for the purpose of additional analysis and is not a required part of the basic 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Board of Trustees and Administration listing which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Board of Trustees
Mitchell County Regional Health Center

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2014 on our consideration of Mitchell County Regional Health Center 's internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mitchell County Regional Health Center's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
October 22, 2014

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**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, 2014. 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, 2014 and 2013 Independent Auditors' Report includes audited financial statements that include:

- Statements of Net Position
- Statements of Financial Position - Foundation
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Activities and Changes in Net Assets - Foundation
- Statements of Cash Flows
- Statements of Cash Flows - Foundation
- Notes to Financial Statements

FINANCIAL HIGHLIGHTS

- The Health Center's total assets increased by \$625,442 or 2.9% in 2014, increased by \$563,981 or 2.7% in 2013 and increased by \$947,922 or 4.8% in 2012.
- The Health Center's net position increased by \$730,180 or 4.3% in 2014, a \$918,611 or 5.8% increase in 2013 and increased by \$1,256,270 or 8.5% in 2012.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

These financial statements report information about Mitchell County Regional Health Center using Governmental Accounting Standards Board (GASB) accounting principles. The statement of net position 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 position. 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
- Schedule of Bond Investment Transactions

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE HEALTH CENTER

The information from the statements of net position and statements of revenues, expenses and changes in net position have been summarized in the following tables. Tables 1 and 2 report on the net position of the Health Center and the changes in them. Increases or decreases in net position 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, Deferred Inflows of Resources and Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current Assets	\$ 9,464,924	\$ 8,386,383	\$ 7,899,334
Noncurrent Cash and Investments	1,557,958	1,500,894	3,180,074
Capital Assets, Net	10,973,243	11,463,028	9,703,820
Other Assets	-	20,378	23,474
Total Assets	<u>21,996,125</u>	<u>21,370,683</u>	<u>20,806,702</u>
Deferred Outflows of Resources:			
Deferred Loss From Refinancing of Long-Term Debt	<u>53,868</u>	<u>63,662</u>	<u>73,456</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 22,049,993</u>	<u>\$ 21,434,345</u>	<u>\$ 20,880,158</u>
Liabilities:			
Total Current Liabilities	\$ 2,139,915	\$ 2,378,890	\$ 2,499,252
Long-Term Debt (Less Current Maturities)	<u>1,618,614</u>	<u>1,533,307</u>	<u>1,799,463</u>
Total Liabilities	3,758,529	3,912,197	4,298,715
Deferred Inflows of Resources:			
Deferred Revenue from Succeeding Year Property Tax Receivable	<u>674,577</u>	<u>635,441</u>	<u>613,347</u>
Net Position:			
Net Investment in Capital Assets	8,994,133	9,668,396	7,643,236
Restricted Under Master Affiliation	635,340	881,341	649,872
Restricted Under Debt Agreement	170,000	170,000	354,489
Unrestricted	<u>7,817,414</u>	<u>6,166,970</u>	<u>7,320,499</u>
Total Net Position	<u>17,616,887</u>	<u>16,886,707</u>	<u>15,968,096</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 22,049,993</u>	<u>\$ 21,434,345</u>	<u>\$ 20,880,158</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE HEALTH CENTER (CONTINUED)

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

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

	2014	2013	2012
Net Patient Service Revenue	\$ 18,546,690	\$ 17,938,801	\$ 17,533,893
Other Operating Revenue	323,788	314,712	514,277
Total Revenue	<u>18,870,478</u>	<u>18,253,513</u>	<u>18,048,170</u>
Operating Expenses:			
Salaries and Wages	6,648,845	5,945,421	5,676,604
Employee Benefits	2,005,352	1,693,655	1,623,347
Supplies and Other Expenses	8,744,207	9,408,594	9,084,261
Depreciation	1,327,028	1,076,895	1,057,710
Interest and Amortization	78,813	65,584	70,158
Total Operating Expenses	<u>18,804,245</u>	<u>18,190,149</u>	<u>17,512,080</u>
Operating Income	66,233	63,364	536,090
Mercy Medical Center Share of Income	-	-	(231,470)
Non-Operating Revenues (Expenses) :			
Tax Revenue	625,436	603,880	582,935
Investment Income	34,761	43,088	67,791
Gain (Loss) on Sale of Capital Assets	3,750	(42,391)	(15,941)
Non-Operating Revenues (Expenses)	<u>663,947</u>	<u>604,577</u>	<u>634,785</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	730,180	667,941	939,405
Capital Grants and Contributions	-	250,670	299,032
Increase in Net Position	730,180	918,611	1,238,437
Net Position - Beginning of Year	<u>16,886,707</u>	<u>15,968,096</u>	<u>14,729,659</u>
Net Position - End of Year	<u>\$ 17,616,887</u>	<u>\$ 16,886,707</u>	<u>\$ 15,968,096</u>

Net patient service revenue made up 98.3% in 2014 and 2013, and 97.2% in 2012 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

