

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

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
Table of Contents

	<u>Page</u>
BOARD OF TRUSTEES AND MEDICAL CENTER OFFICIALS	1
INDEPENDENT AUDITOR’S REPORT	2-3
MANAGEMENT’S DISCUSSION AND ANALYSIS	4-5
BASIC FINANCIAL STATEMENTS	
Balance Sheets	6
Statements of Revenues, Expenses, and Changes in Net Assets	7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-21
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Cash Basis)	22
Notes to Required Supplementary Information – Budgetary Reporting	23
INDEPENDENT AUDITOR’S REPORT ON SUPPLEMENTARY INFORMATION	24
OTHER SUPPLEMENTARY INFORMATION	
Schedules	
Net Patient Service Revenue	25
Other Operating Revenues	26
Operating Expenses	27-30
Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics	31
Supplies/Prepaid Expense	32
Statistical Information (Unaudited)	33
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	34-35
SCHEDULE OF FINDINGS	36

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

<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, 2010
Kathy Waterman	Secretary	December 31, 2010
Kay Harris	Member	December 31, 2006
John Tinker	Member	December 31, 2008
Steve Palmer	Member	December 31, 2008
<u>Medical Center Officials</u>		
Lon Butikofer, RN, Ph.D	Chief Executive Officer	
Danette Kramer	Vice President of Finance/CFO	



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

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, 2006 and 2005, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2006 and 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2006, on our consideration of the Medical Center's and the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 22 and 23 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 required supplementary information. We did not audit the information and express no opinion on it.

Eide Bailly LLP

Dubuque, Iowa
August 9, 2006

Delaware County Memorial Hospital d/b/a 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, 2006. 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 \$1,953,104 or 11%. A significant portion of this increase represents investments in capital equipment and buildings.
- The Medical Center's assets exceeded liabilities by \$14,708,804 at June 30, 2006.
- During the year, the Medical Center's total operating revenues increased 14.65% to \$19,867,129, while the operating expenses increased 15.4% to \$19,121,164. The Medical Center had income from operations of \$745,965 which is 3.75% of total operating revenues.
- The Medical Center made capital equipment and building investments totaling \$3,085,095 during the fiscal year. The source of funding for these items was derived from operations and notes 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, 2006, reports total assets of \$19,522,526, total liabilities of \$4,813,722 and net assets of \$14,708,804.

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 \$19,867,129 and total operating expenses of \$19,121,164 during fiscal year 2006. The operating income was \$745,965 in 2006, compared to an operating income of \$758,994 in 2005.

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 \$1,451,629 in short-term and long-term debt. The debt was incurred to help facilitate cash flows during the construction and renovation of new clinical areas and to finance the purchase of a multi-slice CT scanner.

Factors Bearing on Financial Future

Regional Medical Center continues to work on a significant building renovation project that will update the Surgical, Laboratory, Radiology, and Obstetrics areas. A third floor addition is planned to start in October 2006 and to be completed by June 2007. New construction and renovation for the Dialysis and an Inpatient Specialty Care Unit are planned for FY 2008-2009.

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, 2006 AND 2005

	<u>2006</u>		<u>2005</u>	
	<u>Regional Medical Center</u>	<u>Delaware County Health Care Foundation</u>	<u>Regional Medical Center</u>	<u>Delaware County Health Care Foundation</u>
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,223,912	\$ -	\$ 1,313,974	\$ -
Receivables				
Patient, net of estimated uncollectibles of \$2,140,000 in 2006 and \$1,900,000 in 2005	2,704,924	-	2,285,023	-
Succeeding year property tax	682,508	-	613,596	-
Estimated third-party payor settlements	-	-	15,000	-
Other	103,802	-	130,102	-
Supplies	313,616	-	304,697	-
Prepaid expense	130,930	-	100,003	-
	<u>5,159,692</u>	<u>-</u>	<u>4,762,395</u>	<u>-</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4				
Investments				
By board for capital improvements	390,153	-	651,885	-
	<u>12,961,324</u>	<u>-</u>	<u>11,167,114</u>	<u>-</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 6				
OTHER ASSETS				
Gift fund investments - Note 5	922,783	638,996	896,280	702,404
Note receivable - Medical Center	-	200,000	-	200,000
Joint ventures - Note 7	88,574	-	91,748	-
	<u>1,011,357</u>	<u>838,996</u>	<u>988,028</u>	<u>902,404</u>
Total other assets				
	<u>1,011,357</u>	<u>838,996</u>	<u>988,028</u>	<u>902,404</u>
Total assets	<u>\$ 19,522,526</u>	<u>\$ 838,996</u>	<u>\$ 17,569,422</u>	<u>\$ 902,404</u>

See notes to financial statements.

