

Mission Health System, Inc.

Agreed-Upon Procedures Report

For Year Ending September 30, 2011

Mission Health System, Inc.
Agreed-Upon Procedures Report
For Year Ending September 30, 2011

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Mission Health System, Inc., North Carolina Department of Justice,
and Department of Health and Human Services

We have performed the procedures enumerated below, which were agreed to by Mission Health System, Inc. ("Mission" or the "Hospital"), North Carolina Department of Justice, and Department of Health and Human Services ("DHHS") (the specified parties), solely to assist you in determining Mission's compliance with the terms outlined in the Certificate of Public Advantage ("COPA") agreement between Mission and DHHS for the year ended September 30, 2011. Mission's management is responsible for the Hospital's accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Obtain and read Mission's Certificate of Public Advantage Update for the fiscal year ending September 30, 2011. This report will be included as an attachment to the agreed-upon procedures report.

We obtained and read the aforementioned update and have included it as Attachment "1" to this report.

2. Obtain and read the reconciliation of Mission Health System, Inc. and Mission Hospital, Inc. reported operating margins. This reconciliation will be included as an attachment to the agreed-upon procedures report.

We obtained and read the aforementioned reconciliation and have included it as Attachment "2" to this report.

3. Agree amounts reported to supporting documentation (e.g., audited financial statements, client supporting schedules, etc.).

We agreed amounts reported to supporting documentation without exception.

4. Re-perform mathematical computations presented in the report.

We re-performed mathematical computations presented in the report without exception.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is considered proprietary in nature and is intended solely for the information and use of Mission, North Carolina Department of Justice, and DHHS and is not intended to be and should not be used by anyone other than those specified parties.

Charlotte, North Carolina
September 28, 2012

Dixon Hughes Goodman LLP

ATTACHMENTS

Mission Health System, Inc.

Certificate of Public Advantage Update, FY11 September 2012

Updated



Mission Hospital, Inc.

COPA Peer Hospital Trend (Cost per CMI Adjusted Case)

	COPA Average Benchmark Determination						Mission Hospital Actuals	Mission Hospital Yr Chg	Variance
	PPI %	PPI Adjusted	COPA Peer Median	Thomson Median	Peer Blend				
					Average	Yr Chg			
FY07	2.90%	7,437	7,667	7,973	7,692	2.3%	7,338	4.4%	354
FY08	3.20%	7,675	8,022	8,239	7,979	3.7%	7,653	4.3%	326
FY09	3.30%	7,928	9,303	8,042	8,424	5.6%	7,777	1.6%	647
FY10	3.00%	8,166	7,877	8,186	8,076	-4.1%	7,867	1.2%	209
FY11	2.40%	8,362	8,693	8,559	8,538	5.7%	7,961	1.2%	577

Mission Health System, Inc.

COPA Financial Operating Margin Constraint

FY09 - FY11 Operating Margin – Mission Health System

	Net Revenue	Mission Health Operating Margin	Mission Health Margin %	Blended AA Median Plus 1%	Difference	(Payback)/Surplus
FY09	\$ 897,742,000	40,319,000	4.49%	5.21%	0.72%	\$ 6,463,742
FY10	\$ 966,669,000	36,409,000	3.77%	5.79%	2.02%	\$ 19,526,714
FY11	\$ 1,029,544,000	32,157,000	3.12%	5.47%	2.35%	<u>\$ 24,194,284</u>
FY09, FY10, FY11 Cumulative Surplus / (Payback)						\$ 50,184,740

Mission Health System, Inc.

COPA Financial Operating Margin Constraint

FY07 - FY11 Operating Margin – Mission Health System

	Net Revenue	Mission Health Operating Margin	Mission Health Margin %	Blended AA Median Plus 1%	Difference	(Payback)/Surplus
FY07	\$ 797,603,000	32,837,000	4.12%	4.79%	0.67%	\$ 5,343,940
FY08	\$ 844,257,000	29,627,000	3.51%	4.28%	0.77%	\$ 6,500,779
FY09	\$ 897,742,000	40,319,000	4.49%	5.21%	0.72%	\$ 6,463,742
FY10	\$ 966,669,000	36,409,000	3.77%	5.79%	2.02%	\$ 19,526,714
FY11	\$ 1,029,544,000	32,157,000	3.12%	5.47%	2.35%	<u>\$ 24,194,284</u>
FY07 - FY11 Cumulative Surplus / (Payback)						\$ 62,029,459

**Mission Health System, Inc.,
Reported Operating Margins
September 30, 2007**

Amounts per Attachment "1":

Operating income	\$	32,837,000
Operating margin		4.12%

Amounts per COPA report:

Operating income		35,437,000
Operating margin		5.03%

Difference

	\$	(2,600,000)
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Reconciling items:

Non-operating income on Schedule G of Cost Report	\$	(6,118,000)
Consolidated entities operating margin		3,518,000

Total reconciling items

	\$	(2,600,000)
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Mission Health System, Inc.,
Reported Operating Margins
September 30, 2008

Amounts per Attachment "1":

Operating income	\$	29,627,000
Operating margin		3.51%

Amounts per COPA report:

Operating income		27,978,000
Operating margin		3.77%

Difference

	\$	1,649,000
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Reconciling items:

Consolidated entities operating margin	\$	1,649,000
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Mission Health System, Inc.,
Reported Operating Margins
September 30, 2009

Amounts per Attachment "1":

Operating income	\$	40,319,000
Operating margin		4.49%

Amounts per COPA report:

Operating income		42,576,000
Operating margin		5.35%

Difference	\$	(2,257,000)
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Reconciling items:

Non-operating income on Schedule G of Cost Report	\$	(4,229,000)
Other Adjustment from Schedule G of cost report		(485,000)
Consolidated entities operating margin		2,457,000

Total reconciling items	\$	(2,257,000)
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Mission Health System, Inc.,
Reported Operating Margins
September 30, 2010

Amounts per Attachment "1":

Operating income	\$	36,409,000
Operating margin		3.77%

Amounts per COPA report:

Operating income		79,383,000
Operating margin		9.28%

Difference	\$	(42,974,000)
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Reconciling items:

Non-operating income on Schedule G of Cost Report	\$	(58,109,000)
Other operating revenue not in COPA report		32,369,000
Other Adjustment from Schedule G of cost report		(603,000)
Consolidated entities operating margin		(16,631,000)

Total reconciling items	\$	(42,974,000)
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Mission Health System, Inc.,
Reported Operating Margins
September 30, 2011

Amounts per Attachment "1":

Operating income	\$ 32,157,000
Operating margin	3.12%

Amounts per COPA report:

Operating income	67,141,000
Operating margin	7.75%

Difference	\$ (34,984,000)
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Reconciling items:

Non-operating income on Schedule G of Cost Report	\$ (3,878,000)
Other Adjustment from Schedule G of cost report	(1,063,000)
Consolidated entities operating margin	(30,043,000)

Total reconciling items	\$ (34,984,000)
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