	2014	2013	2012
Total Patient Service Revenues	\$ 29,293,742	\$ 27,810,204	\$ 27,868,813
Contractual Adjustments and Provisions for Bad Debt	(10,747,052)	(9,871,403)	(10,334,920)
Net Patient Service Revenue	<u>\$ 18,546,690</u>	<u>\$ 17,938,801</u>	<u>\$ 17,533,893</u>
Contractual Adjustments and Provisions for Bad Debt as a Percent of Revenues	<u>36.69%</u>	<u>35.50%</u>	<u>37.08%</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE HEALTH CENTER (CONTINUED)

Net patient service revenue increased \$607,889 or 3.4% in 2014, \$404,908 or 2.3% in 2013 and \$606,863 or 3.8% in 2012. Net patient revenue increased due to increased outpatient revenue, while acute and swing bed days decreased from 2013. Total operating expenses increased \$679,064 or 3.7% in 2014, increased \$662,957 or 3.8% in 2013 and \$852,744 or 5.1% in 2012.

The Non-Operating Revenue had increased over the prior year with approximately \$42,000 for losses on equipment sales. Other Operating Revenue increased by \$20,176 or 6.3% in 2014, because of the EHR incentive payment received in 2012.

Table 4: Other Revenues

	2014	2013	2012
Rental	\$ 146,370	\$ 132,665	\$ 132,224
Cafeteria	84,830	82,229	78,244
Lab	15,523	19,045	16,176
Pharmacy Rebates	12,659	9,435	17,559
Vending Machines	10,764	9,861	11,410
Grant Income	7,237	30,529	60,173
Medical Records transcripts	1,769	1,703	1,931
Other	44,636	29,245	196,560
Total Other Revenues	\$ 323,788	\$ 314,712	\$ 514,277

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

	2014	2013	2012
Patient Days			
Acute	967	1,084	1,286
Swing Bed	824	658	1,068
Total	1,791	1,742	2,354
Admissions			
Acute	277	318	342
Swing Bed	88	79	106
Total	365	397	448
Discharges			
Acute	282	318	342
Swing Bed	87	81	89
Total	369	399	431
Average Length of Stay, Acute	3.4	3.4	3.8
Average Length of Stay, Swing Bed	9.5	8.1	12
Beds			
Acute and Swing	25	25	25
Occupancy Percentage			
Acute and Swing, Based on 25 Beds	19.6%	19.1%	25.8%

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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, 2014 the Health Center had \$10,973,243 invested in capital assets net of accumulated depreciation. In 2014, the Health Center expended \$837,243 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

	2014	2013	2012
Hospital Refunding Note, Series 2002	\$ 1,464,684	\$ 1,698,604	\$ 1,925,698
Notes Payable	57,293	83,955	108,874
USDA Loan	-	-	62,160
Obligations Under Capital Lease	-	-	19,663
Radiology Note Payable	239,198	-	-
Endoscopy Note Payable	211,434	-	-
Deferred Loss on Bond Refinancing	6,501	12,073	(55,811)
	<u>\$ 1,979,110</u>	<u>\$ 1,794,632</u>	<u>\$ 2,060,584</u>
Total Long-Term Debt	<u>\$ 1,979,110</u>	<u>\$ 1,794,632</u>	<u>\$ 2,060,584</u>

Economic Factors

Mitchell County Regional Health Center continues to improve its operational and financial performance. During the Fiscal year 2014 we are highlighting the following items:

- 1) Under the Iowa Medicaid expansion for the Accountable Care Act (ACA), we incorporated new patients in our hospital and clinic practices.
- 2) In January 2014 we joined a Medicare Accountable Care Organization (ACO) sponsored by Mercy Medical Center-Des Moines.
- 3) In April 2014 we implemented a full-time Health Coach to help manage chronic diseases under the Medicare ACO for four (4) targeted conditions to prevent/reduce hospitalizations associated with these diseases: diabetes, congestive heart failure, coronary artery disease and ischemic vascular disease.
- 4) After considerable evaluation, we chose to delay for 3 years the expansion of our Cerner electronic medical record (EMR) into our rural health clinics. After detailed financial analysis, we held extensive meetings with providers, board trustees and Mercy-North Iowa management to discuss the pros and cons of an immediate implementation versus a 3 year delay. The board determined the delay was the most prudent option to allow 1) preparation of clinic operations, 2) increase provider capacity to offset productivity reductions and 3) to improve operating margins to cover the project operating costs.

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**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,767,339	\$ 4,379,239
Cash-Auxiliary	28,386	17,859
Investments	262,289	261,365
Patient Receivables, Less Allowance for Uncollectible Accounts (2014, \$285,619, 2013, \$197,448)	2,136,106	1,761,335
Estimated Third-Party Payor Settlements Receivable	-	725,419
Other Receivables	77,784	58,761
Succeeding Year Property Tax Receivable	674,577	635,441
Inventories	307,616	363,502
Prepaid Expenses	210,827	183,462
Total Current Assets	9,464,924	8,386,383
NONCURRENT CASH AND INVESTMENTS		
Internally Designated By Board for Capital Expenditures	752,616	449,552
Restricted Under Bond Agreement	170,000	170,000
Restricted by Master Affiliation Agreement with MMC-NI	635,342	881,342
Total Noncurrent Cash and Investments	1,557,958	1,500,894
CAPITAL ASSETS, NET	10,973,243	11,463,028
OTHER ASSETS		
Unamortized Debt Issue Costs	-	20,378
Total Assets	21,996,125	21,370,683
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Loss From Refinancing of Long-Term Debt	53,868	63,662
Total Assets and Deferred Outflows of Resources	\$ 22,049,993	\$ 21,434,345

