

**Delaware County Memorial Hospital  
d/b/a Regional Medical Center**

**Financial Statements  
June 30, 2004 and 2003**

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER**

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**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
BOARD OF TRUSTEES AND MEDICAL CENTER OFFICIALS**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Donald R. Huber	Chairperson	December 31, 2006
Joe Keith	Vice-Chairperson	December 31, 2006
Suzanne Britt	Treasurer	December 31, 2004
Kathy Waterman	Secretary	December 31, 2004
Kay Harris	Member	December 31, 2008
John Tinker	Member	December 31, 2008
Steve Palmer	Member	December 31, 2006
<u>Medical Center Officials</u>		
Lon Butikofer, RN, Ph.D	Chief Executive Officer	
Danette Kramer	Vice President of Finance/CFO	



Consultants • Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees  
Delaware County Memorial Hospital  
d/b/a Regional Medical Center  
Manchester, Iowa

We have audited the accompanying balance sheets of **Delaware County Memorial Hospital, d/b/a Regional Medical Center, and Delaware County Health Care Foundation**, as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Delaware County Memorial Hospital, d/b/a Regional Medical Center, and Delaware County Health Care Foundation**, as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Delaware County Memorial Hospital, d/b/a Regional Medical Center**, adopted Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. As a result, the Delaware County Health Care Foundation, a component unit of the Medical Center, is discretely presented in these financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2004, on our consideration of **Delaware County Memorial Hospital's, d/b/a Regional Medical Center, and Delaware County Health Care Foundation's**, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on page 22 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Ericksen Bailey LLP*

Dubuque, Iowa  
September 1, 2004

**Delaware County Memorial Hospital  
dba Regional Medical Center**

**Management's Discussion and Analysis**

This section of Regional Medical Center's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2004. We encourage readers to read this analysis in conjunction with the financial statements in this report.

**Financial Highlights**

- The Medical Center's total assets increased by \$1,994,249 or 15.2%. Approximately \$1,572,000 of this increase represents investments in capital equipment and buildings.
- The Medical Center's assets exceeded liabilities by \$11,963,926 at June 30, 2004.
- During the year, the Medical Center's total operating revenues increased approximately 12.56% to \$15,803,031, while the operating expenses increased approximately 11.44% to \$15,048,411. The Medical Center had income from operations of \$754,620 which is approximately 4.78% of total operating revenue.
- The Medical Center made capital equipment and building investments totaling approximately \$2,625,000 during the fiscal year. The source of funding for these items was derived from operations and a note payable.

**Overview of the Financial Statements**

The basic financial statements of the Medical Center report information using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about its activities.

The balance sheets provide information about the nature and amounts of the Medical Center's assets and liabilities. The balance sheet at June 30, 2004 reports total assets of \$15,132,580, total liabilities of \$3,168,654, and net assets of \$11,963,926.

The statements of revenues, expenses and changes in net assets provide information on the Medical Center's revenues and expenses. These statements indicate total operating revenues of \$15,803,031 and total operating expenses of \$15,048,411 during fiscal year 2004. The operating income was \$754,620 in 2004, compared to an operating income of \$535,427 in 2003.

The statement of cash flows provides information about the Medical Center's cash from operating, investing and financing activities. As reported in this statement, cash and cash equivalents increased from \$906,707 at July 1, 2003 to \$984,855 at June 30, 2004.

There are notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. There are also several supplementary schedules that provide the reader detail about the source of the Medical Center's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

### **Long-Term Debt**

At year-end, Regional Medical Center had \$515,091 in short-term and long-term debt. The majority of the debt is in the form of a note payable which financed the purchase of a multi-slice CT scanner.

### **Factors Bearing on Financial Future**

Regional Medical Center has begun a significant building and remodeling project in fiscal year 2004. The project will update and expand most of the hospital clinical areas and is scheduled to be completed in two to three years.

### **Requests for Information**

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer at the following address:

Regional Medical Center  
Attn: Chief Financial Officer  
709 West Main Street  
Manchester, IA 52057

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**BALANCE SHEETS**  
**JUNE 30, 2004 AND 2003**

	2004		2003	
	Regional Medical Center	Delaware County Health Care Foundation	Regional Medical Center	Delaware County Health Care Foundation
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 984,855	\$ -	\$ 906,707	\$ -
Receivables				
Patient, net of estimated uncollectibles of \$1,720,000 in 2004 and \$1,610,000 in 2003	2,131,875	-	2,075,640	-
Succeeding year property tax receivable	543,596	-	495,381	-
Bequest	-	-	135,000	-
Other	56,071	-	58,518	-
Supplies	269,795	-	248,059	-
Prepaid expenses	123,521	-	134,513	-
Total current assets	<u>4,109,713</u>	<u>-</u>	<u>4,053,818</u>	<u>-</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>				
Investments				
By board for capital improvements	<u>2,415,302</u>	<u>-</u>	<u>2,281,915</u>	<u>-</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 6	<u>7,574,143</u>	<u>-</u>	<u>6,001,856</u>	<u>-</u>
<b>OTHER ASSETS</b>				
Gift fund investments - Note 5	931,902	788,191	745,665	783,955
Joint ventures - Note 7	<u>101,520</u>	<u>-</u>	<u>55,077</u>	<u>-</u>
Total other assets	<u>1,033,422</u>	<u>788,191</u>	<u>800,742</u>	<u>783,955</u>
Total assets	<u>\$ 15,132,580</u>	<u>\$ 788,191</u>	<u>\$ 13,138,331</u>	<u>\$ 783,955</u>

See notes to financial statements.

