

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

**MITCHELL COUNTY REGIONAL HEALTH CENTER
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**MITCHELL COUNTY REGIONAL HEALTH CENTER
ORGANIZATIONAL DATA
YEAR ENDED JUNE 30, 2016**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
John Lessard	Chairperson	November 2016
Jon Koster	Vice Chairperson	November 2018
Jean Brumm	Secretary/Treasurer	November 2016
Cheryl Smalley	Member	November 2020
Steve Norby	Member	November 2020
Betty McCarthy	Member	November 2018
Luke Porish	Member	November 2020
HEALTH CENTER OFFICIALS		
Shelly Russell	Chief Executive Officer	
Judy Brown	Chief Nursing Officer	
Gregory J. Burkel	Chief Financial 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 statements of financial position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2016 and 2015, and 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10, the budgetary comparison information on page 37, the Schedule of The Health Center's Proportionate Share of the Net Pension Liability, and the Schedule of Hospital Contributions on pages 38 and 39 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 40 through 47 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2016 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 26, 2016

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**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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, 2016. 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, 2016 and 2015 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 \$690,574 or 2.9 in 2016, increased by \$1,429,545 or 6.5% in 2015, and increased by \$625,442 or 2.9% in 2014.
- The Health Center's net position increased by \$1,845,934 or 12.8% in 2016, a \$3,718,993 or 18.0% decrease in 2015, and increased by \$730,180 or 4.3% in 2014.

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, noncapital 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, 2016**

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. Increases or decreases in net position are one indicator of whether or not the Health Center's financial health is improving. Other nonfinancial 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>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Current Assets	\$ 12,726,105	\$ 11,136,372	\$ 9,464,924
Noncurrent Cash and Investments	2,048,658	1,862,540	1,557,958
Capital Assets, Net	<u>9,341,481</u>	<u>10,426,758</u>	<u>10,973,243</u>
Total Assets	24,116,244	23,425,670	21,996,125
Deferred Outflows of Resources:			
Pension Related Deferred Outflows	1,191,310	1,610,374	-
Deferred Loss From Refinancing of Long-Term Debt	<u>34,280</u>	<u>44,074</u>	<u>53,868</u>
Total Deferred Outflows of Resources	<u>1,225,590</u>	<u>1,654,448</u>	<u>53,868</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 25,341,834</u>	<u>\$ 25,080,118</u>	<u>\$ 22,049,993</u>
Liabilities:			
Total Current Liabilities	\$ 2,442,928	\$ 3,019,625	\$ 2,139,915
Total Long-Term Liabilities	<u>5,491,794</u>	<u>4,865,226</u>	<u>1,618,614</u>
Total Liabilities	7,934,722	7,884,851	3,758,529
Deferred Inflows of Resources:			
Pension Related Deferred Inflows	412,034	2,052,327	-
Deferred Revenue from Succeeding Year			
Property Tax Receivable	<u>698,657</u>	<u>692,453</u>	<u>674,577</u>
Total Deferred Inflows of Resources	<u>1,110,691</u>	<u>2,744,780</u>	<u>674,577</u>
Net Position:			
Net Investment in Capital Assets	8,097,885	8,812,975	8,994,133
Agreement with MMC-NI	635,340	635,340	635,340
Restricted Under Debt Agreement	50,000	170,000	170,000
Unrestricted	<u>7,513,196</u>	<u>4,832,172</u>	<u>7,817,414</u>
Total Net Position	<u>16,296,421</u>	<u>14,450,487</u>	<u>17,616,887</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 25,341,834</u>	<u>\$ 25,080,118</u>	<u>\$ 22,049,993</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Patient Service Revenue	\$ 20,417,630	\$ 19,479,870	\$ 18,546,690
Other Operating Revenue	<u>2,027,667</u>	<u>617,866</u>	<u>323,788</u>
Total Revenue	<u>22,445,297</u>	<u>20,097,736</u>	<u>18,870,478</u>
Operating Expenses:			
Salaries and Wages	7,545,839	7,045,472	6,648,845
Employee Benefits	2,221,187	2,101,265	2,005,352
Supplies and Other Expenses	10,204,590	9,234,800	8,744,207
Depreciation	1,371,248	1,356,467	1,327,028
Interest and Amortization	<u>49,502</u>	<u>55,480</u>	<u>78,813</u>
Total Operating Expenses	<u>21,392,366</u>	<u>19,793,484</u>	<u>18,804,245</u>
Operating Income	1,052,931	304,252	66,233
Non-Operating Revenues (Expenses) :			
Contributions	1,804	8,685	-
Tax Revenue	733,243	666,818	625,436
Investment Income	53,226	43,960	34,761
Gain (Loss) on Sale of Capital Assets	<u>4,730</u>	<u>18,306</u>	<u>3,750</u>
Non-Operating Revenues (Expenses)	<u>793,003</u>	<u>737,769</u>	<u>663,947</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	<u>1,845,934</u>	<u>1,042,021</u>	<u>730,180</u>
Net Position - Beginning of Year, as restated	<u>14,450,487</u>	<u>13,408,466</u>	<u>16,886,707</u>
Net Position - End of Year	<u>\$ 16,296,421</u>	<u>\$ 14,450,487</u>	<u>\$ 17,616,887</u>

Net patient service revenue made up 90.8% in 2016, and 96.9% in 2015, and 98.3% in 2014 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:

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE HEALTH CENTER (CONTINUED)

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Patient Service Revenues	\$ 33,869,449	\$ 33,221,243	\$ 29,293,742
Contractual Adjustments and Provisions for Bad Debt	<u>(13,451,819)</u>	<u>(13,741,373)</u>	<u>(10,747,052)</u>
Net Patient Service Revenue	<u>\$ 20,417,630</u>	<u>\$ 19,479,870</u>	<u>\$ 18,546,690</u>
Contractual Adjustments and Provisions for Bad Debt as a Percent of Revenues	<u>39.72%</u>	<u>41.36%</u>	<u>36.69%</u>

Net patient service revenue increased \$937,760 or 4.8% in 2016, \$933,180 or 5.0% in 2015, and \$607,889 or 3.4% in 2014. Total operating expenses increased \$1,598,882 or 8.1% in 2016, increased \$1,001,832 or 5.3% in 2015, and \$614,096 or 3.4% in 2014.