See accompanying Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 360,496	\$ 261,325
Accounts Payable:		
Trade	191,072	547,677
Construction	140,521	462,655
Due To Affiliated Organization	572,004	377,009
Estimated Third-Party Payor Settlements Payable	11,431	-
Custodial Funds - Auxiliary	28,386	17,859
Accrued Expenses	836,005	712,365
Total Current Liabilities	<u>2,139,915</u>	<u>2,378,890</u>
LONG-TERM DEBT , Less Current Maturities	<u>1,618,614</u>	<u>1,533,307</u>
Total Liabilities	<u>3,758,529</u>	<u>3,912,197</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Revenue from Succeeding Year Property Tax Receivable	<u>674,577</u>	<u>635,441</u>
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	8,994,133	9,668,396
Restricted:		
By Master Affiliation Agreement with MMC-NI	635,340	881,341
Under Bond Agreement	170,000	170,000
Unrestricted	7,817,414	6,166,970
Total Net Position	<u>17,616,887</u>	<u>16,886,707</u>
 Total Liabilities, Deferred Inflows of Resources and Net Position	 <u>\$ 22,049,993</u>	 <u>\$ 21,434,345</u>

**MITCHELL COUNTY MEMORIAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 106,117	\$ 97,040
Assets Limited as to Use	43,270	30,664
Total Assets	\$ 149,387	\$ 127,704
LIABILITIES AND NET ASSETS		
NET ASSETS		
Unrestricted	\$ 106,117	\$ 97,040
Temporarily Restricted:		
For Projects	24,754	21,714
For Scholarships	13,849	5,561
For Miscellaneous Services or Items	4,667	3,389
Total Liabilities and Net Assets	\$ 149,387	\$ 127,704

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
OPERATING REVENUES		
Net Patient Service Revenues (Net of Provision for Bad Debts of 2014, \$653,269, 2013, \$457,155)	\$ 18,546,690	\$ 17,938,801
Other Revenues	323,788	314,712
Total Revenues	18,870,478	18,253,513
EXPENSES		
Salaries and Wages	6,648,845	5,945,421
Employee Benefits	2,005,352	1,693,655
Supplies and Other Expenses	8,744,207	9,408,594
Depreciation	1,327,028	1,076,895
Interest and Amortization	78,813	65,584
Total Expenses	18,804,245	18,190,149
OPERATING INCOME	66,233	63,364
NON-OPERATING GAINS		
County Tax Revenue	625,436	603,880
Investment Income	34,761	43,088
Gain (Loss) on Sale of Capital Assets	3,750	(42,391)
Net Non-Operating Gains	663,947	604,577
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	730,180	667,941
Capital Contributions and Grants	-	250,670
INCREASE IN NET POSITION	730,180	918,611
Net Position - Beginning of Year	16,886,707	15,968,096
NET POSITION - END OF YEAR	\$ 17,616,887	\$ 16,886,707

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY MEMORIAL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014		
	Unrestricted	Temporarily Restricted	Total
REVENUES			
Contributions	\$ 8,968	\$ 22,763	\$ 31,731
Investment Income	674	-	674
Net Asset Released From Restrictions	10,157	(10,157)	
Total Revenues	<u>19,799</u>	<u>12,606</u>	<u>32,405</u>
EXPENSES			
Contributions to Mitchell County Regional Health Center	485	-	485
Contributions to Others	8,400	-	8,400
Supplies and Miscellaneous	1,837	-	1,837
Total Expenses	<u>10,722</u>	<u>-</u>	<u>10,722</u>
INCREASE IN NET ASSETS	9,077	12,606	21,683
Net Assets - Beginning of Year	<u>97,040</u>	<u>30,664</u>	<u>127,704</u>
NET ASSETS END OF YEAR	<u>\$ 106,117</u>	<u>\$ 43,270</u>	<u>\$ 149,387</u>
	2013		
	Unrestricted	Temporarily Restricted	Total
REVENUES			
Contributions	\$ 10,135	\$ 10,095	\$ 20,230
Investment Income	707	-	707
Net Asset Released From Restrictions	12,971	(12,971)	-
Total Revenues	<u>23,813</u>	<u>(2,876)</u>	<u>20,937</u>
EXPENSES			
Contributions to Mitchell County Regional Health Center	20,125	-	20,125
Contributions to Others	3,482	-	3,482
Supplies and Miscellaneous	2,355	-	2,355
Total Expenses	<u>25,962</u>	<u>-</u>	<u>25,962</u>
DECREASE IN NET ASSETS	(2,149)	(2,876)	(5,025)
Net Assets - Beginning of Year	<u>99,189</u>	<u>33,540</u>	<u>132,729</u>
NET ASSETS END OF YEAR	<u>\$ 97,040</u>	<u>\$ 30,664</u>	<u>\$ 127,704</u>