	2004		2003	
	Regional Medical Center	Delaware County Health Care Foundation	Regional Medical Center	Delaware County Health Care Foundation
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Current maturities of long-term debt - Note 9	\$ 166,761	\$ -	\$ 171,899	\$ -
Accounts payable				
Trade	862,511	-	649,887	-
Construction	132,700	-	-	-
Estimated third-party payor settlements	114,200	-	300,000	-
Accrued expenses				
Salaries and wages	172,403	-	144,615	-
Paid leave	769,091	-	648,109	-
Payroll taxes and other	59,062	-	86,074	-
Deferred revenue for succeeding year property tax receivable	543,596	-	495,381	-
Total current liabilities	2,820,324	-	2,495,965	-
LONG-TERM DEBT, less current maturities - Note 9	348,330	-	74,115	-
Total liabilities	3,168,654	-	2,570,080	-
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	7,059,052	-	5,755,842	-
Unrestricted	4,901,303	788,191	4,790,838	783,955
Restricted for capital acquisitions	3,571	-	21,571	-
Total net assets	11,963,926	788,191	10,568,251	783,955
Total liabilities and net assets	\$ 15,132,580	\$ 788,191	\$ 13,138,331	\$ 783,955

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	2004		2003	
	Regional Medical Center	Delaware County Health Care Foundation	Regional Medical Center	Delaware County Health Care Foundation
<b>OPERATING REVENUES</b>				
Net patient service revenue (net of provision for bad debts of \$367,898 in 2004 and \$352,247 in 2003) - Notes 2 and 3	\$ 15,416,898	\$ -	\$ 13,650,527	\$ -
Other operating revenues	386,133	-	388,923	-
<b>TOTAL OPERATING REVENUES</b>	<b>15,803,031</b>	<b>-</b>	<b>14,039,450</b>	<b>-</b>
<b>OPERATING EXPENSES</b>				
Salaries and wages	6,453,789	-	5,870,237	-
Supplies and other expenses	7,615,580	9,240	6,775,968	7,697
Depreciation and amortization	979,042	-	857,818	-
<b>TOTAL OPERATING EXPENSES</b>	<b>15,048,411</b>	<b>9,240</b>	<b>13,504,023</b>	<b>7,697</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>754,620</b>	<b>(9,240)</b>	<b>535,427</b>	<b>(7,697)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
County tax revenue	514,515	-	444,860	-
Noncapital contributions	46,018	4,495	1,112,803	8,155
Interest expense	(24,895)	-	(9,480)	-
Investment income	126,321	24,271	128,468	22,872
Distributions to beneficiaries (including \$10,000 in 2004 and \$3,571 in 2003 to the Medical Center)	-	(15,290)	-	(20,921)
Loss on disposal of fixed assets	(53,025)	-	(240)	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>608,934</b>	<b>13,476</b>	<b>1,676,411</b>	<b>10,106</b>
<b>REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND SUBSIDY</b>	<b>1,363,554</b>	<b>4,236</b>	<b>2,211,838</b>	<b>2,409</b>
Capital contributions (including \$10,000 in 2004 and \$3,571 in 2003 from the Foundation)	32,121	-	24,692	-
Ambulance replacement subsidy	-	-	9,000	-
<b>INCREASE IN NET ASSETS</b>	<b>1,395,675</b>	<b>4,236</b>	<b>2,245,530</b>	<b>2,409</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b>10,568,251</b>	<b>783,955</b>	<b>8,322,721</b>	<b>781,546</b>
<b>NET ASSETS END OF YEAR</b>	<b>\$ 11,963,926</b>	<b>\$ 788,191</b>	<b>\$ 10,568,251</b>	<b>\$ 783,955</b>