The Nonoperating Revenue had increased over the prior year with approximately \$22,000 related to an increase in tax revenue and investment income. Other Operating Revenue increased by \$1,450,703 or 235% in, 2016, due to an increase in pharmacy revenue.

Table 4: Other Revenues

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Rental	\$ 167,822	\$ 154,958	\$ 146,370
Cafeteria	106,163	95,998	84,830
Lab	17,633	15,647	15,523
Pharmacy Rebates	-	-	12,659
Vending Machines	10,854	11,267	10,764
Grant Income	130,720	47,988	7,237
Medical Records transcripts	1,441	1,648	1,769
Retail 340B	1,482,022	256,200	-
Other	<u>111,012</u>	<u>34,160</u>	<u>44,636</u>
Total Other Revenues	<u>\$ 2,027,667</u>	<u>\$ 617,866</u>	<u>\$ 323,788</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE HEALTH CENTER (CONTINUED)

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

	2016	2015	2014
Patient Days			
Acute	801	827	967
Swing Bed	572	848	824
Total	<u>1,373</u>	<u>1,675</u>	<u>1,791</u>
Admissions			
Acute	257	271	277
Swing Bed	72	89	88
Total	<u>329</u>	<u>360</u>	<u>365</u>
Discharges			
Acute	258	267	282
Swing Bed	69	89	87
Total	<u>327</u>	<u>356</u>	<u>369</u>
Average Length of Stay, Acute	3.1	3.1	3.4
Average Length of Stay, Swing Bed	<u>8.3</u>	<u>9.5</u>	<u>9.5</u>
Beds			
Acute and Swing	25	25	25
Occupancy Percentage			
Acute and Swing, Based on 25 Beds	15.0%	18.4%	19.6%

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, 2016, the Health Center had \$9,341,481 invested in capital assets net of accumulated depreciation. In 2016, the Health Center expended \$285,971 to purchase fixed assets.

Long-Term Debt

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

**MITCHELL COUNTY REGIONAL HEALTH CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE HEALTH CENTER (CONTINUED)

Table 6: Long-Term Debt

	2016	2015	2014
Hospital Refunding Note, Series 2002	\$ 975,548	\$ 1,223,736	\$ 1,464,684
Notes Payable	-	28,833	57,293
Radiology Note Payable	145,576	192,990	239,198
Endoscopy Note Payable	122,472	167,295	211,434
Deferred Loss on Bond Refinancing	-	929	6,501
Total Long-Term Debt	<u>\$ 1,243,596</u>	<u>\$ 1,613,783</u>	<u>\$ 1,979,110</u>

Economic Factors

Mitchell County Regional Health Center continues to improve its operational and financial performance. During the fiscal year 2016, we are highlighting the following items:

- 1) Transitioned the Optometry Clinic to a Rural Health Clinic effective November 1, 2015.
- 2) The Retail 340B program was expanded to include Riceville Pharmacy (7/2015), Brower Pharmacy (8/2015) & Walmart Pharmacy (10/2015). Additional work with Wellpartner, the third party administrator for the program, occurred to audit and enhance the program.
- 3) A decision was made to right-size the rural health clinics to effectively manage patient access. Changes included the expansion of hours of Riceville Clinic (1/1/16) and closure of the Stacyville Clinic (1/1/16).
- 4) MCRHC entered into a partnership agreement with Regional Health Services of Howard County, Cresco to share an experienced Chief Financial Officer.
- 5) Bundled Payments, implemented by Mercy – North Iowa in Mason City, affected the swing bed admissions/days at MCRHC this past year: down 20 patients / 83 days under the prior year.
- 6) Engaged Dr. Gerdts, an independent podiatrist, to begin working for Mercy Health Systems to offer a Podiatry Rural Health Clinic at Mitchell County Regional Health Center (6/2016).
- 7) Results from a recent market assessment revealed that Mitchell County is projected to grow. To address this growth MCRHC is focusing on the following strategies:
 - a. Recruit two (2) additional physicians
 - b. Planning for the construction of a \$12.5 Million Building Expansion/Renovation.
 - c. Identify additional parking areas for patients/staff

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.

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**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 7,585,566	\$ 6,271,280
Cash - Auxiliary	12,509	12,929
Investments	1,175,109	1,054,584
Patient Receivables, Less Allowance for Uncollectible Accounts (2016, \$435,949, 2015, \$352,386)	2,395,614	2,329,813
Other Receivables	334,847	232,544
Succeeding Year Property Tax Receivable	698,657	692,453
Inventories	325,267	336,894
Prepaid Expenses	198,536	205,875
Total Current Assets	12,726,105	11,136,372
 NONCURRENT CASH AND INVESTMENTS		
Internally Designated By Board for Capital Expenditures	1,363,316	1,057,198
Restricted Under Bond Agreement	50,000	170,000
Restricted by Master Affiliation Agreement with MMC-NI	635,342	635,342
Total Noncurrent Cash and Investments	2,048,658	1,862,540
 CAPITAL ASSETS, NET		
Total Assets	9,341,481	10,426,758
	24,116,244	23,425,670
 DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	1,191,310	1,610,374
Deferred Loss From Refinancing of Long-Term Debt	34,280	44,074
Total Deferred Outflows of Resources	1,225,590	1,654,448
Total Assets and Deferred Outflows of Resources	\$ 25,341,834	\$ 25,080,118