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 18,908,769	\$ 16,741,723
Cash Paid to Employees	(8,530,557)	(7,531,089)
Cash Paid to Suppliers	(8,867,502)	(8,912,450)
Other Receipts and Payments, Net	304,765	294,096
Net Cash Provided by Operating Activities	1,815,475	592,280
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Tax Appropriations	625,436	603,880
Net Cash Provided by Non-capital Financing Activities	625,436	603,880
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(1,159,377)	(2,829,790)
Payments on Long-Term Debt	(285,900)	(333,836)
Proceeds from Sale of Capital Assets	3,750	500
Proceeds from Issuance of Long-Term Debt	475,950	-
Interest Payments on Long-Term Debt	(64,007)	(58,266)
Capital Grants/Contributions	-	250,670
Net Cash Used by Capital Related Financing Activities	(1,029,584)	(2,970,722)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	34,761	43,088
Purchase of Investments	162,289	161,365
Sale of Investments	(163,213)	(162,626)
Proceeds from the Sale of Noncurrent Cash and Investments	(723,064)	1,259,180
Purchase of Noncurrent Cash and Investments	666,000	420,000
Net Cash Provided (Used) by Investing Activities	(23,227)	1,721,007
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,388,100	(53,555)
Cash and Cash Equivalents - Beginning	4,379,239	4,432,794
CASH AND CASH EQUIVALENTS - ENDING	\$ 5,767,339	\$ 4,379,239

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 66,233	\$ 63,364
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Interest Expense and Amortization	78,813	65,584
Provision for Bad Debts	653,269	457,155
Depreciation	1,327,028	1,076,895
(Increase) Decrease in:		
Patient Receivables	(1,028,040)	(272,525)
Third-Party Payor Settlements	736,850	(1,381,708)
Other Receivables	(19,023)	(5,504)
Supplies	55,886	11,215
Prepaid Expenses	(27,365)	9,132
Deferred Loss on Refinancing of Long-Term Debt	9,794	
Increase (Decrease) in:		
Accounts Payable	(356,605)	479,854
Due to Affiliated Organization	194,995	(19,169)
Accrued Salaries, Wages, Benefits and Other	123,640	107,987
Net Cash Provided by Operating Activities	\$ 1,815,475	\$ 592,280

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY MEMORIAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ 21,683	\$ (5,025)
Increase (Decrease) in Assets Limited to Use	<u>(12,606)</u>	<u>10,190</u>
Net Cash Provided by Operating Activities	<u>9,077</u>	<u>5,165</u>
INCREASE IN CASH AND CASH EQUIVALENTS	9,077	5,165
Cash and Cash Equivalents - Beginning	<u>97,040</u>	<u>91,875</u>
CASH AND CASH EQUIVALENTS - ENDING	<u><u>\$ 106,117</u></u>	<u><u>\$ 97,040</u></u>

See accompanying Notes to Financial Statements.

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MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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.

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. The Foundation is included as a discrete component presentation during the years ended June 30, 2014 and 2013.

Tax Exempt Status

The Foundation 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 Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Foundation 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 Foundation 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.

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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

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.

The Health Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended.

The Foundation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board (FASB). 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.

Basis of Presentation

The statement of net position (previously referred to as net assets) displays the Health Center's assets and liabilities, with the difference reported as net position.

Net Position is reported in the following categories/components:

Net investment in capital assets 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 Position

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

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

Unrestricted net position consists of net position not meeting the definition of the preceding categories. The Unrestricted net position, often has constraints on resources imposed by management which can be removed or modified.

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

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. 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.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014 and 2013, the allowance for uncollectible accounts was approximately \$286,000 and \$197,000, respectively.

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.

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.

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.

Investments

Investments are valued at purchase costs, or fair market value at date of acquisition if donated. Investments consist of certificates of deposit with original deposits greater than three months.

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 projected paid leave payouts is recorded as accrued expenses on the statement of net position based on pay rates that are in effect at June 30, 2014 and 2013.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflow of Resources

The Health Center reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of statements of net position. The only deferred outflow of resources reported in this year's financial statements is a deferred amount arising from the refunding of a hospital refunding note in a previous year. This deferred refunding amount is being amortized over the remaining life of the refunding bonds as part of interest expense.

Deferred Inflow of Resources

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 deferred inflows of resources 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 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, 2012 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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014 and 2013 was \$25,898 and \$24,193, 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.

Unamortized Bond Issue Costs

Bond issue costs were amortized over the life of the bonds using the straight-line method. Amortization expense was \$3,095 for the year ended June 30, 2013. Bond issue costs of \$20,378 were written off during 2014 as amortization expense due to the adoption of GASB 65.

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 Accounting Standards

The hospital adopted GASBS 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which renames the residual amounts from "net assets" to "net position". The financial statements include the statement of net position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Standards (Continued)

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this statement is to establish new accounting and financial reporting requirements for governments that provide their employees with pensions. The requirements in this statement will change how governments calculate and report the costs and obligations associated with pensions and improve the decision-usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information across governments. This statement will be effective for MCRHC's fiscal year ending June 30, 2015. Management is evaluating the impact of adopting this statement but is not currently able to arrive at an estimate.