See notes to financial statements.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	2004		2003	
	Regional Medical Center	Delaware County Health Care Foundation	Regional Medical Center	Delaware County Health Care Foundation
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts of patient service revenue	\$ 15,174,863	\$ -	\$ 13,929,106	\$ -
Other receipts	523,580	-	233,209	-
Payments of salaries, wages, and benefits	(6,332,031)	-	(5,798,445)	-
Payments of supplies and other expenses	(7,281,000)	(9,240)	(6,845,285)	(7,697)
<b>NET CASH PROVIDED BY (USED FOR)</b>				
<b>OPERATING ACTIVITIES</b>	<u>2,085,412</u>	<u>(9,240)</u>	<u>1,518,585</u>	<u>(7,697)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Property taxes	514,515	-	444,860	-
Noncapital contributions	46,018	4,495	1,112,803	8,155
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>560,533</u>	<u>4,495</u>	<u>1,557,663</u>	<u>8,155</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of property and equipment	(2,624,158)	-	(918,429)	-
Proceeds from note payable	500,000	-	342,516	-
Principal paid on debt	(230,923)	-	(198,209)	-
Interest paid on debt	(24,895)	-	(9,480)	-
Distributions to beneficiaries	-	(15,290)	-	(20,921)
Capital contributions	32,121	-	24,692	-
Proceeds from sale of equipment	19,804	-	2,358	-
Ambulance replacement subsidy	-	-	9,000	-
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(2,328,051)</u>	<u>(15,290)</u>	<u>(747,552)</u>	<u>(20,921)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Increase in assets limited as to use or restricted	(133,387)	-	(1,264,440)	-
Increase in gift fund investments	(186,237)	(4,236)	(745,665)	(2,409)
Increase in joint ventures	(46,443)	-	(7,629)	-
Investment income	126,321	24,271	128,468	22,872
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<u>(239,746)</u>	<u>20,035</u>	<u>(1,889,266)</u>	<u>20,463</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	78,148	-	439,430	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>906,707</u>	<u>-</u>	<u>467,277</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 984,855</u>	<u>-</u>	<u>\$ 906,707</u>	<u>-</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	2004		2003	
	Regional Medical Center	Delaware County Health Care Foundation	Regional Medical Center	Delaware County Health Care Foundation
<b>RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>				
Income (loss) from operations	\$ 754,620	\$ (9,240)	\$ 535,427	\$ (7,697)
Adjustments to reconcile income (loss) from operations to net cash provided by (used for) operating activities				
Depreciation and amortization	979,042	-	857,818	-
Provision for bad debts	367,898	-	352,247	-
Changes in assets and liabilities				
Receivables	(286,686)	-	(539,382)	-
Supplies	(21,736)	-	939	-
Prepaid expenses	10,992	-	(76,257)	-
Accounts payable	345,324	-	6,001	-
Estimated third party payor settlements	(185,800)	-	310,000	-
Accrued expenses	121,758	-	71,792	-
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>	<b>\$ 2,085,412</b>	<b>\$ (9,240)</b>	<b>\$ 1,518,585</b>	<b>\$ (7,697)</b>
<b>SUPPLEMENTAL NONCASH CAPITAL ACTIVITY</b>				
Capital asset purchases included in accounts payable at June 30, 2004	\$ 232,700			

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

Delaware County Memorial Hospital, d/b/a Regional Medical Center, (Medical Center) is a 25-bed public Medical Center located in Manchester, Iowa, organized under Chapter 347 of the Iowa Code and governed by a seven member Board of Trustees elected for alternating terms of six years. Delaware County Memorial Hospital, d/b/a Regional Medical Center, and Delaware County Health Care Foundation are collectively referred to here as Delaware County Memorial Hospital, d/b/a Regional Medical Center, (the Organization). The Organization primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in Manchester, Iowa, and the surrounding area.

*Reporting Entity*

For financial reporting purposes the Organization has included all funds, organizations, agencies, boards, commissions, and authorities. The Organization 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 Medical Center are such that exclusion would cause the Organization's financial statements to be misleading or incomplete. The Delaware County Health Care Foundation (Foundation) is a legally separate, tax-exempt component unit of the Medical Center. The Foundation exists to enhance and perpetuate the delivery of healthcare within the service area of Regional Medical Center through good stewardship of donations and funds entrusted. Although the Medical Center does not control the timing or amount of receipts from the Foundation, the majority of the resources that the Foundation holds and invests are restricted to the activities of the Medical Center by the donors. As a result, the Foundation is considered a component unit of the Medical Center and is discretely presented in the Medical Center's financial statements.

*Basis of Accounting*

The Organization reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audits of Providers of Health Care Services* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Organization applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less when purchased, excluding assets limited as to use or restricted and gift fund investments.

*Patient Receivables*

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

*Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property taxes which represents unpaid taxes for the current and prior years are recorded in other receivables. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors 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 Supervisors 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.

*Supplies*

Supplies are stated at lower of average cost or market.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
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*Assets Limited as to Use or Restricted*

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Restricted net assets are used to differentiate resources, the use of which is restricted by donors or grantors, from unrestricted net assets on which donors or grantors place no restriction or which arise as a result of the operations of the Medical Center for its stated purposes.

*Land, Buildings, and Equipment*

Land, buildings, and equipment acquisitions in excess of \$2,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for Medical Center operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. Interest expense related to construction projects is capitalized.

The estimated useful lives of land, buildings, and equipment are as follows:

Land improvements	5-15 years
Buildings and improvements	5-40 years
Equipment	5-20 years

*Compensated Absences*

Medical Center employees accumulate a limited amount of earned but unused paid leave hours for subsequent use or for payment upon termination, death, or retirement. The cost of paid leave is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004.