See accompanying Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	2016	2015
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 352,328	\$ 371,222
Accounts Payable:		
Trade	741,046	751,349
Due To Affiliated Organization	72,689	557,683
Estimated Third-Party Payor Settlements Payable	231,294	408,024
Custodial Funds - Auxiliary	12,509	12,929
Accrued Expenses	1,033,062	918,418
Total Current Liabilities	2,442,928	3,019,625
LONG-TERM LIABILITIES		
Long-Term Debt, Less Current Maturities	891,268	1,242,561
Net Pension Liability	4,600,526	3,622,665
Total Long-Term Liabilities	5,491,794	4,865,226
 Total Liabilities	 7,934,722	 7,884,851
DEFERRED INFLOWS OF RESOURCES		
Pension Related Deferred Inflows	412,034	2,052,327
Deferred Revenue from Succeeding Year Property Tax Receivable	698,657	692,453
Total Deferred Inflows of Resources	1,110,691	2,744,780
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	8,097,885	8,812,975
Restricted:		
By Master Affiliation Agreement with MMC-NI	635,340	635,340
Under Bond Agreement	50,000	170,000
Unrestricted	7,513,196	4,832,172
Total Net Position	16,296,421	14,450,487
 Total Liabilities, Deferred Inflows of Resources and Net Position	 \$ 25,341,834	 \$ 25,080,118

**MITCHELL COUNTY MEMORIAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 123,919	\$ 112,436
Assets Limited as to Use	89,307	55,775
Total Assets	\$ 213,226	\$ 168,211
LIABILITIES AND NET ASSETS		
NET ASSETS		
Unrestricted	\$ 123,919	\$ 112,436
Temporarily Restricted:		
For Projects	55,817	30,898
For Scholarships	27,224	13,212
For Miscellaneous Services or Items	6,266	11,665
Total Liabilities and Net Assets	\$ 213,226	\$ 168,211

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
OPERATING REVENUES		
Net Patient Service Revenues (Net of Provision for Bad Debts of 2016, \$457,073, 2015, \$633,637)	\$ 20,417,630	\$ 19,479,870
Other Revenues	2,027,667	617,866
Total Revenues	22,445,297	20,097,736
EXPENSES		
Salaries and Wages	7,545,839	7,045,472
Employee Benefits	2,221,187	2,101,265
Supplies and Other Expenses	10,204,590	9,234,800
Depreciation	1,371,248	1,356,467
Interest and Amortization	49,502	55,480
Total Expenses	21,392,366	19,793,484
OPERATING INCOME	1,052,931	304,252
NONOPERATING GAINS		
Contributions	1,804	8,685
County Tax Revenue	733,243	666,818
Investment Income	53,226	43,960
Gain on Sale of Capital Assets	4,730	18,306
Net Nonoperating Gains	793,003	737,769
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	1,845,934	1,042,021
Net Position - Beginning of Year	14,450,487	13,408,466
NET POSITION - END OF YEAR	\$ 16,296,421	\$ 14,450,487

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY MEMORIAL FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016		
	Unrestricted	Temporarily Restricted	Total
REVENUES			
Contributions	\$ 10,519	\$ 42,138	\$ 52,657
Investment Income	1,050	-	1,050
Net Asset Released From Restrictions	8,606	(8,606)	-
Total Revenues	<u>20,175</u>	<u>33,532</u>	<u>53,707</u>
EXPENSES			
Contributions to Mitchell County Regional Health Center	5,816	-	5,816
Contributions to Others	1,998	-	1,998
Supplies and Miscellaneous	878	-	878
Total Expenses	<u>8,692</u>	<u>-</u>	<u>8,692</u>
INCREASE IN NET ASSETS	11,483	33,532	45,015
Net Assets - Beginning of Year	<u>112,436</u>	<u>55,775</u>	<u>168,211</u>
NET ASSETS - END OF YEAR	<u>\$ 123,919</u>	<u>\$ 89,307</u>	<u>\$ 213,226</u>
	2015		
	Unrestricted	Temporarily Restricted	Total
REVENUES			
Contributions	\$ 14,250	\$ 21,229	\$ 35,479
Investment Income	815	-	815
Net Asset Released From Restrictions	8,724	(8,724)	-
Total Revenues	<u>23,789</u>	<u>12,505</u>	<u>36,294</u>
EXPENSES			
Contributions to Mitchell County Regional Health Center	12,558	-	12,558
Contributions to Others	3,584	-	3,584
Supplies and Miscellaneous	1,328	-	1,328
Total Expenses	<u>17,470</u>	<u>-</u>	<u>17,470</u>
INCREASE IN NET ASSETS	6,319	12,505	18,824
Net Assets - Beginning of Year	<u>106,117</u>	<u>43,270</u>	<u>149,387</u>
NET ASSETS END OF YEAR	<u>\$ 112,436</u>	<u>\$ 55,775</u>	<u>\$ 168,211</u>

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 20,175,099	\$ 19,682,756
Cash Paid to Employees	(9,652,382)	(9,064,324)
Cash Paid to Suppliers	(10,671,127)	(8,843,897)
Other Receipts and Payments, Net	1,925,364	463,106
Changes in Pension Related Liabilities	(243,368)	(143,803)
Net Cash Provided by Operating Activities	1,533,586	2,093,838
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Tax Appropriations	733,243	666,818
Net Cash Provided by Noncapital Financing Activities	733,243	666,818
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(285,971)	(809,982)
Contributions Received	1,804	8,685
Payments on Long-Term Debt	(369,258)	(359,755)
Proceeds from Sale of Capital Assets	4,730	18,306
Interest Payments on Long-Term Debt	(50,431)	(61,052)
Net Cash Used by Capital and Related Financing Activities	(699,126)	(1,203,798)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	53,226	43,960
Purchase of Investments	(575,109)	(954,584)
Sale of Investments	454,584	162,289
Proceeds from the Sale of Noncurrent Cash and Investments	113,882	115,418
Purchase of Noncurrent Cash and Investments	(300,000)	(420,000)
Net Cash Used by Investing Activities	(253,417)	(1,052,917)
 INCREASE IN CASH AND CASH EQUIVALENTS	1,314,286	503,941
Cash and Cash Equivalents - Beginning of Year	6,271,280	5,767,339
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,585,566	\$ 6,271,280