Reclassifications

Certain items in the 2013 financial statements have been reclassified for comparison purposes with the 2014 financial statements. The results of operations and net position have not been changed as a result of these reclassifications.

NOTE 2 DESIGNATED NET POSITION

Of the \$7,763,546 and \$6,103,308 of unrestricted net position at June 30, 2014 and 2013, respectively, the board of trustees has designated \$752,616 and \$449,552 as of June 30, 2014 and 2013, respectively, for capital expenditures. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds are reflected in noncurrent cash and investments.

NOTE 3 NET PATIENT SERVICE REVENUE

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

Medicare

The Health Center has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Health Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Health Center. The Health Center's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2012.

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, 2012.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Other

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

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

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

	June 30,	
	2014	2013
Total Patient Service Revenue	\$ 29,293,742	\$ 27,810,204
Contractual Adjustments:		
Medicare	(5,705,299)	(5,311,532)
Medicaid	(617,712)	(488,181)
Provision for Bad Debt	(653,269)	(457,155)
Other	<u>(3,770,772)</u>	<u>(3,614,535)</u>
Total Contractual Adjustments and Bad Debts	<u>(10,747,052)</u>	<u>(9,871,403)</u>
Net Patient Service Revenue	<u>\$ 18,546,690</u>	<u>\$ 17,938,801</u>

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. 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.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 Health Center owed the agencies approximately (\$11,000) at June 30, 2014 and the agencies owed the Health Center \$725,000 at June 30, 2013.

NOTE 6 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Health Center at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Receivable from Patients and Their Insurance Carriers	\$ 1,514,282	\$ 1,023,264
Receivable from Medicare	776,648	907,726
Receivable from Medicaid	130,795	27,793
Total Patient Receivables	2,421,725	1,958,783
Less: Allowance for Doubtful Accounts	(285,619)	(197,448)
Patient Receivables, Net	\$ 2,136,106	\$ 1,761,335

NOTE 7 DEPOSITS AND INVESTMENTS

The Health Center's deposits at June 30, 2014 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.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 DEPOSITS AND INVESTMENTS (CONTINUED)

The carrying amount of deposits is included in the Health Center's statements of net position as follows:

	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents	\$ 5,767,339	\$ 4,379,239
Noncurrent Cash and Investments		
Internally Designated By Board for Capital Expenditures	752,616	449,552
Internally Designated By Bond Agreement for Sinking Fund	50,000	50,000
Internally Designated Collateral on Heartland Loan	120,000	120,000
Restricted by Master Affiliation Agreement with MMC-NI	635,342	881,342
Total	<u>\$ 7,325,297</u>	<u>\$ 5,880,133</u>

NOTE 8 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2014 and 2013 are as follows:

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Transfers (Retirements)</u>	<u>June 30, 2014</u>
Capital Assets				
Land	\$ 229,512	\$ -	\$ -	\$ 229,512
Land Improvements	527,296	-	-	527,296
Building	15,295,745	37,888	-	15,333,633
Leasehold Improvements	55,257	-	-	55,257
Equipment	6,477,226	299,969	(208,682)	6,568,513
Construction in Progress	196,521	499,386	-	695,907
Totals	<u>22,781,557</u>	<u>837,243</u>	<u>(208,682)</u>	<u>23,410,118</u>
Accumulated Depreciation				
Land Improvements	444,075	19,505	-	463,580
Building	6,619,566	638,586	-	7,258,152
Leasehold Improvements	55,258	-	-	55,258
Movable Equipment	4,199,630	668,937	(208,682)	4,659,885
Totals	<u>11,318,529</u>	<u>\$ 1,327,028</u>	<u>\$ (208,682)</u>	<u>12,436,875</u>
	<u>\$ 11,463,028</u>			<u>\$ 10,973,243</u>
	<u>July 1, 2012</u>	<u>Additions</u>	<u>Transfers (Retirements)</u>	<u>June 30, 2013</u>
Capital Assets				
Land	\$ 229,512	\$ -	\$ -	\$ 229,512
Land Improvements	517,879	-	9,417	527,296
Building	12,196,414	3,168,572	(69,241)	15,295,745
Leasehold Improvements	55,257	-	-	55,257
Equipment	5,894,213	571,563	11,450	6,477,226
Construction in Progress	1,106,866	2,303,936	(3,214,281)	196,521
Totals	<u>20,000,141</u>	<u>6,044,071</u>	<u>(3,262,655)</u>	<u>22,781,557</u>
Accumulated Depreciation				
Land Improvements	420,896	23,179	-	444,075
Building	6,147,990	496,596	(25,020)	6,619,566
Leasehold Improvements	55,258	-	-	55,258
Movable Equipment	3,672,177	557,120	(29,667)	4,199,630
Totals	<u>10,296,321</u>	<u>\$ 1,076,895</u>	<u>\$ (54,687)</u>	<u>11,318,529</u>
	<u>\$ 9,703,820</u>			<u>\$ 11,463,028</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 CAPITAL ASSETS (CONTINUED)

Construction in Progress funds are related to software upgrades, flooring project and an ambulance garage, all of which will be funded using internal funds.