	2006		2005	
	Regional Medical Center	Delaware County Health Care Foundation	Regional Medical Center	Delaware County Health Care Foundation
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current maturities of long-term debt - Note 9	\$ 552,530	\$ -	\$ 642,850	\$ -
Accounts payable				
Trade	539,679	-	473,578	-
Construction	80,900	-	198,423	-
Estimated third-party payor settlements	760,000	-		-
Accrued expenses				
Salaries and wages	276,258	-	228,279	-
Paid leave	938,379	-	866,028	-
Interest	1,060	-	1,060	-
Payroll taxes and other	83,309	-	59,875	-
Deferred revenue for succeeding year property tax receivable	682,508	-	613,596	-
Total current liabilities	3,914,623	-	3,083,689	-
LONG-TERM DEBT, less current maturities - Note 9	899,099	-	1,183,045	-
Total liabilities	4,813,722	-	4,266,734	-
NET ASSETS				
Invested in capital assets, net of related debt	11,509,695	-	9,341,219	-
Unrestricted	3,199,109	838,996	3,961,469	902,404
Total net assets	14,708,804	838,996	13,302,688	902,404
Total liabilities and net assets	\$ 19,522,526	\$ 838,996	\$ 17,569,422	\$ 902,404

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006		2005	
	Regional Medical Center	Delaware County Health Care Foundation	Regional Medical Center	Delaware County Health Care Foundation
OPERATING REVENUES				
Net patient service revenue (net of provision for bad debts of \$501,402 in 2006 and \$256,476 in 2005) - Notes 2 and 3	\$ 19,394,776	\$ -	\$ 16,898,324	\$ -
Other operating revenues	472,353	-	430,564	-
TOTAL OPERATING REVENUES	19,867,129	-	17,328,888	-
OPERATING EXPENSES				
Salaries and wages	8,609,770	-	7,409,698	-
Supplies and other expenses	9,230,040	4,286	8,049,902	10,424
Depreciation and amortization	1,281,354	-	1,110,294	-
TOTAL OPERATING EXPENSES	19,121,164	4,286	16,569,894	10,424
OPERATING INCOME (LOSS)	745,965	(4,286)	758,994	(10,424)
NONOPERATING REVENUES (EXPENSES)				
County tax revenue	613,673	-	542,409	-
Noncapital contributions	19,655	2,705	21,875	105,806
Interest expense	(61,575)	-	(43,488)	-
Investment income	73,360	(58,327)	66,002	19,031
Distributions to beneficiaries	-	(3,500)	-	(200)
Loss on disposal of capital assets	(2,531)	-	(7,030)	-
NET NONOPERATING REVENUES (EXPENSES)	642,582	(59,122)	579,768	124,637
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS	1,388,547	(63,408)	1,338,762	114,213
Capital contributions	17,569	-	-	-
INCREASE (DECREASE) IN NET ASSETS	1,406,116	(63,408)	1,338,762	114,213
NET ASSETS BEGINNING OF YEAR	13,302,688	902,404	11,963,926	788,191
NET ASSETS END OF YEAR	\$ 14,708,804	\$ 838,996	\$ 13,302,688	\$ 902,404