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 1,052,931	\$ 304,252
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Interest Expense and Amortization	49,502	55,480
Provision for Bad Debts	457,073	633,637
Depreciation	1,371,248	1,356,467
(Increase) Decrease in:		
Patient Receivables	(522,874)	(827,344)
Third-Party Payor Settlements	(176,730)	396,593
Other Receivables	(102,303)	(154,760)
Supplies	11,627	(29,278)
Prepaid Expenses	7,339	4,952
Deferred Loss on Refinancing of Long-Term Debt	9,794	9,794
Deferred Outflows	419,064	(1,610,374)
Increase (Decrease) in:		
Accounts Payable	(10,303)	419,756
Due to Affiliated Organization	(484,994)	(14,321)
Deferred Inflows	(1,640,293)	2,052,327
Net Pension Liability	977,861	(585,756)
Accrued Salaries, Wages, Benefits and Other	114,644	82,413
Net Cash Provided by Operating Activities	\$ 1,533,586	\$ 2,093,838

See accompanying Notes to Financial Statements.

**MITCHELL COUNTY MEMORIAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 45,015	\$ 18,824
Decrease in Assets Limited to Use	(33,532)	(12,505)
Net Cash Provided by Operating Activities	11,483	6,319
INCREASE IN CASH AND CASH EQUIVALENTS	11,483	6,319
Cash and Cash Equivalents - Beginning of Year	112,436	106,117
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 123,919	\$ 112,436

See accompanying Notes to Financial Statements.

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MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Mitchell County Regional Health Center (the Health Center) is the hospital of Mitchell County, Iowa, organized under Chapter 347, Code of Iowa. The Health Center provides health care services under the name of the Health Center in accordance with a Master Affiliation Agreement discussed further in Note 13. Services are provided primarily to residents of Mitchell County and the surrounding area in northeastern Iowa, through hospital-based services in Osage, Iowa and physician clinic services in Osage, St. Ansgar, Stacyville and Riceville, Iowa.

The Health Center has a certified tax levy to support an ambulance service in Mitchell County. Riceville Ambulance Services, Inc., a 501(c)3 organization is an emergency management service organized and operated pursuant to Iowa Code Chapter 147A. Since the city of Riceville is partially located in Mitchell County and the Riceville Ambulance Services 18.9% of Mitchell County, the Health Center has contracted to pay Riceville Ambulance Service, Inc. 18.9% of the tax levy support for their service to cover that area. This Agreement became effective January 1, 2015.

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.

Mitchell County Memorial Foundation (Foundation) is a legally separate, tax-exempt component unit of the Health Center and has a year-end of June 30. The Foundation's financial statements have been included as a discretely presented component unit. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Health Center in support of its operations and programs. 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. However, the Foundation is included as a discretely presented component unit due to the nature and significance of its relationship to the Health Center.

Tax Exempt Status

The Foundation is an Iowa nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Foundation 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
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIF0ICANT ACCOUNTING POLICIES (CONTINUED)

Tax Exempt Status (Continued)

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.

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 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.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Unrestricted - 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 are 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.

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

The 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, 2016 and 2015, the allowance for uncollectible accounts was approximately \$436,000 and \$352,000, 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.

Assets Limited as to Use

Assets limited as to use include assets designated by the Foundation (over which it retains control and may, at its discretion, subsequently use for other purposes), as restricted for projects, scholarships, and other miscellaneous services.

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 which are 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, 2016 and 2015.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds or employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflow of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Deferred Inflow of Resources

Deferred inflows of resources represent an acquisition of net position applicable to a future year(s) which will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, the unamortized portion of the net difference between projected and actual earnings on IPERS' investments.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014 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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Operating Revenues and Expenses

The Health Center's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from 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 nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Charity Care

The 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, 2016 and 2015 was \$55,433 and \$20,782, respectively.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care (Continued)

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

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

Electronic Health Record Incentive Payments

As discussed in Note 4, the Health Center received funds under the Electronic Health Records (EHR) Incentive Program. 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.

NOTE 2 DESIGNATED NET POSITION

Of the \$7,513,196 and \$4,832,172 of unrestricted net position at June 30, 2016 and 2015, respectively, the board of trustees has designated \$1,363,316 and \$1,057,198 as of June 30, 2016 and 2015, 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 designation 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, 2014.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid

The Health Center has received designation 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, 2014.

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,	
	2016	2015
Total Patient Service Revenue	\$ 33,869,449	\$ 33,221,243
Contractual Adjustments:		
Medicare	(6,819,480)	(7,305,014)
Medicaid	(1,366,530)	(1,226,770)
Provision for Bad Debt	(457,073)	(633,637)
Other	(4,808,736)	(4,575,952)
Total Contractual Adjustments and Bad Debts	<u>(13,451,819)</u>	<u>(13,741,373)</u>
Net Patient Service Revenue	<u>\$ 20,417,630</u>	<u>\$ 19,479,870</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

NOTE 4 ESTIMATED AMOUNTS DUE FROM AND DUE TO CONTRACTING AGENCIES

The Health Center 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 (\$231,000) at June 30, 2016 and \$(408,000) at June 30, 2015.