*Deferred Revenue*

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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*Net Assets*

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

*Operating Revenues and Expenses*

The Organization's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Medical Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

*Net Patient Service Revenue*

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

*Charity Care*

To fulfill its mission of community service, the Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Medical Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue depending on the timing of the charity determination.

*Investment Income*

Interest on cash and deposits is included in nonoperating revenue and expenses.

*Advertising Costs*

The Medical Center expenses advertising costs as they are incurred.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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*Grants and Contributions*

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are 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.

*Restricted Resources*

When the Organization has both restricted and unrestricted resources available to finance a particular program, it is the Organization's policy to use restricted resources before unrestricted resources.

*Reclassifications*

Certain prior period amounts within the accompanying statements have been reclassified for comparability.

*Other Significant Accounting Policies*

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

**NOTE 2 – CHARITY CARE**

The Medical Center maintains records to identify and monitor the level of charity care it provides. The amounts of charges foregone for services and supplies furnished under its charity care policy during the years ended June 30, 2004 and 2003, were \$160,596 and \$80,033, respectively.

**NOTE 3 – NET PATIENT SERVICE REVENUE**

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

**Medicare**

The Medical Center is licensed as a Critical Access Hospital (CAH). The Medical Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Medical Center and are subject to audits thereof by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through the period ended June 30, 2001. The Medical 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 Medical Center.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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**Medicaid**

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary. The Medical Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2001.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Medical Center under these agreements may include prospectively determined rates and discounts for established charges.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Total patient service revenue	\$ 21,031,895	\$ 18,783,565
Contractual adjustments		
Medicare	(3,348,305)	(2,909,320)
Medicaid	(905,525)	(757,629)
Other	<u>(993,269)</u>	<u>(1,113,842)</u>
Total contractual adjustments	<u>(5,247,099)</u>	<u>(4,780,791)</u>
Net patient service revenue	15,784,796	14,002,774
Provision for bad debts	<u>(367,898)</u>	<u>(352,247)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 15,416,898</u>	<u>\$ 13,650,527</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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**NOTE 4 – CASH AND DEPOSITS**

The Medical Center's deposits in banks at June 30, 2004 and 2003, 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 Medical Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Investments reported are not subject to risk categorization. Certificates of deposit and savings accounts classified as investments in the financial statements are presented as cash and deposits in this note.

At June 30, 2004 and 2003, the Medical Center's carrying amounts of cash and deposits are as follows:

	<u>2004</u>	<u>2003</u>
Assets limited as to use or restricted by		
Board for capital improvements		
Certificates of deposit	\$ -	\$ 24,465
Savings accounts	2,415,302	2,257,254
Accrued interest receivable	<u>-</u>	<u>196</u>
	<u>\$ 2,415,302</u>	<u>\$ 2,281,915</u>

**NOTE 5 – GIFT FUND INVESTMENTS**

Gift fund investments under other assets consist of the following at June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Medical Center		
Money market account	<u>\$ 931,902</u>	<u>\$ 745,665</u>
Foundation		
Savings accounts	\$ 249,914	\$ 264,761
Certificates of deposit	151,888	151,600
Cash surrender value of life insurance policy	<u>386,389</u>	<u>367,594</u>
	<u>\$ 788,191</u>	<u>\$ 783,955</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

**NOTE 6 – LAND, BUILDINGS, AND EQUIPMENT**

A summary of land, buildings, and equipment at June 30, 2004 and 2003, follows:

	June 30, 2003			June 30, 2004
	Balance	Additions	Deductions	Balance
<b>Cost</b>				
Land	\$ 47,090	\$ 13,457	\$ -	\$ 60,547
Land improvements	587,521	188,868	-	776,389
Buildings	8,088,204	419,783	(81,114)	8,426,873
Leasehold improvements	22,290	-	-	22,290
Equipment	7,597,061	1,496,910	(216,744)	8,877,227
Construction in progress	-	506,249	-	506,249
	<u>\$ 16,342,166</u>	<u>\$ 2,625,267</u>	<u>\$ (297,858)</u>	<u>\$ 18,669,575</u>
<b>Accumulated depreciation</b>				
Land improvements	\$ 278,860	\$ 40,412	\$ -	\$ 319,272
Buildings	4,379,784	303,483	(35,054)	4,648,213
Leasehold improvements	11,526	1,723	-	13,249
Equipment	5,670,140	633,426	(188,868)	6,114,698
	<u>\$ 10,340,310</u>	<u>\$ 979,044</u>	<u>\$ (223,922)</u>	<u>\$ 11,095,432</u>
	June 30, 2002			June 30, 2003
	Balance	Additions	Deductions	Balance
<b>Cost</b>				
Land	\$ 47,090	\$ -	\$ -	\$ 47,090
Land improvements	581,566	5,955	-	587,521
Buildings	7,987,054	101,150	-	8,088,204
Leasehold improvements	22,290	-	-	22,290
Equipment	7,094,858	811,719	309,516	7,597,061
	<u>\$ 15,732,858</u>	<u>\$ 918,824</u>	<u>\$ 309,516</u>	<u>\$ 16,342,166</u>
<b>Accumulated depreciation</b>				
Land improvements	\$ 242,362	\$ 36,498	\$ -	\$ 278,860
Buildings	4,117,086	262,698	-	4,379,784
Leasehold improvements	8,916	2,610	-	11,526
Equipment	5,420,651	556,366	306,877	5,670,140
	<u>\$ 9,789,015</u>	<u>\$ 858,172</u>	<u>\$ 306,877</u>	<u>\$ 10,340,310</u>