See notes to financial statements.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006		2005	
	Regional Medical Center	Delaware County Health Care Foundation	Regional Medical Center	Delaware County Health Care Foundation
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts of patient service revenue	\$ 19,749,875	\$ -	\$ 16,615,976	\$ -
Other receipts	498,653	-	356,533	-
Payments of salaries, wages, and benefits	(8,466,006)	-	(7,256,072)	-
Payments of supplies and other expenses	(9,321,308)	(4,286)	(8,384,496)	(10,424)
NET CASH PROVIDED BY (USED FOR)				
OPERATING ACTIVITIES	<u>2,461,214</u>	<u>(4,286)</u>	<u>1,331,941</u>	<u>(10,424)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
County tax received	613,673	-	542,409	-
Noncapital contributions	19,655	2,705	21,875	105,806
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>633,328</u>	<u>2,705</u>	<u>564,284</u>	<u>105,806</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of property and equipment	(3,085,095)	-	(4,711,045)	-
Proceeds from note payable	500,000	-	1,700,000	-
Principal paid on debt	(874,266)	-	(389,196)	-
Interest paid on debt	(61,575)	-	(42,428)	-
Distributions to beneficiaries	-	(3,500)	-	(200)
Capital contributions	17,569	-	-	-
Proceeds from sale of equipment	7,000	-	750	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(3,496,367)</u>	<u>(3,500)</u>	<u>(3,441,919)</u>	<u>(200)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease in assets limited as to use or restricted	261,732	-	1,763,417	-
(Increase) decrease in gift fund investments	(26,503)	63,408	35,622	85,787
Decrease in joint ventures	3,174	-	9,772	-
Increase in note receivable	-	-	-	(200,000)
Investment income	73,360	(58,327)	66,002	19,031
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>311,763</u>	<u>5,081</u>	<u>1,874,813</u>	<u>(95,182)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	(90,062)	-	329,119	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,313,974</u>	<u>-</u>	<u>984,855</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,223,912</u>	<u>\$ -</u>	<u>\$ 1,313,974</u>	<u>\$ -</u>

(continued)

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>		<u>2005</u>	
	<u>Regional Medical Center</u>	<u>Delaware County Health Care Foundation</u>	<u>Regional Medical Center</u>	<u>Delaware County Health Care Foundation</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES				
Operating income (loss)	\$ 745,965	\$ (4,286)	\$ 758,994	\$ (10,424)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation and amortization	1,281,354	-	1,110,294	-
Provision for bad debts	501,402	-	256,476	-
Changes in assets and liabilities				
Receivables	(895,003)	-	(483,655)	-
Supplies	(8,919)	-	(34,902)	-
Prepaid expenses	(30,927)	-	23,518	-
Accounts payable	(51,422)	-	(323,210)	-
Estimated third-party payor settlements	775,000	-	(129,200)	-
Accrued expenses	143,764	-	153,626	-
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>\$ 2,461,214</u>	<u>\$ (4,286)</u>	<u>\$ 1,331,941</u>	<u>\$ (10,424)</u>
SUPPLEMENTAL NONCASH CAPITAL ACTIVITY				
Capital asset purchases included in accounts payable at June 30, 2006 and 2005	<u>\$ 80,900</u>		<u>\$ 204,361</u>	

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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. The Medical Center 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).

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 Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Medical 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 Medical Center.

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 Presentation

The balance sheet displays the Organization's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets, net of related debt* 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 assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

- *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Organization's policy to use restricted resources first.

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 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' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required 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.

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.

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.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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 represent 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.

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, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds 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 \$5,000 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. Amortization is included in depreciation and amortization in the financial statements. Interest expense related to construction projects is capitalized. The estimated useful lives of property and equipment are as follows:

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

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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, 2006.

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 the succeeding year property tax receivable.

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 and a provision for uncollectible accounts. 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 revenues and expenses.

(continued on next page)

**DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

Advertising Costs

The Medical Center expenses advertising costs as incurred.

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.

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, 2006 and 2005, were \$272,772 and \$129,452, 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, 2003. 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, 2006 AND 2005

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, 2002.

Other Payers

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 from established charges.