NOTE 5 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Health Center at June 30, 2016 and 2015 consisted of the following:

	2016	2015
Receivable from Patients and Their Insurance Carriers	\$ 966,506	\$ 1,040,642
Receivable from Medicare	1,577,374	1,398,982
Receivable from Medicaid	287,683	242,575
Total Patient Receivables	2,831,563	2,682,199
Less: Allowance for Doubtful Accounts	(435,949)	(352,386)
Patient Receivables, Net	\$ 2,395,614	\$ 2,329,813

NOTE 6 ASSETS LIMITED AS TO USE

The Foundation has various funds classified as assets limited as to use below:

	2016	2015
Projects	\$ 55,817	\$ 30,898
Scholarships	27,224	13,212
Miscellaneous Services or Items	6,266	11,665
Total	\$ 89,307	\$ 55,775

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

NOTE 7 DEPOSITS AND INVESTMENTS

The Health Center's deposits at June 30, 2016 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 is included in the Health Center's statements of net position as follows:

	2016	2015
Cash and Cash Equivalents	\$ 7,585,566	\$ 6,271,280
Noncurrent Cash and Investments:		
Internally Designated By Board for Capital Expenditures	1,363,316	1,057,198
Internally Designated By Bond Agreement for Sinking Fund	50,000	50,000
Internally Designated Collateral on Heartland Loan	-	120,000
Restricted by Master Affiliation Agreement with MMC-NI	635,342	635,342
Total	\$ 9,634,224	\$ 8,133,820

NOTE 8 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2016 and 2015 are as follows:

	July 1, 2015	Additions	Transfers (Retirements)	June 30, 2016
Capital Assets				
Land	\$ 229,512	\$ -	\$ -	\$ 229,512
Land Improvements	534,874	-	8,175	543,049
Building	15,509,172	-	30,699	15,539,871
Leasehold Improvements	55,257	-	-	55,257
Equipment	7,682,338	130,255	(33,988)	7,778,605
Construction in Progress	86,933	158,680	(163,570)	82,043
Totals	24,098,086	288,935	(158,684)	24,228,337
Accumulated Depreciation				
Land Improvements	474,785	7,789	-	482,574
Building	7,882,488	648,455	-	8,530,943
Leasehold Improvements	55,258	-	-	55,258
Movable Equipment	5,258,797	715,004	(155,720)	5,818,081
Totals	13,671,328	1,371,248	(155,720)	14,886,856
	\$ 10,426,758	\$ (1,082,313)	\$ (2,964)	\$ 9,341,481

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

NOTE 9 CAPITAL ASSETS (CONTINUED)

	July 1, 2014	Additions	Transfers (Retirements)	June 30, 2015
Capital Assets				
Land	\$ 229,512	\$ -	\$ -	\$ 229,512
Land Improvements	527,296	7,578	-	534,874
Building	15,416,897	26,541	65,734	15,509,172
Leasehold Improvements	55,257	-	-	55,257
Equipment	7,077,546	288,246	316,546	7,682,338
Construction in Progress	103,610	498,479	(515,156)	86,933
Totals	<u>23,410,118</u>	<u>820,844</u>	<u>(132,876)</u>	<u>24,098,086</u>
Accumulated Depreciation				
Land Improvements	463,580	11,205	-	474,785
Building	7,258,152	650,385	(26,049)	7,882,488
Leasehold Improvements	55,258	-	-	55,258
Movable Equipment	4,659,885	694,877	(95,965)	5,258,797
Totals	<u>12,436,875</u>	<u>1,356,467</u>	<u>(122,014)</u>	<u>13,671,328</u>
	<u>\$ 10,973,243</u>	<u>\$ (535,623)</u>	<u>\$ (10,862)</u>	<u>\$ 10,426,758</u>

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

NOTE 9 LONG-TERM DEBT

	Balance July 1, 2015	Additions	(Payments)	Balance June 30, 2016	Amounts Due Within One Year
Hospital Refunding Note, Series 2002	\$ 1,223,736	\$ -	\$ (248,188)	\$ 975,548	\$ 255,645
Heartland Cooperative Notes Payable	28,833	-	(28,833)	-	-
Radiology Note Payable	192,990	-	(47,414)	145,576	48,674
Endoscopy Note Payable	167,295	-	(44,823)	122,472	48,009
	<u>1,612,854</u>	<u>-</u>	<u>(369,258)</u>	<u>1,243,596</u>	<u>352,328</u>
Discount on Hospital Refunding Note	929	-	(929)	-	-
Total Long-Term Debt	<u>\$ 1,613,783</u>	<u>\$ -</u>	<u>\$ (370,187)</u>	<u>\$ 1,243,596</u>	<u>\$ 352,328</u>
	Balance July 1, 2014	Additions	(Payments) Amortization	Balance June 30, 2015	Amounts Due Within One Year
Hospital Refunding Note, Series 2002	\$ 1,464,684	\$ -	\$ (240,948)	\$ 1,223,736	\$ 248,188
Heartland Cooperative Notes Payable	57,293	-	(28,460)	28,833	28,833
Radiology Note Payable	239,198	-	(46,208)	192,990	47,414
Endoscopy Note Payable	211,434	-	(44,139)	167,295	46,787
	<u>1,972,609</u>	<u>-</u>	<u>(359,755)</u>	<u>1,612,854</u>	<u>371,222</u>
Deferred Loss on Bond Refinancing	6,501	-	(5,572)	929	-
Total Long-Term Debt	<u>\$ 1,979,110</u>	<u>\$ -</u>	<u>\$ (365,327)</u>	<u>\$ 1,613,783</u>	<u>\$ 371,222</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

NOTE 10 LONG-TERM DEBT (CONTINUED)

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 nonfinancial covenants related to the revenue note.

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%. The notes are fully repaid as of June 30, 2016.

In fiscal year 2014, 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:

<u>Year Ending June 30,</u>	Long-Term Debt	
	Principal	Interest
2017	\$ 352,328	\$ 31,244
2018	361,793	21,038
2019	342,920	10,671
2020	186,555	2,066
Total	\$ 1,243,596	\$ 65,019

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

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 ended June 30, 2016 and 2015 amounted to \$13,164 and \$17,002, respectively. The space is rented on a month-to-month basis.