NOTE 9 LONG-TERM DEBT

	Balance July 1, 2013	Additions	(Payments)	Balance June 30, 2014	Amounts Due Within One Year
Hospital Refunding Note, Series 2002	\$ 1,698,604	\$ -	\$ (233,920)	\$ 1,464,684	\$ 240,948
Heartland Cooperative Notes Payable	83,955	-	(26,662)	57,293	28,462
Radiology Note Payable	-	242,950	(3,752)	239,198	46,210
Endoscopy Note Payable	-	233,000	(21,566)	211,434	44,876
	<u>1,782,559</u>	<u>475,950</u>	<u>(285,900)</u>	<u>1,972,609</u>	<u>360,496</u>
Discount on Hospital Refunding Note	12,073	-	(5,572)	6,501	-
Total Long-Term Debt	<u>\$ 1,794,632</u>	<u>\$ 475,950</u>	<u>\$ (291,472)</u>	<u>\$ 1,979,110</u>	<u>\$ 360,496</u>

	Balance July 1, 2012	Additions	(Payments) Amortization	Balance June 30, 2013	Amounts Due Within One Year
Hospital Refunding Note, Series 2002	\$ 1,925,698	\$ -	\$ (227,094)	\$ 1,698,604	\$ 233,920
Heartland Cooperative Notes Payable	108,874	-	(24,919)	83,955	27,405
USDA Loan	62,160	-	(62,160)	-	-
Obligations Under Capital Lease	19,663	-	(19,663)	-	-
	<u>2,116,395</u>	<u>-</u>	<u>(333,836)</u>	<u>1,782,559</u>	<u>261,325</u>
Deferred Loss on Bond Refinancing	17,645	-	(5,572)	12,073	-
Total Long-Term Debt	<u>\$ 2,134,040</u>	<u>\$ -</u>	<u>\$ (339,408)</u>	<u>\$ 1,794,632</u>	<u>\$ 261,325</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 and was paid in full in February of 2013. An interest rate of 1.89% was charged on the loan.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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 \$12,073 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 \$24,000 with 0% interest and \$6,000 including interest of 2% are due through September 2015.

In the fiscal year, the Health Center entered into two promissory notes with The Home Trust & Savings Bank for \$233,000 and \$242,950. The purpose of the notes was to fund an endoscopy and radiology room for the Health Center. Annual payments of \$49,836 and \$51,888 with 2.6% interest are due through December 2018 and May 2019, respectively.

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

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

Year Ending June 30,	Long-Term Debt	
	Principal	Interest
2015	\$ 360,496	\$ 53,315
2016	370,480	42,469
2017	351,587	31,244
2018	361,793	21,038
2019	342,914	10,671
2020 - 2023	185,339	2,066
Total	<u>\$ 1,972,609</u>	<u>\$ 160,803</u>

NOTE 10 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, 2014 and 2013 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 20 years, with an additional 10-year renewal option.

NOTE 11 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, 2014 AND 2013**

NOTE 11 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Plan members are required to contribute 5.95% of their annual salary and the Health Center is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 was approximately \$575,400, \$498,200 and \$385,700, respectively, equal to the required contributions for each year.

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 \$2,324,001 and \$2,339,918 for the years ended June 30, 2014 and 2013, 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, 2014 and 2013 were \$765,350 and \$778,170 respectively.

Due to/from Affiliated Organization

As of June 30, 2014 and 2013 Mitchell County Regional Health Center's records reflect a due to Mercy Medical Center - North Iowa of \$572,004 and \$377,009, 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.

REQUIRED SUPPLEMENTARY INFORMATION

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**MITCHELL COUNTY REGIONAL HEALTH CENTER
BUDGETARY COMPARISON SCHEDULE OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014**

	General Fund	Accrual Adjustments	Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 625,436	\$ -	\$ 625,436	\$ 635,441	\$ (10,005)
Estimated Other Revenues/Receipts	18,908,989	819,006	19,727,995	20,023,540	(295,545)
	<u>19,534,425</u>	<u>819,006</u>	<u>20,353,431</u>	<u>20,658,981</u>	<u>(305,550)</u>
Expenses/Disbursements	18,804,245	104,022	18,908,267	20,059,595	(1,151,328)
Net	730,180	714,984	1,445,164	599,386	845,778
Balance - Beginning of Year	16,886,707	(11,006,574)	5,880,133	6,835,036	(954,903)
Balance - End of Year	<u>\$ 17,616,887</u>	<u>\$ (10,291,590)</u>	<u>\$ 7,325,297</u>	<u>\$ 7,434,422</u>	<u>\$ (109,125)</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, 2014. 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, 2014.