Laws and regulations governing the Medicare, Medicaid, and other 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 net patient service revenue and contractual adjustments for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total patient service revenue	<u>\$ 26,867,744</u>	<u>\$ 22,252,701</u>
Contractual adjustments		
Medicare	(4,545,548)	(3,133,445)
Medicaid	(992,664)	(820,425)
Other	<u>(1,433,354)</u>	<u>(1,144,031)</u>
Total contractual adjustments	<u>(6,971,566)</u>	<u>(5,097,901)</u>
Net patient service revenue	19,896,178	17,154,800
Provision for bad debts	<u>(501,402)</u>	<u>(256,476)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 19,394,776</u>	<u>\$ 16,898,324</u>

NOTE 4 – CASH AND DEPOSITS

The Medical Center's deposits in banks at June 30, 2006 and 2005, 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.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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. Savings accounts classified as investments in the financial statements are presented as cash and deposits in this note.

Interest rate risk: The Medical Center's investment policy states that the Medical Center's investment portfolio will remain sufficiently liquid to enable the Medical Center to meet operating requirements that cash management procedures anticipate. The investment policy also states that for the general savings account, floating bond fund, designating funds, and investable funds shall have maturities that do not exceed one year. Any funds that are to be invested longer must have advance approval by the Finance Committee.

At June 30, 2006 and 2005, the Medical Center's carrying amounts of cash and deposits are as follows:

	<u>2006</u>	<u>2005</u>
Assets limited as to use or restricted by		
Board for capital improvements		
Savings accounts	<u>\$ 390,153</u>	<u>\$ 651,885</u>

NOTE 5 – GIFT FUND INVESTMENTS

Gift fund investments under other assets consist of the following at June 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Medical Center		
Money market account	<u>\$ 922,783</u>	<u>\$ 896,280</u>
Foundation		
Savings accounts	\$ 207,850	\$ 268,323
Certificates of deposit	97,735	67,027
Cash surrender value of life insurance policy	<u>333,411</u>	<u>367,054</u>
	<u>\$ 638,996</u>	<u>\$ 702,404</u>

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 6 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment activity for the years ended June 30, 2006 and 2005, was as follows:

	June 30, 2005			June 30, 2006
	Balance	Additions	Deductions	Balance
Cost				
Land	\$ 70,419	\$ -	\$ -	\$ 70,419
Land improvements	912,289	228,504	-	1,140,793
Buildings	8,877,710	5,579,018	-	14,456,728
Leasehold improvements	37,358	8,553	-	45,911
Equipment	8,789,830	808,685	(176,942)	9,421,573
Construction in progress	4,004,502	1,700,934	(5,237,360)	468,076
	<u>22,692,108</u>	<u>8,325,694</u>	<u>(5,414,302)</u>	<u>25,603,500</u>
Accumulated depreciation				
Land improvements	362,792	54,740	-	417,532
Buildings	4,972,515	452,342	-	5,424,857
Leasehold improvements	14,352	1,654	-	16,006
Equipment	6,175,335	772,618	(164,172)	6,783,781
	<u>11,524,994</u>	<u>1,281,354</u>	<u>(164,172)</u>	<u>12,642,176</u>
Total land, buildings, and equipment, net	<u>\$ 11,167,114</u>	<u>\$ 7,044,340</u>	<u>\$ (5,250,130)</u>	<u>\$ 12,961,324</u>
	June 30, 2004			June 30, 2005
	Balance	Additions	Deductions	Balance
Cost				
Land	60,547	\$ 9,872	\$ -	70,419
Land improvements	776,389	135,900	-	912,289
Buildings	8,426,873	450,837	-	8,877,710
Leasehold improvements	22,290	15,068	-	37,358
Equipment	8,877,227	610,363	(697,760)	8,789,830
Construction in progress	506,249	3,685,405	(187,152)	4,004,502
	<u>18,669,575</u>	<u>4,907,445</u>	<u>(884,912)</u>	<u>22,692,108</u>
Accumulated depreciation				
Land improvements	319,272	43,520	-	362,792
Buildings	4,648,213	324,302	-	4,972,515
Leasehold improvements	13,249	1,103	-	14,352
Equipment	6,114,698	741,369	(680,732)	6,175,335
	<u>11,095,432</u>	<u>1,110,294</u>	<u>(680,732)</u>	<u>11,524,994</u>
Total land, buildings, and equipment, net	<u>\$ 7,574,143</u>	<u>\$ 3,797,151</u>	<u>\$ (204,180)</u>	<u>\$ 11,167,114</u>

(continued on next page)

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

The majority of construction in progress at June 30, 2006, represents various remodeling projects. The estimated remaining cost to complete these projects is \$860,000 which will be financed with Medical Center cash reserves.