The majority of construction in progress at June 30, 2004, represents a building addition for surgery and emergency room areas. The estimated total cost of this project is \$2,500,000 which will be financed with Medical Center funds. The project is expected to be completed by the fall of 2005.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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**NOTE 7 – JOINT VENTURES**

The Medical Center has invested monies in various joint ventures for the use of equipment and purchase of services.

**NOTE 8 – LEASES**

The Medical Center leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2004 and 2003, for all operating leases was \$36,524 and \$35,622, respectively. The capitalized leased assets consist of:

	<u>2004</u>	<u>2003</u>
Major movable equipment	\$ 868,986	\$ 868,986
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	<u>(627,475)</u>	<u>(558,472)</u>
	<u>\$ 241,511</u>	<u>\$ 310,514</u>

Minimum future lease payments for the capital leases are as follows:

Year ending June 30, 2005	\$ 75,015
Less interest	<u>(900)</u>
Present value of minimum lease payments – Note 9	<u>\$ 74,115</u>

**NOTE 9 – LONG-TERM DEBT**

A schedule of changes in the Medical Center's long-term debt for 2004 and 2003 follows:

	June 30 2003			June 30 2004	Amounts Due Within One Year
	<u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u>	
5.5% note payable, due in annual installments through October 2008, secured by equipment	\$ -	\$ 500,000	\$ 59,024	\$ 440,976	\$ 92,646
Obligations under capital leases – Note 8	<u>246,014</u>	<u>-</u>	<u>171,899</u>	<u>74,115</u>	<u>74,115</u>
	<u>\$ 246,014</u>	<u>\$ 500,000</u>	<u>\$ 230,923</u>	515,091	<u>\$ 166,761</u>
Less current maturities				<u>(166,761)</u>	
Long-term debt, less current maturities				<u>\$ 348,330</u>	

(continued on next page)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

Long-term debt maturities are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 166,761	\$ 22,903	\$ 189,664
2006	97,844	16,765	114,609
2007	103,418	11,231	114,649
2008	109,252	5,397	114,649
2009	<u>37,816</u>	<u>440</u>	<u>38,256</u>
Total	<u>\$ 515,091</u>	<u>\$ 56,736</u>	<u>\$ 571,827</u>

	<u>June 30 2002 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2003 Balance</u>	<u>Amounts Due Within One Year</u>
3.75% note payable, paid in July 2002, unsecured	\$ 51,198	\$ -	\$ 51,198	\$ -	\$ -
Obligations under capital leases	<u>50,509</u>	<u>342,516</u>	<u>147,011</u>	<u>246,014</u>	<u>171,899</u>
	<u>\$ 101,707</u>	<u>\$ 342,516</u>	<u>\$ 198,209</u>	<u>246,014</u>	<u>\$ 171,899</u>
Less current maturities				<u>(171,899)</u>	
Long-term debt, less current maturities				<u>\$ 74,115</u>	

**NOTE 10 – PENSION AND RETIREMENT BENEFITS**

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

Plan members are required to contribute 3.70% of their annual covered salary, and the Medical Center is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003, and 2002. Contribution requirements are established by state statute. The Medical Center's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002, were \$367,735, \$331,480, and \$318,807, respectively, equal to the required contributions for each year.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004 AND 2003**

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**NOTE 11 – CONTINGENCIES**

*Malpractice Insurance*

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

*Self-Funded Employee Health Insurance Plan*

The Medical Center has a self-funded employee health insurance plan covering substantially all employees. The plan is responsible to pay all administration expenses and benefits up to the reinsurance limits. A liability of \$100,000 has been established to record the incurred but not reported claims outstanding at both June 30, 2004 and 2003.

**NOTE 12 – RISK MANAGEMENT**

The Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Medical Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**NOTE 13 – CONCENTRATION OF CREDIT RISK**

The Medical Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2004 and 2003, was as follows:

	<u>2004</u>	<u>2003</u>
Medicare	40%	37%
Medicaid	7	7
Commercial insurance	47	46
Other third-party payors and patients	<u>6</u>	<u>10</u>
	<u>100%</u>	<u>100%</u>



Consultants • Certified Public Accountants

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

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The Board of Trustees  
Delaware County Memorial Hospital  
d/b/a Regional Medical Center  
Manchester, Iowa

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Eide Bailly* LLP

Dubuque, Iowa  
September 1, 2004

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN  
NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)  
YEAR ENDED JUNE 30, 2004**