The Health Center leases permanent space to the following entities:

- The Health Center entered into a rental agreement with the City of St. Ansgar for the community center in St. Ansgar effective 2009. There is a lease for the building for \$1 per year for 20 years, with an additional 10-year renewal option.
- The Health Center entered into a rental agreement effective April 2011 with Brower Pharmacy, LLC to occupy retail pharmacy space within the St. Ansgar Health Center. The space is currently leased at \$6,000 per year through April 2017.
- The Health Center entered into a rental agreement with Astrup Drug, Inc. effective April 2010 to provide space for the purposes of operating a retail pharmacy on the Osage Clinic/Hospital campus. The lease was renewed January 2016 for a period of five (5) years. The Agreement automatically renews two additional five (5) year terms. The space is currently leased at \$19,062 per year through December 2017.

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.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefits includes:

- A multiplier (based on years of service)
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015

NOTE 12 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Pension Benefits (Continued)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is .25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is .50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefits payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of the 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of pay and the Health Center contributed 8.93% for a total rate of 14.88%. Hospital employed Paramedics and Emergency Medical Technicians (EMT) are reported as protected class members. They contributed 6.56% of pay and the Health Center contributed 9.84% for a total rate of 16.40%.

The Health Center's cash contributions to IPERS for the years ended June 30, 2016 and 2015 were \$647,889 and \$605,700, respectively.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

NOTE 12 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2016, the Health Center reported a liability of \$4,600,526 for its proportionate share of the net pension liability. The Health Center net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health Center's proportion of the net pension liability was based on the Health Center's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015 the Health Center's collective proportionate was .093317% which was an increase of .002128% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Health Center recognized pension expense of \$410,995. At June 30, 2016 and 2015, the Health Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

June 30, 2016	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 69,805	\$ 8,652
Changes of Assumptions	126,447	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	403,382
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	347,169	-
Hospital Contributions Subsequent to the Measurement Date	647,889	-
	<u>\$ 1,191,310</u>	<u>\$ 412,034</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

NOTE 12 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

June 30, 2015	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Experience	\$ 612,048	\$ -
Changes of Assumptions	162,870	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	2,052,327
Changes in Proportion and Differences Between Hospital Contributions and Proportionate Share of Contributions	331,713	-
Hospital Contributions Subsequent to the Measurement Date	503,743	-
	<u>\$ 1,610,374</u>	<u>\$ 2,052,327</u>

\$647,889 reported as deferred outflows of resources related to pensions resulting from the Health Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2017	\$ (40,393)
2018	(40,393)
2019	(40,393)
2020	243,264
2021	9,302
Total	<u>\$ 131,387</u>

There were no nonemployer contributing entities at IPERS.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

NOTE 12 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50%, compound annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experiences studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	24%	6.29
Non US Equity	16	6.75
Private Equity	11	11.32
Real Estate	8	3.48
Core Plus Fixed Income	28	2.04
Credit Opportunities	5	3.63
TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

NOTE 12 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Health Center will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Health Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Health Center's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Health Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Hospital's Proportionate Share of the Net Pension Liability	\$ 8,122,428	\$ 4,600,526	\$ 1,699,130

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2016, the Health Center reported payables to the defined benefit pension plan of \$51,487 for legally required employer contributions and \$34,306 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE 13 RELATED ORGANIZATIONS

Master Affiliation Agreement

The 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 the 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 \$2,142,525 and \$2,533,116 for the years ended June 30, 2016 and 2015, respectively.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

NOTE 13 RELATED ORGANIZATIONS (CONTINUED)

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, 2016 and 2015 were \$571,643 and \$637,248 respectively.

Due to/from Affiliated Organization

As of June 30, 2016 and 2015, the Health Center's records reflect a due to Mercy Medical Center - North Iowa of \$72,689 and \$557,683, respectively, for the various services and distributions related to these agreements.

NOTE 14 FUNCTIONAL EXPENSES

For the years ended June 30, 2016 and 2015, functional expenses related to the Foundation for areas listed below were:

	2016	2015
Management and General	\$ 807	\$ 1,326
Fundraising	7,885	16,144
Total	\$ 8,692	\$ 17,470

NOTE 15 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, 2016**

	General Fund	Accrual Adjustments	Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 733,243	\$ -	\$ 733,243	\$ 692,453	\$ 40,790
Estimated Other Revenues/Receipts	<u>22,505,057</u>	<u>(344,834)</u>	<u>22,160,223</u>	<u>21,983,634</u>	<u>176,589</u>
	23,238,300	(344,834)	22,893,466	22,676,087	217,379
Expenses/Disbursements Net	<u>21,392,366</u>	<u>696</u>	<u>21,393,062</u>	<u>21,705,682</u>	<u>(312,620)</u>
	1,845,934	(345,530)	1,500,404	970,405	529,999
Balance - Beginning of Year	<u>14,450,487</u>	<u>(6,316,667)</u>	<u>8,133,820</u>	<u>8,498,022</u>	<u>(364,202)</u>
Balance - End of Year	<u><u>\$ 16,296,421</u></u>	<u><u>\$ (6,662,197)</u></u>	<u><u>\$ 9,634,224</u></u>	<u><u>\$ 9,468,427</u></u>	<u><u>\$ 165,797</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, 2016. 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, 2016.