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, 2006 and 2005, for all operating leases was \$97,709 and \$81,867, respectively.

NOTE 9 – LONG-TERM DEBT

A schedule of changes in the Medical Center's long-term debt for 2006 and 2005 follows:

	June 30 2005 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2006 Balance	Amounts Due within One Year
3.2% note payable, due in annual installments through January 2006	\$ 355,549	\$ -	\$ 355,549	\$ -	\$ -
3.95% note payable, due in annual installments through February 2010, secured by building addition	923,772	-	171,620	752,152	195,114
4.25% note payable, due in monthly installments through December 2006, secured by building addition	-	500,000	247,366	252,634	252,634
1.5% note payable, due in 2010	200,000	-	-	200,000	-
4.95% note payable, due in annual installments through October 2008, secured by equipment	<u>346,574</u>	<u>-</u>	<u>99,731</u>	<u>246,843</u>	<u>104,782</u>
	<u>\$ 1,825,895</u>	<u>\$ 500,000</u>	<u>\$ 874,266</u>	<u>1,451,629</u>	<u>\$ 552,530</u>
Less current maturities				<u>(552,530)</u>	
Long-term debt, less current maturities				<u>\$ 899,099</u>	

(continued on next page)

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Long-term debt maturities are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2007	\$	552,530	\$	41,614	\$ 594,144
2008		312,993		25,358	338,351
2009		243,107		12,875	255,982
2010		<u>342,999</u>		<u>3,695</u>	<u>346,694</u>
Total	\$	<u>1,451,629</u>	\$	<u>83,542</u>	<u>\$ 1,535,171</u>

	<u>June 30</u> <u>2004</u> <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30</u> <u>2005</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
3.2% note payable, due in annual installments through January 2006	\$ -	\$ 500,000	\$ 144,451	\$ 355,549	\$ 355,549
3.95% note payable, due in annual installments through February 2010, secured by building addition	-	1,000,000	76,228	923,772	187,570
1.5% note payable, due in 2010	-	200,000	-	200,000	-
4.95% note payable, due in annual installments through October 2008, secured by equipment	440,976	-	94,402	346,574	99,731
Obligations under capital leases	<u>74,115</u>	<u>-</u>	<u>74,115</u>	<u>-</u>	<u>-</u>
	<u>\$ 515,091</u>	<u>\$ 1,700,000</u>	<u>\$ 389,196</u>	1,825,895	<u>\$ 642,850</u>
Less current maturities				<u>(642,850)</u>	
Long-term debt, less current maturities				<u>\$ 1,183,045</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.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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, 2006, 2005, and 2004. Contribution requirements are established by state statute. The Medical Center's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$483,530, \$415,124, and \$362,735, respectively, equal to the required contributions for each year.

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, 2006 and 2005.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Medical Center is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulator actions unknown or unasserted at this time.

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.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	35%	36%
Medicaid	9	8
Commercial insurance	44	50
Other third-party payors and patients	<u>12</u>	<u>6</u>
	<u>100%</u>	<u>100%</u>

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, 2006

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 613,673	\$ -	\$ 613,673	\$ 613,596	\$ 77
Estimated other revenues/ receipts	<u>19,975,182</u>	<u>1,751</u>	<u>19,976,933</u>	<u>18,676,941</u>	<u>1,299,992</u>
	20,588,855	1,751	20,590,606	19,290,537	1,300,069
Expenses/disbursements	<u>19,182,739</u>	<u>1,733,158</u>	<u>20,915,897</u>	<u>21,630,125</u>	<u>714,228</u>
Net	1,406,116	(1,731,407)	(325,291)	(2,339,588)	<u>\$ 2,014,297</u>
Balance beginning of year	<u>13,302,688</u>	<u>(10,440,549)</u>	<u>2,862,139</u>	<u>(668,278)</u>	
Balance end of year	<u>\$ 14,708,804</u>	<u>\$(12,171,956)</u>	<u>\$ 2,536,848</u>	<u>\$ (3,007,866)</u>	

**DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006**

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 resulting from the Medical Center preparing a budget on the cash basis of accounting.