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	Actual Accrual Basis <u>Net Assets</u>	Accrual <u>Adjustments</u>	Actual <u>Cash Basis</u>	Amended <u>Budget</u>	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 514,515	\$ -	\$ 514,515	\$ 514,921	\$ (406)
Estimated other revenues/ receipts	<u>15,954,466</u>	<u>165,980</u>	<u>16,120,446</u>	<u>14,374,730</u>	<u>1,745,716</u>
	16,468,981	165,980	16,634,961	14,889,651	1,745,310
Expenses/disbursements	<u>15,073,306</u>	<u>1,163,883</u>	<u>16,237,189</u>	<u>16,900,000</u>	<u>662,811</u>
Net	1,395,675	(997,903)	397,772	(2,010,349)	<u>\$ 2,408,121</u>
Balance beginning of year	<u>10,568,251</u>	<u>(6,633,964)</u>	<u>3,934,287</u>	<u>944,958</u>	
Balance end of year	<u>\$ 11,963,926</u>	<u>\$ (7,631,867)</u>	<u>\$ 4,332,059</u>	<u>\$ (1,065,391)</u>	

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Medical Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>PATIENT SERVICE REVENUE</b>		
Routine services	\$ 2,237,307	\$ 2,050,231
Mental health	1,406,394	1,134,765
Delivery and labor rooms	195,060	190,250
Operating and recovery rooms	1,581,735	1,441,896
Medical supplies	420,495	405,401
Emergency services	2,151,322	1,560,461
Laboratory and blood bank	2,715,615	2,444,583
Electrocardiology	220,628	213,940
Cardiac rehab	73,885	60,325
Radiology	3,748,586	3,373,055
Cardiology	41,641	45,910
Pharmacy	2,219,349	2,004,743
Dialysis	600	1,200
Anesthesiology	739,849	745,911
Respiratory therapy	256,150	255,439
Physical therapy	1,065,967	910,532
Speech therapy	93,708	54,612
Occupational therapy	175,935	146,144
Ambulance	417,871	387,268
Clinic	24,750	77,833
Community health	<u>1,405,644</u>	<u>1,359,099</u>
	21,192,491	18,863,598
Charity care	<u>(160,596)</u>	<u>(80,033)</u>
	<u>\$ 21,031,895</u>	<u>\$ 18,783,565</u>
<b>*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED</b>		
Inpatient revenue	\$ 4,715,711	\$ 4,546,310
Outpatient revenue	16,476,780	14,317,288
Charity care	<u>(160,596)</u>	<u>(80,033)</u>
Total patient service revenue	<u>21,031,895</u>	<u>18,783,565</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(3,348,305)	(2,909,320)
Medicaid	(905,525)	(757,629)
Other	<u>(993,269)</u>	<u>(1,113,842)</u>
Total contractual adjustments	<u>(5,247,099)</u>	<u>(4,780,791)</u>
<b>NET PATIENT SERVICE REVENUE</b>	15,784,796	14,002,774
<b>PROVISION FOR BAD DEBTS</b>	<u>(367,898)</u>	<u>(352,247)</u>
<b>NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)</b>	<u>\$ 15,416,898</u>	<u>\$ 13,650,527</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF OTHER OPERATING REVENUES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