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF THE HEALTH CENTER'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Contribution	\$ 647,889	\$ 503,743	\$ 506,358	\$ 478,364
Contributions in Relation to the Statutorily Required Contribution	<u>647,889</u>	<u>503,743</u>	<u>506,358</u>	<u>478,364</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Health Center Covered-Employee Payroll	\$ 7,545,839	\$ 7,164,508	\$ 6,648,845	\$ 5,945,421
Contributions as a Percentage of Covered-Employee Payroll (Regular)	8.93%	8.93%	8.93%	8.68%

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF HOSPITAL CONTRIBUTIONS
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Health Center's Proportion of the Net Pension Liability	0.0933170%	0.0911890%
Health Center's Proportionate Share of the Net Pension Liability	\$ 4,600,526	\$ 3,622,665
Health Center's Covered-Employee Payroll	\$ 7,545,839	\$ 7,164,508
Health Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	60.97%	50.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.19%	87.61%

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OTHER SUPPLEMENTARY INFORMATION

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2016 AND 2015**

	Total	
	2016	2015
PATIENT SERVICE REVENUE		
Medical and Surgical	\$ 1,070,558	\$ 1,077,542
Swing Bed	265,332	383,073
Total Patient and Resident Service Revenue	<u>1,335,890</u>	<u>1,460,615</u>
OTHER PROFESSIONAL SERVICE REVENUE		
Operating Room	977,711	1,087,187
Emergency Room	2,905,645	2,937,072
Blood Supplies	84,229	117,983
Anesthesiology	715,292	823,958
Radiology and Ultrasound	6,453,517	6,028,032
Laboratory	4,254,315	3,999,436
Respiratory Therapy	205,298	193,446
Physical Therapy	1,011,013	1,005,887
Speech Therapy	165,355	163,414
Electrocardiology	771,938	725,313
Medical and Surgical Supplies	512,343	558,374
Pharmacy	2,173,800	2,093,806
Ambulance	1,149,874	1,131,685
Sleep Lab	291,874	359,717
Cardiac Rehabilitation	127,849	155,016
Osage Clinic	6,809,617	6,620,765
St. Ansgar Clinic	3,350,287	3,145,244
Stacyville Clinic	39,683	143,045
Riceville Clinic	589,352	492,030
Total Other Professional Service Revenue	<u>32,588,992</u>	<u>31,781,410</u>
Gross Patient Charges	33,924,882	33,242,025
Charity Care	<u>(55,433)</u>	<u>(20,782)</u>
Total Patient Service Revenues	33,869,449	33,221,243
CONTRACTUAL ADJUSTMENTS		
Medicare	(6,819,480)	(7,305,014)
Medicaid	(1,366,530)	(1,226,770)
Commercial and Other	(4,808,736)	(4,575,952)
Total Contractual Adjustments	<u>(12,994,746)</u>	<u>(13,107,736)</u>
Patient Service Revenues, Net of Contractual Adjustments	20,874,703	20,113,507
Provision for Bad Debts	<u>(457,073)</u>	<u>(633,637)</u>
Net Patient Service Revenues	<u>\$ 20,417,630</u>	<u>\$ 19,479,870</u>

Inpatient		Outpatient	
2016	2015	2016	2015
\$ 890,336	\$ 905,746	\$ 180,222	\$ 171,796
265,332	383,073	-	-
<u>1,155,668</u>	<u>1,288,819</u>	<u>180,222</u>	<u>171,796</u>
1,619	3,731	976,092	1,083,456
17,079	19,954	2,888,566	2,917,118
12,534	22,321	71,695	95,662
3,246	3,881	712,046	820,077
247,021	254,052	6,206,496	5,773,980
239,343	255,420	4,014,972	3,744,016
146,265	151,589	59,033	41,857
184,105	222,087	826,908	783,800
49,855	60,706	115,500	102,708
50,612	72,853	721,326	652,460
197,480	179,786	314,863	378,588
380,452	417,768	1,793,348	1,676,038
94,836	83,693	1,055,038	1,047,992
-	-	291,874	359,717
-	-	127,849	155,016
510,632	472,380	6,298,985	6,148,385
762,379	659,362	2,587,908	2,485,882
8,039	41,200	31,644	101,845
132,654	106,793	456,698	385,237
<u>3,038,151</u>	<u>3,027,576</u>	<u>29,550,841</u>	<u>28,753,834</u>
<u>\$ 4,193,819</u>	<u>\$ 4,316,395</u>	<u>\$ 29,731,063</u>	<u>\$ 28,925,630</u>

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**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE
REVENUES AND OTHER REVENUES
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 6,819,480	\$ 7,305,014
Contractual Adjustments - Medicaid	1,366,530	1,226,770
Provision for Bad Debt	457,073	633,637
Other Allowances and Adjustments	<u>4,808,736</u>	<u>4,575,952</u>
 Total Adjustments	 <u>\$ 13,451,819</u>	 <u>\$ 13,741,373</u>
OTHER REVENUES		
Rental	\$ 167,822	\$ 154,958
Cafeteria	106,163	95,998
Lab	17,633	15,647
Vending Machines	10,854	11,267
Grant Income	130,720	47,988
Medical Records Transcripts	1,441	1,648
Retail 340B	1,482,022	256,200
Other	<u>111,012</u>	<u>34,160</u>
 Total Other Revenues	 <u>\$ 2,027,667</u>	 <u>\$ 617,866</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2016 AND 2015**

	Total	
	2016	2015
Employee Benefits	\$ 2,221,187	\$ 2,101,265
Administrative and General	2,660,150	2,446,057
Operation of Plant	565,968	584,102
Laundry and Linen	51,458	57,502
Environment	200,243	187,311
Dietary	307,242	324,525
Adults and Pediatrics	1,020,415	1,053,028
Nursing	240,239	188,183
Operating and Recovery Room	340,383	380,801
Anesthesiology	222,008	226,956
Radiology	928,796	876,404
Laboratory	776,027	739,877
Blood	47,768	69,111
Respiratory Therapy	2,284	1,851
Physical Therapy	263,484	268,847
Speech Therapy	62,866	43,228
Electrocardiology	114,858	110,176
Medical and Surgical Supplies	135,344	121,006
Pharmacy and Intravenous Therapy	1,387,087	698,287
Cardiac Rehabilitation	40,065	38,794
Emergency	1,148,577	1,108,687
Health Information Management	389,558	298,970
Sleep	58,552	64,685
Podiatry	20,913	-
Ambulance	430,598	378,953
Osage Clinic	3,984,256	3,785,216
St. Ansgar Clinic	2,022,481	1,854,143
Stacyville Clinic	34,296	111,071
Riceville Clinic	294,513	262,501
Depreciation Expense	1,371,248	1,356,467
Interest Expense	49,502	55,480
Total Operating Expenses	<u>\$ 21,392,366</u>	<u>\$ 19,793,484</u>