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. The budget was amended during the year ended June 30, 2006.



CPAs & BUSINESS ADVISORS

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

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, except for the schedule of statistical information on page 33 marked "unaudited," 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
August 9, 2006

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
PATIENT SERVICE REVENUE		
Routine services	\$ 2,631,150	\$ 2,286,362
Mental health	2,129,621	1,567,665
Delivery and labor rooms	157,674	209,673
Operating and recovery rooms	2,601,529	1,545,924
Medical supplies	538,603	429,264
Emergency services	2,440,755	2,234,325
Laboratory and blood bank	3,851,663	2,953,311
Electrocardiology	364,245	234,501
Cardiac rehab	67,440	59,425
Radiology	4,584,312	4,387,863
Cardiology	106,986	62,253
Pharmacy	2,870,035	2,285,925
Dialysis	800	-
Anesthesiology	913,118	728,386
Respiratory therapy	263,864	230,633
Physical therapy	871,695	905,930
Speech therapy	96,864	93,290
Occupational therapy	141,841	147,503
Ambulance	435,050	412,491
Clinic	44,408	33,830
Community health	1,930,385	1,573,599
Public health	98,478	-
	<u>27,140,516</u>	<u>22,382,153</u>
Charity care	<u>(272,772)</u>	<u>(129,452)</u>
	<u>\$ 26,867,744</u>	<u>\$ 22,252,701</u>
Total patient service revenue*		
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 5,759,617	\$ 4,654,163
Outpatient revenue	21,380,899	17,727,990
Charity care	<u>(272,772)</u>	<u>(129,452)</u>
	<u>26,867,744</u>	<u>22,252,701</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(4,545,548)	(3,133,445)
Medicaid	(992,664)	(820,425)
Other	<u>(1,433,354)</u>	<u>(1,144,031)</u>
	<u>(6,971,566)</u>	<u>(5,097,901)</u>
NET PATIENT SERVICE REVENUE		
	<u>19,896,178</u>	<u>17,154,800</u>
PROVISION FOR BAD DEBTS	<u>(501,402)</u>	<u>(256,476)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)		
	<u>\$ 19,394,776</u>	<u>\$ 16,898,324</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OTHER OPERATING REVENUES		
Rent	\$ 175,832	\$ 180,724
Cafeteria	59,784	54,316
Outside pharmacy	47,754	49,349
Education services	64,111	43,517
Massage therapy	43,769	40,426
Fitness center memberships	32,066	29,518
Purchase discounts	31,325	5,490
Vending machines	1,241	1,264
Other	<u>16,471</u>	<u>25,960</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 472,353</u>	 <u>\$ 430,564</u>

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 257,038	\$ 243,645
Supplies and other expenses	<u>29,454</u>	<u>10,716</u>
	<u>286,492</u>	<u>254,361</u>
ROUTINE SERVICES		
Salaries and wages	1,089,172	944,765
Supplies and other expenses	<u>104,518</u>	<u>73,916</u>
	<u>1,193,690</u>	<u>1,018,681</u>
NURSERY		
Salaries and wages	66,081	52,388
Supplies and other expenses	<u>14,433</u>	<u>3,925</u>
	<u>80,514</u>	<u>56,313</u>
SPECIAL CARE UNIT		
Salaries and wages	65,815	75,739
Supplies and other expenses	<u>4,927</u>	<u>4,670</u>
	<u>70,742</u>	<u>80,409</u>
MENTAL HEALTH		
Salaries and wages	1,205,977	839,029
Supplies and other expenses	<u>640,043</u>	<u>359,397</u>
	<u>1,846,020</u>	<u>1,198,426</u>
DELIVERY AND LABOR ROOMS		
Salaries and wages	29,044	29,301
Supplies and other expenses	<u>6,278</u>	<u>4,384</u>
	<u>35,322</u>	<u>33,685</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	344,384	242,007
Supplies and other expenses	<u>138,912</u>	<u>112,662</u>
	<u>483,296</u>	<u>354,669</u>
MEDICAL SUPPLIES		
Supplies and other expenses	<u>318,119</u>	<u>189,339</u>
EMERGENCY SERVICES		
Salaries and wages	381,503	348,155
Supplies and other expenses	<u>846,970</u>	<u>760,638</u>
	<u>1,228,473</u>	<u>1,108,793</u>