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OTHER SUPPLEMENTARY INFORMATION

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2014 AND 2013**

	Total	
	2014	2013
PATIENT AND RESIDENT SERVICE REVENUE		
Medical and Surgical	\$ 1,209,694	\$ 1,307,789
Swing Bed	361,033	298,194
Total Patient and Resident Service Revenue	1,570,727	1,605,983
OTHER PROFESSIONAL SERVICE REVENUE		
Operating Room	1,043,739	1,054,959
Emergency Room	2,410,126	2,170,186
Blood Supplies	102,064	146,510
Anesthesiology	812,921	720,576
Radiology and Ultrasound	5,306,028	4,831,068
Laboratory	3,595,995	3,527,376
Respiratory Therapy	237,812	228,853
Physical Therapy	750,017	645,502
Speech Therapy	88,198	96,339
Electrocardiology	643,558	691,822
Medical and Surgical Supplies	569,019	550,024
Pharmacy	1,851,515	1,871,669
Ambulance	898,474	801,255
Sleep Lab	193,522	215,125
Cardiac Rehabilitation	127,294	105,824
Osage Clinic	5,612,149	5,315,457
St. Ansgar Clinic	2,809,887	2,674,592
Stacyville Clinic	201,656	172,262
Riceville Clinic	494,939	409,015
Total Other Professional Service Revenue	27,748,913	26,228,414
Gross Patient and Resident Charges	29,319,640	27,834,397
Charity Care	(25,898)	(24,193)
Total Patient Service Revenues	29,293,742	27,810,204
CONTRACTUAL ADJUSTMENTS		
Medicare	(5,705,299)	(5,311,532)
Medicaid	(617,712)	(488,181)
Commercial and Other	(3,770,772)	(3,614,535)
Total Contractual Adjustments	(10,093,783)	(9,414,248)
Patient and Resident Service Revenues, Net of Contractual Adjustments	19,199,959	18,395,956
Provision for Bad Debts	(653,269)	(457,155)
Net Patient and Resident Service Revenues	\$ 18,546,690	\$ 17,938,801

Inpatient		Outpatient	
2014	2013	2014	2013
\$ 1,018,898	\$ 1,173,831	\$ 190,796	\$ 133,958
361,033	298,194	-	-
<u>1,379,931</u>	<u>1,472,025</u>	<u>190,796</u>	<u>133,958</u>
13,711	16,169	1,030,028	1,038,790
10,446	29,519	2,399,680	2,140,667
36,300	47,702	65,764	98,808
15,107	13,969	797,814	706,607
251,419	292,065	5,054,609	4,539,003
299,799	323,401	3,296,196	3,203,975
191,227	192,289	46,585	36,564
162,402	150,735	587,615	494,767
44,935	43,533	43,263	52,806
69,912	82,431	573,646	609,391
214,497	221,856	354,522	328,168
441,907	524,352	1,409,608	1,347,317
86,176	75,611	812,298	725,644
-	-	193,522	215,125
-	-	127,294	105,824
566,871	641,392	5,045,278	4,674,065
623,188	793,175	2,186,699	1,881,417
59,617	60,845	142,039	111,417
108,265	120,104	386,674	288,911
<u>3,195,779</u>	<u>3,629,148</u>	<u>24,553,134</u>	<u>22,599,266</u>
<u>\$ 4,575,710</u>	<u>\$ 5,101,173</u>	<u>\$ 24,743,930</u>	<u>\$ 22,733,224</u>

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**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUES AND OTHER REVENUES
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 5,705,299	\$ 5,311,532
Contractual Adjustments - Medicaid	617,712	488,181
Provision for Bad Debt	653,269	457,155
Other Allowances and Adjustments	3,770,772	3,614,535
Total Adjustments	\$ 10,747,052	\$ 9,871,403
OTHER REVENUES		
Rental	\$ 146,370	\$ 132,665
Cafeteria	84,830	82,229
Lab	15,523	19,045
Pharmacy Rebates	12,659	9,435
Vending Machines	10,764	9,861
Grant Income	7,237	30,529
Medical Records Transcripts	1,769	1,703
Other	44,636	29,245
Total Other Revenues	\$ 323,788	\$ 314,712

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2014 AND 2013**

	Total	
	2014	2013
Employee Benefits	\$ 2,005,353	\$ 1,693,655
Administrative and General	2,622,619	2,611,987
Operation of Plant	580,078	632,795
Laundry and Linen	58,281	53,838
Environment	183,787	173,309
Dietary	291,884	288,030
Adults and Pediatrics	1,037,077	1,130,137
Nursing	164,434	167,586
Operating and Recovery Room	327,543	339,175
Anesthesiology	247,826	243,603
Radiology	802,677	793,796
Laboratory	687,202	665,524
Blood	61,523	86,431
Respiratory Therapy	1,944	661
Physical Therapy	234,832	233,952
Speech Therapy	25,520	26,762
Electrocardiology	102,970	124,412
Medical and Surgical Supplies	124,551	100,506
Pharmacy and Intravenous Therapy	530,160	538,318
Cardiac Rehabilitation	39,429	40,323
Emergency	996,113	839,416
Health Information Management	299,780	301,010
Sleep	36,320	42,429
Ambulance	380,077	380,948
Osage Clinic	3,421,063	3,427,358
St. Ansgar Clinic	1,741,400	1,732,624
Stacyville Clinic	137,565	128,643
Riceville Clinic	256,396	250,442
Depreciation Expense	1,327,028	1,076,895
Interest Expense	78,813	65,584
Total Operating Expenses	<u>\$ 18,804,245</u>	<u>\$ 18,190,149</u>