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	<u>2004</u>	<u>2003</u>
OTHER OPERATING REVENUES		
Rent	\$ 168,216	\$ 150,359
Outside pharmacy	40,548	44,198
Education services	44,416	42,600
Cafeteria	42,181	37,198
Fitness center memberships	29,516	34,189
Massage therapy	35,897	31,831
State replacement tax	-	6,307
Purchase discounts	6,094	4,742
Vending machines	1,283	1,264
Other	<u>17,982</u>	<u>36,235</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 386,133</u>	 <u>\$ 388,923</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 216,607	\$ 209,460
Supplies and other expenses	<u>13,185</u>	<u>21,854</u>
	<u>229,792</u>	<u>231,314</u>
<b>ROUTINE SERVICES</b>		
Salaries and wages	880,701	842,291
Supplies and other expenses	<u>69,211</u>	<u>71,434</u>
	<u>949,912</u>	<u>913,725</u>
<b>NURSERY</b>		
Salaries and wages	64,833	63,208
Supplies and other expenses	<u>5,781</u>	<u>3,239</u>
	<u>70,614</u>	<u>66,447</u>
<b>SPECIAL CARE UNIT</b>		
Salaries and wages	74,801	70,236
Supplies and other expenses	<u>9,358</u>	<u>4,922</u>
	<u>84,159</u>	<u>75,158</u>
<b>MENTAL HEALTH</b>		
Salaries and wages	661,202	540,311
Supplies and other expenses	<u>268,254</u>	<u>220,246</u>
	<u>929,456</u>	<u>760,557</u>
<b>DELIVERY AND LABOR ROOMS</b>		
Salaries and wages	26,751	30,808
Supplies and other expenses	<u>4,226</u>	<u>6,009</u>
	<u>30,977</u>	<u>36,817</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries and wages	231,827	221,591
Supplies and other expenses	<u>87,963</u>	<u>99,470</u>
	<u>319,790</u>	<u>321,061</u>
<b>MEDICAL SUPPLIES</b>		
Supplies and other expenses	<u>181,128</u>	<u>159,999</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	\$ 311,408	\$ 255,451
Supplies and other expenses	<u>690,735</u>	<u>450,882</u>
	<u>1,002,143</u>	<u>706,333</u>
 <b>LABORATORY AND BLOOD BANK</b>		
Salaries and wages	334,228	314,405
Supplies and other expenses	<u>576,692</u>	<u>563,387</u>
	<u>910,920</u>	<u>877,792</u>
 <b>ELECTROCARDIOLOGY</b>		
Salaries and wages	6,330	7,844
Supplies and other expenses	<u>479</u>	<u>505</u>
	<u>6,809</u>	<u>8,349</u>
 <b>CARDIAC REHAB</b>		
Salaries and wages	37,386	32,071
Supplies and other expenses	<u>10,931</u>	<u>2,526</u>
	<u>48,317</u>	<u>34,597</u>
 <b>RADIOLOGY</b>		
Salaries and wages	381,984	333,292
Supplies and other expenses	<u>696,543</u>	<u>675,981</u>
	<u>1,078,527</u>	<u>1,009,273</u>
 <b>CARDIOLOGY</b>		
Salaries and wages	<u>2,397</u>	<u>3,015</u>
 <b>PHARMACY</b>		
Salaries and wages	201,419	189,804
Supplies and other expenses	<u>598,075</u>	<u>482,496</u>
	<u>799,494</u>	<u>672,300</u>
 <b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>449,723</u>	<u>441,159</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	\$ 39,869	\$ 27,353
Supplies and other expenses	<u>23,478</u>	<u>17,960</u>
	<u>63,347</u>	<u>45,313</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	143,815	178,186
Supplies and other expenses	<u>423,407</u>	<u>402,961</u>
	<u>567,222</u>	<u>581,147</u>
<b>SPEECH THERAPY</b>		
Supplies and other expenses	<u>52,506</u>	<u>24,167</u>
<b>OCCUPATIONAL THERAPY</b>		
Supplies and other expenses	<u>97,998</u>	<u>82,325</u>
<b>AMBULANCE</b>		
Salaries and wages	131,530	137,329
Supplies and other expenses	<u>17,953</u>	<u>18,980</u>
	<u>149,483</u>	<u>156,309</u>
<b>CLINIC</b>		
Salaries and wages	109,792	114,258
Supplies and other expenses	<u>7,694</u>	<u>11,348</u>
	<u>117,486</u>	<u>125,606</u>
<b>COMMUNITY HEALTH</b>		
Salaries and wages	657,645	642,019
Supplies and other expenses	<u>132,880</u>	<u>123,081</u>
	<u>790,525</u>	<u>765,100</u>
<b>SOCIAL SERVICES</b>		
Salaries and wages	<u>22,217</u>	<u>18,981</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	305,949	316,462
Supplies and other expenses	<u>18,852</u>	<u>8,734</u>
	<u>324,801</u>	<u>325,196</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>DIETARY</b>		
Salaries and wages	\$ 151,653	\$ 140,150
Food	49,570	50,374
Supplies and other expenses	<u>18,686</u>	<u>10,626</u>
	<u>219,909</u>	<u>201,150</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	254,896	225,339
Supplies and other expenses	<u>484,093</u>	<u>418,890</u>
	<u>738,989</u>	<u>644,229</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	125,904	107,270
Supplies and other expenses	<u>16,221</u>	<u>18,014</u>
	<u>142,125</u>	<u>125,284</u>
<b>LAUNDRY</b>		
Salaries and wages	16,795	15,304
Supplies and other expenses	<u>65,453</u>	<u>65,204</u>
	<u>82,248</u>	<u>80,508</u>
<b>PURCHASING</b>		
Salaries and wages	90,190	86,478
Supplies and other expenses	<u>3,745</u>	<u>3,018</u>
	<u>93,935</u>	<u>89,496</u>
<b>ADMINISTRATIVE SERVICES</b>		
Salaries and wages	971,660	747,321
Supplies and other expenses	<u>1,044,231</u>	<u>999,406</u>
	<u>2,015,891</u>	<u>1,746,727</u>
<b>UNASSIGNED EXPENSES</b>		
Depreciation and amortization	979,042	857,818
Insurance	130,663	104,322
Employee benefits	<u>1,365,866</u>	<u>1,212,449</u>
	<u>2,475,571</u>	<u>2,174,589</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 15,048,411</u>	<u>\$ 13,504,023</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**JUNE 30, 2004 AND 2003**