(continued)

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
LABORATORY AND BLOOD BANK		
Salaries and wages	\$ 407,100	\$ 386,245
Supplies and other expenses	<u>611,264</u>	<u>625,961</u>
	<u>1,018,364</u>	<u>1,012,206</u>
ELECTROCARDIOLOGY		
Salaries and wages	5,601	7,418
Supplies and other expenses	<u>48,595</u>	<u>956</u>
	<u>54,196</u>	<u>8,374</u>
CARDIAC REHAB		
Salaries and wages	34,772	35,998
Supplies and other expenses	<u>2,366</u>	<u>2,171</u>
	<u>37,138</u>	<u>38,169</u>
RADIOLOGY		
Salaries and wages	409,303	379,638
Supplies and other expenses	<u>770,024</u>	<u>685,391</u>
	<u>1,179,327</u>	<u>1,065,029</u>
CARDIOLOGY		
Salaries and wages	2,965	2,609
Supplies and other expenses	<u>19,190</u>	<u>5,270</u>
	<u>22,155</u>	<u>7,879</u>
PHARMACY		
Salaries and wages	298,494	264,088
Supplies and other expenses	<u>800,234</u>	<u>638,104</u>
	<u>1,098,728</u>	<u>902,192</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>573,308</u>	<u>459,894</u>
RESPIRATORY THERAPY		
Salaries and wages	49,019	41,863
Supplies and other expenses	<u>18,598</u>	<u>18,664</u>
	<u>67,617</u>	<u>60,527</u>

(continued)

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
PHYSICAL THERAPY		
Salaries and wages	\$ 425,493	\$ 322,518
Supplies and other expenses	<u>16,723</u>	<u>110,007</u>
	<u>442,216</u>	<u>432,525</u>
SPEECH THERAPY		
Supplies and other expenses	<u>43,779</u>	<u>46,838</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>74,219</u>	<u>81,654</u>
AMBULANCE		
Salaries and wages	143,439	132,843
Supplies and other expenses	<u>25,554</u>	<u>17,838</u>
	<u>168,993</u>	<u>150,681</u>
CLINIC		
Salaries and wages	62,538	110,657
Supplies and other expenses	<u>75,737</u>	<u>97,149</u>
	<u>138,275</u>	<u>207,806</u>
COMMUNITY HEALTH		
Salaries and wages	748,920	698,037
Supplies and other expenses	<u>172,294</u>	<u>147,341</u>
	<u>921,214</u>	<u>845,378</u>
PUBLIC HEALTH		
Salaries and wages	138,156	-
Supplies and other expenses	<u>68,734</u>	<u>-</u>
	<u>206,890</u>	<u>-</u>
SOCIAL SERVICES		
Salaries and wages	<u>9,981</u>	<u>13,728</u>
MEDICAL RECORDS		
Salaries and wages	321,391	287,733
Supplies and other expenses	<u>86,879</u>	<u>70,650</u>
	<u>408,270</u>	<u>358,383</u>

(continued)