Salaries		Other	
2014	2013	2014	2013
\$ -	\$ -	\$ 2,005,353	\$ 1,693,655
1,088,985	961,711	1,533,634	1,650,276
195,078	239,392	385,000	393,403
14,753	14,233	43,528	39,605
146,308	131,340	37,479	41,969
181,415	176,951	110,469	111,079
894,237	832,455	142,840	297,682
154,404	140,778	10,030	26,808
169,568	160,783	157,975	178,392
201,665	55,874	46,161	187,729
369,214	352,148	433,463	441,648
373,079	346,819	314,123	318,705
3,120	5,129	58,403	81,302
1,475	472	469	189
223,949	219,746	10,883	14,206
-	-	25,520	26,762
-	-	102,970	124,412
21,911	22,427	102,640	78,079
127,564	127,861	402,596	410,457
36,501	34,223	2,928	6,100
649,455	471,772	346,658	367,644
269,460	272,561	30,320	28,449
4,597	5,647	31,723	36,782
298,504	273,808	81,573	107,140
805,947	696,131	2,615,116	2,731,227
326,338	316,999	1,415,062	1,415,625
23,570	23,111	113,995	105,532
67,748	63,050	188,648	187,392
-	-	1,327,028	1,076,895
-	-	78,813	65,584
<u>\$ 6,648,845</u>	<u>\$ 5,945,421</u>	<u>\$ 12,155,400</u>	<u>\$ 12,244,728</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF AGED ACCOUNTS RECEIVABLE FROM
PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2014 AND 2013**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2014		2013	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital on June 30)	\$ 2,072,404	63.0 %	\$ 1,789,528	58.8 %
31-90 Days	680,927	20.7	800,051	26.3
91-180 Days	459,299	14.0	294,688	9.7
181 Days and Over	78,473	2.3	157,427	5.2
Total Accounts Receivable	<u>3,291,103</u>	<u>100.0 %</u>	<u>3,041,694</u>	<u>100.0 %</u>
ALLOWANCES				
Contractual -				
Medicare/Medicaid	869,378		1,082,911	
Doubtful Accounts	<u>285,619</u>		<u>197,448</u>	
Net Accounts Receivable	<u>\$ 2,136,106</u>		<u>\$ 1,761,335</u>	
Net Patient Service Revenue per Calendar Day	<u>\$ 50,813</u>		<u>\$ 49,147</u>	
Days of Net Revenue in Net Accounts Receivable at Year-End	<u>42</u>		<u>36</u>	

Analysis of Allowance for Doubtful Accounts

	2014		2013	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 197,448		\$ 290,657	
Add:				
Provision for Doubtful Accounts	653,269	3.5 %	457,155	2.5 %
Recoveries Previously Written Off	<u>306,469</u>	1.7 %	<u>212,360</u>	1.2 %
	959,738		669,515	
Deduct:				
Accounts Written Off	<u>(871,567)</u>	-4.7%	<u>(762,724)</u>	-4.3%
Ending Balance	<u>\$ 285,619</u>		<u>\$ 197,448</u>	

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2014 AND 2013**

	2014	2013
INVENTORY		
Central Stores and Central Supply	\$ 231,923	\$ 264,070
Pharmacy	75,693	99,432
Total Inventory	\$ 307,616	\$ 363,502
 PREPAID EXPENSES		
Insurance	\$ 114,751	\$ 81,282
Other	96,076	102,180
Total Prepaid Expenses	\$ 210,827	\$ 183,462

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF BOND INVESTMENT TRANSACTIONS
YEAR ENDED JUNE 30, 2014**

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Internally Designated By Bond Agreement for Sinking Fund	\$ 50,000	\$ -	\$ -	\$ 50,000
Internally Designated Collateral on Heartland Loan	120,000	-	-	120,000
	<u>\$ 170,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 170,000</u>

**INDEPENDENT AUDITORS' 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 (MCRHC) and its discretely presented component unit, Mitchell County Regional Health Center Foundation, as of and for the year ended June 30, 2014, and have issued our report thereon dated October 22, 2014. We conducted our audit in accordance with accounting 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 of the financial statements, we considered the Health Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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 deficiency described in the accompanying schedule of findings and responses costs listed as item 2014-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Health Center, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance 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, 2014, 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.

Responses to Findings

The Health Center’s response to the finding identified in our audit is 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
October 22, 2014

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

Part I: Findings Related to the Financial Statements

2014-1 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, 2014**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-14 **Certified Budget:** Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted in the general government and business type activities functions.
- II-B-14 **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-14 **Travel Expense:** No expenditures of Health Center money for travel expenses of spouses of Health System officials and/or employees were noted.
- II-D-14 **Business Transactions:** We noted no material business transactions between the Health Center and Health Center officials and/or employees.
- II-E-14 **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-14 **Deposits and Investments:** We noted all Health Center investments to be in compliance with the state statutes regarding investments.
- II-G-14 **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.

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

Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America 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 (the Health Center) as of June 30, 2014 and for the year then ended, and have issued our report thereon dated October 22, 2014.

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. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Health Center's noncompliance with the above referenced terms, covenants, provisions, or conditions of the Indenture, insofar as they relate to accounting matters.

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

Austin, Minnesota
October 22, 2014