**ANALYSIS OF AGING**

<u>Days Since Discharge</u>	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
30 days or less	\$ 1,917,719	49.79%	\$ 1,703,838	46.23%
31 to 60 days	779,648	20.24	985,100	26.73
61 to 90 days	457,030	11.87	335,845	9.11
91 to 180 days	398,090	10.33	378,187	10.26
181 days and over	299,388	7.77	282,670	7.67
	3,851,875	<u>100.00%</u>	3,685,640	<u>100.00%</u>
Less: Allowance for doubtful accounts	170,000		170,000	
Allowance for contractual adjustments	<u>1,550,000</u>		<u>1,440,000</u>	
Net	<u>\$ 2,131,875</u>		<u>\$ 2,075,640</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
BALANCE, BEGINNING OF YEAR	\$ 170,000	\$ 170,000
Add: Provision for bad debts	367,899	352,247
Recoveries of accounts written off	194,816	141,738
Less: Accounts written off	<u>(562,715)</u>	<u>(493,985)</u>
BALANCE, END OF YEAR	<u>\$ 170,000</u>	<u>\$ 170,000</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SUPPLIES/PREPAID EXPENSES**  
**JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
<b>SUPPLIES</b>		
Pharmacy	\$ 87,272	\$ 76,936
Storeroom	73,315	72,085
Operating room	52,873	53,032
Laboratory	31,822	18,881
Radiology	9,612	11,357
Dietary	3,669	3,857
Emergency room	6,402	7,024
Physical therapy	<u>4,830</u>	<u>4,887</u>
 Total	 <u>\$ 269,795</u>	 <u>\$ 248,059</u>
 <b>PREPAID EXPENSES</b>		
Insurance	\$ 64,025	\$ 53,952
Maintenance agreements	30,010	25,351
Pharmacy supplies	<u>29,486</u>	<u>55,210</u>
 Total	 <u>\$ 123,521</u>	 <u>\$ 134,513</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**STATISTICAL INFORMATION**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
<b>PATIENT DAYS</b>		
Medical Center		
Acute	2,064	2,187
Swing-bed	590	578
Newborn	378	399
<b>NUMBER OF BEDS</b>		
Medical Center	25	25*
<b>PERCENTAGE OF OCCUPANCY (excluding newborn)</b>		
	29%	29%
<b>DISCHARGES</b>		
Medical Center		
Acute	615	692
Swing-bed	94	86
<b>AVERAGE LENGTH OF STAY</b>		
Medical Center		
Acute	3.36	3.16
Swing-bed	6.28	6.72
<b>MOST RECENT YEAR END ROUTINE SERVICE RATES</b>		
Private	\$ 550.00	\$ 510.00
Semi-private	550.00	510.00
Nursery	500.00	340.00
<b>COLLECTION STATISTICS</b>		
Net accounts receivable – patients	\$ 2,131,875	\$ 2,075,640
Number of days charges outstanding (1)	51	55
Uncollectible accounts (2)	\$ 623,318	\$ 533,987
Percentage of uncollectible accounts to total charges	2.9%	2.8%

\* Effective August 1, 2002, the Medical Center de-licensed 12 acute care beds.

- (1) Based on average daily net patient service revenue for April, May, and June.  
(2) Includes provision for bad debts, charity care, and collection fees.



Consultants • Certified Public Accountants

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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The Board of Trustees  
Delaware County Memorial Hospital  
d/b/a Regional Medical Center  
Manchester, Iowa

We have audited the accompanying balance sheets of **Delaware County Memorial Hospital, d/b/a Regional Medical Center, and Delaware County Health Care Foundation** as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated September 1, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Compliance**

As part of obtaining reasonable assurance about whether the financial statements of **Delaware County Memorial Hospital, d/b/a Regional Medical Center, and Delaware County Health Care Foundation** are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2004, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center and are reported in Part II of the accompanying Schedule of Findings. 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. There were no prior year statutory comments and recommendations.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the internal control over financial reporting of **Delaware County Memorial Hospital, d/b/a Regional Medical Center, and Delaware County Health Care Foundation** in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the ability of **Delaware County Memorial Hospital, d/b/a Regional Medical Center, and Delaware County Health Care Foundation** to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I as item I-A-04 in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. Prior year reportable condition item I-A-04 has not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of **Delaware County Memorial Hospital, d/b/a Regional Medical Center, and Delaware County Health Care Foundation** and other parties to whom **Delaware County Memorial Hospital, d/b/a Regional Medical Center, and Delaware County Health Care Foundation** may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Delaware County Memorial Hospital, d/b/a Regional Medical Center, and Delaware County Health Care Foundation** during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Eida Bailey* LLP

Dubuque, Iowa  
September 1, 2004

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2004**

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**Part I: Findings Related to the Financial Statements:**

**REPORTABLE CONDITION:**

I-A-04 Segregation of Duties – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Medical Center should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We are aware of the situation and will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-04 Official Depositories – A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget – Medical Center disbursements during the year ended June 30, 2004, did not exceed amounts budgeted.

II-C-04 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-D-04 Travel Expense – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

II-E-04 Business Transactions – No business transactions between the Medical Center and Medical Center officials and/or employees were noted.

II-F-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-G-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Medical Center's investment policy were noted.