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
DIETARY		
Salaries and wages	\$ 155,485	\$ 150,360
Supplies and other expenses	<u>70,200</u>	<u>65,399</u>
	<u>225,685</u>	<u>215,759</u>
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	238,271	231,491
Supplies and other expenses	<u>696,138</u>	<u>562,823</u>
	<u>934,409</u>	<u>794,314</u>
HOUSEKEEPING		
Salaries and wages	161,953	151,564
Supplies and other expenses	<u>22,888</u>	<u>20,222</u>
	<u>184,841</u>	<u>171,786</u>
LAUNDRY		
Salaries and wages	15,598	15,463
Supplies and other expenses	<u>73,517</u>	<u>66,697</u>
	<u>89,115</u>	<u>82,160</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	1,542,277	1,402,416
Supplies and other expenses	<u>1,071,757</u>	<u>1,146,881</u>
	<u>2,614,034</u>	<u>2,549,297</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	1,281,354	1,110,294
Insurance	134,379	146,433
Employee benefits	<u>1,650,009</u>	<u>1,513,912</u>
	<u>3,065,742</u>	<u>2,770,639</u>
TOTAL OPERATING EXPENSES	<u>\$ 19,121,164</u>	<u>\$ 16,569,894</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,
AND COLLECTION STATISTICS
JUNE 30, 2006 AND 2005**

ANALYSIS OF AGING

Days Since Discharge	2006		2005	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 2,478,230	51.15%	\$ 1,997,130	47.72%
31 to 60 days	955,707	19.73	876,593	20.95
61 to 90 days	450,666	9.30	509,126	12.17
91 to 180 days	550,449	11.36	497,329	11.88
181 days and over	409,872	8.46	304,845	7.28
	4,844,924	100.00%	4,185,023	100.00%
Less: Allowance for doubtful accounts	290,000		200,000	
Allowance for contractual adjustments	1,850,000		1,700,000	
Net	\$ 2,704,924		\$ 2,285,023	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
BALANCE, BEGINNING OF YEAR	\$ 200,000	\$ 170,000
Add: Provision for bad debts	501,402	256,476
Recoveries of accounts written off	167,391	222,169
Less: Accounts written off	(578,793)	(448,645)
BALANCE, END OF YEAR	\$ 290,000	\$ 200,000

COLLECTION STATISTICS

	2006	2005
Net accounts receivable – patients	\$ 2,704,924	\$ 2,285,023
Number of days charges outstanding (1)	49	46
Uncollectible accounts (2)	\$ 853,935	\$ 493,368
Percentage of uncollectible accounts to total charges	3.1%	2.2%

(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.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SUPPLIES/PREPAID EXPENSE
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
SUPPLIES		
Pharmacy	\$ 104,153	\$ 90,953
Storeroom	83,209	85,766
Operating room	74,426	59,697
Laboratory	24,674	41,543
Radiology	9,528	9,159
Emergency room	7,432	5,909
Physical therapy	7,395	8,285
Dietary	<u>2,799</u>	<u>3,385</u>
Total	<u>\$ 313,616</u>	<u>\$ 304,697</u>
PREPAID EXPENSE		
Insurance	\$ 73,459	\$ 66,010
Maintenance agreements	40,990	35,354
Pharmacy supplies	<u>16,481</u>	<u>(1,361)</u>
Total	<u>\$ 130,930</u>	<u>\$ 100,003</u>

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Medical Center		
Acute	2,317	2,004
Swing-bed	725	601
Newborn	424	356
NUMBER OF BEDS		
Medical Center	25	25
PERCENTAGE OF OCCUPANCY (excluding newborn)		
	33%	29%
DISCHARGES		
Medical Center		
Acute	704	587
Swing-bed	114	71
AVERAGE LENGTH OF STAY		
Medical Center		
Acute	3.29	3.41
Swing-bed	6.36	8.46
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Private	\$ 575.00	\$ 550.00
Semi-private	575.00	550.00
Nursery	575.00	500.00



CPAs & BUSINESS ADVISORS

**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**

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, 2006 and 2005, 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 August 9, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 an opinion 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-06 in the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical 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.

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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
August 9, 2006

**DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006**

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

I-A-06 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-06 Certified Budget – Disbursements during the year ended June 30, 2006, did not exceed the amount budgeted.

II-B-06 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-06 Travel Expense – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

II-D-06 Business Transactions – The Medical Center had transactions with a business partially owned by a spouse of an employee as follows:

Building project	\$	240,099
------------------	----	---------

II-E-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Medical Center’s investment policy were noted.

II-G-06 Publication of Bills Allowed and Salaries – Chapter 347.13(14) 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 Medical Center published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.