Salaries		Other	
2016	2015	2016	2015
\$ -	\$ -	\$ 2,221,187	\$ 2,101,265
1,363,178	1,166,164	1,296,972	1,279,893
214,498	215,562	351,470	368,540
13,748	14,661	37,710	42,841
160,308	151,534	39,935	35,777
205,565	210,464	101,677	114,061
799,790	811,457	220,625	241,571
235,465	182,569	4,774	5,614
170,286	173,509	170,097	207,292
198,834	191,787	23,174	35,169
397,148	384,214	531,648	492,190
399,939	372,146	376,088	367,731
3,672	6,074	44,096	63,037
2,076	1,801	208	50
249,579	247,974	13,905	20,873
-	-	62,866	43,228
5,729	1,286	109,129	108,890
29,348	24,728	105,996	96,278
138,684	133,549	1,248,403	564,738
37,530	36,993	2,535	1,801
807,316	775,646	341,261	333,041
357,965	296,213	31,593	2,757
8,727	10,541	49,825	54,144
2,869	-	18,044	-
333,181	314,355	97,417	64,598
980,307	901,294	3,003,949	2,883,922
330,314	332,431	1,692,167	1,521,712
5,032	17,217	29,264	93,854
94,751	71,303	199,762	191,198
-	-	1,371,248	1,356,467
-	-	49,502	55,480
<u>\$ 7,545,839</u>	<u>\$ 7,045,472</u>	<u>\$ 13,846,527</u>	<u>\$ 12,748,012</u>

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF AGED ACCOUNTS RECEIVABLE FROM
PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2016 AND 2015**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2016		2015	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital on June 30)	\$ 2,616,359	63.0 %	\$ 2,496,089	64.6 %
31-90 Days	774,651	18.7	759,377	19.6
91-180 Days	483,263	11.7	303,214	7.8
181 Days and Over	277,889	6.6	307,925	7.9
Total Accounts Receivable	<u>4,152,162</u>	<u>100.0 %</u>	<u>3,866,605</u>	<u>100.0 %</u>
ALLOWANCES				
Contractual -				
Medicare/Medicaid	1,320,599		1,184,406	
Doubtful Accounts	<u>435,949</u>		<u>352,386</u>	
Net Accounts Receivable	<u>\$ 2,395,614</u>		<u>\$ 2,329,813</u>	
Net Patient Service Revenue per Calendar Day	<u>\$ 55,939</u>		<u>\$ 53,370</u>	
Days of Net Revenue in Net Accounts Receivable at Year-End	<u>43</u>		<u>44</u>	

Analysis of Allowance for Doubtful Accounts

	2016		2015	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Balance - Beginning of Year	\$ 352,386		\$ 285,619	
Add:				
Provision for Doubtful Accounts	457,073	2.2 %	633,637	3.3 %
Recoveries Previously Written Off	<u>315,259</u>	1.5 %	<u>226,756</u>	1.2 %
	772,332		860,393	
Deduct:				
Accounts Written Off	<u>(688,769)</u>	-3.4%	<u>(793,626)</u>	-4.1%
Balance - End of Year	<u>\$ 435,949</u>		<u>\$ 352,386</u>	

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
INVENTORY		
Central Stores and Central Supply	\$ 247,602	\$ 253,387
Pharmacy	77,665	83,507
Total Inventory	\$ 325,267	\$ 336,894
 PREPAID EXPENSES		
Insurance	\$ 17,557	\$ 31,512
Other	180,979	174,363
Total Prepaid Expenses	\$ 198,536	\$ 205,875

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF BOND INVESTMENT TRANSACTIONS
YEARS ENDED JUNE 30, 2016 AND 2015**

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
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>\$ (120,000)</u>	<u>\$ 50,000</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, in accordance with the 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, the financial statements of Mitchell County Regional Health Center and its discretely presented component unit, Mitchell County Regional Health Center Foundation, which comprise the statement of net position and statement of financial position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position, activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2016.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2016-001, that we consider 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 instances of noncompliance and 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, 2016 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. The Health Center’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 26, 2016

**MITCHELL COUNTY REGIONAL HEALTH CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016**

Part I: Findings Related to the Financial Statements

2016-001 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, 2016**

Part II: Other Findings Related to Required Statutory Reporting:

II-A-16 **Certified Budget:** Disbursements during the year ended June 30, 2016 did not exceed the amounts budgeted in the general government and business type activities functions.

II-B-16 **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-16 **Travel Expense:** No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

II-D-16 **Business Transactions:** We noted no material business transactions between the Health Center and Health Center officials and/or employees.

II-E-16 **Board Minutes:** No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-16 **Deposits and Investments:** The Health Center exceeded limits within its depository resolution during the year ended June 30, 2016.

Recommendation: It is recommended that the Health Center transfer funds or increase its depository resolution limits to not exceed allowable amounts in the future.

Response: The Health Center will transfer funds to ensure they remain within their depository resolution limits.

Conclusion: Response accepted.

II-G-16 **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.



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

Board of Trustees
Mitchell County Regional Health Center
Osage, Iowa

We have audited, in accordance with 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) which comprise the statements of net position as of June 30, 2016 and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 26, 2016.

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 26, 2016