

**FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**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>
<b>BOARD OF TRUSTEES AND MEDICAL CENTER OFFICIALS</b>	1
<b>INDEPENDENT AUDITOR’S REPORT</b>	2-3
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	4-5
<b>BASIC FINANCIAL STATEMENTS</b>	
Balance Sheets	6
Statements of Revenues, Expenses, and Changes in Net Assets	7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-22
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual (Cash Basis)	23
Notes to Required Supplementary Information – Budgetary Reporting	24
<b>INDEPENDENT AUDITOR’S REPORT ON SUPPLEMENTARY INFORMATION</b>	25
<b>OTHER SUPPLEMENTARY INFORMATION</b>	
Schedules	
Net Patient Service Revenue	26
Other Operating Revenues	27
Operating Expenses	28-31
Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics	32
Supplies/Prepaid Expense	33
Statistical Information (Unaudited)	34
<b>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</b>	35-36
<b>SCHEDULE OF FINDINGS</b>	37-38

**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, 2012
Joe Keith	Vice-Chairperson	December 31, 2012
Suzanne Britt	Treasurer	December 31, 2010
Kathy Waterman	Secretary	December 31, 2010
Kay Harris	Member	December 31, 2012
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**, as of June 30, 2007 and 2006, 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**, as of June 30, 2007 and 2006, 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 10, 2007, on our consideration of the Medical Center'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.

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 23 and 24 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
August 10, 2007

# **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, 2007. 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 \$2,037,264 or 10%. A significant portion of this increase represents investments in capital equipment and buildings.
- The Medical Center's assets exceeded liabilities by \$17,589,781 at June 30, 2007.
- During the year, the Medical Center's total operating revenues increased 7.92% to \$21,440,920, while the operating expenses increased 5.69% to \$20,213,324. The Medical Center had income from operations of \$1,227,596 which is 5.73% of total operating revenues.
- The Medical Center made capital equipment and building investments totaling approximately \$3,000,000 during the fiscal year. The source of funding for these items was derived from operations and notes payable.
- The Delaware County Healthcare Foundation, formerly reported as a component unit of the Medical Center, was dissolved in October 2006. All assets belonging to the Foundation were transferred to Regional Medical Center.

### **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, 2007, reports total assets of \$22,198,786, total liabilities of \$4,609,005 and net assets of \$17,589,781.

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 \$21,440,920 and total operating expenses of \$20,213,324 during fiscal year 2007. The operating income was \$1,227,596 in 2007, compared to an operating income of \$741,679 in 2006.

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 \$1,664,864 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 has plans to begin new construction for the Dialysis and Inpatient Specialty Care Unit during FY 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, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 836,000	\$ 1,223,912
Receivables		
Patient, net of estimated uncollectibles		
of \$2,663,000 in 2007 and \$2,140,000 in 2006	3,337,047	2,704,924
Succeeding year property tax	747,666	682,508
Other	166,412	103,802
Supplies	331,348	313,616
Prepaid expense	<u>191,386</u>	<u>130,930</u>
 Total current assets	 <u>5,609,859</u>	 <u>5,159,692</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Investments		
By board for capital improvements	<u>389,832</u>	<u>390,153</u>
 LAND, BUILDINGS, AND EQUIPMENT, net - Note 6	 <u>14,323,084</u>	 <u>12,961,324</u>
<b>OTHER ASSETS</b>		
Gift fund investments - Note 5	1,643,114	1,561,779
Beneficial interest in charitable trust	148,000	-
Joint ventures - Note 7	<u>84,897</u>	<u>88,574</u>
 Total other assets	 <u>1,876,011</u>	 <u>1,650,353</u>
 Total assets	 <u>\$ 22,198,786</u>	 <u>\$ 20,161,522</u>

See notes to financial statements.

	<u>2007</u>	<u>2006</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 9	\$ 535,073	\$ 552,530
Accounts payable		
Trade	574,684	539,679
Construction	74,507	80,900
Estimated third-party payor settlements	200,000	760,000
Accrued expenses		
Salaries and wages	319,395	276,258
Paid leave	941,080	938,379
Interest	2,714	1,060
Payroll taxes and other	84,095	83,309
Deferred revenue for succeeding year property tax receivable	<u>747,666</u>	<u>682,508</u>
Total current liabilities	3,479,214	3,914,623
LONG-TERM DEBT, less current maturities - Note 9	<u>1,129,791</u>	<u>699,099</u>
Total liabilities	<u>4,609,005</u>	<u>4,613,722</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	12,658,220	11,709,695
Restricted		
Nonexpendable beneficial interest in charitable trust	148,000	-
Unrestricted	<u>4,783,561</u>	<u>3,838,105</u>
Total net assets	<u>17,589,781</u>	<u>15,547,800</u>
Total liabilities and net assets	<u>\$ 22,198,786</u>	<u>\$ 20,161,522</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
Net patient service revenue (net of provision for bad debts of \$551,579 in 2007 and \$501,402 in 2006) - Notes 2 and 3	<b>\$ 20,937,096</b>	\$ 19,394,776
Other operating revenues	<b>503,824</b>	472,353
<b>TOTAL OPERATING REVENUES</b>	<b><u>21,440,920</u></b>	<u>19,867,129</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	<b>9,097,829</b>	8,609,770
Supplies and other expenses	<b>9,614,697</b>	9,234,326
Depreciation and amortization	<b>1,500,798</b>	1,281,354
<b>TOTAL OPERATING EXPENSES</b>	<b><u>20,213,324</u></b>	<u>19,125,450</u>
<b>OPERATING INCOME</b>	<b><u>1,227,596</u></b>	<u>741,679</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
County tax revenue	<b>682,983</b>	613,673
Noncapital contributions	<b>33,157</b>	22,360
Interest expense	<b>(73,428)</b>	(61,575)
Investment income	<b>113,942</b>	15,033
Distributions to beneficiaries	<b>-</b>	(3,500)
Loss on disposal of capital assets	<b>(90,269)</b>	(2,531)
<b>NET NONOPERATING REVENUES</b>	<b><u>666,385</u></b>	<u>583,460</u>
<b>REVENUES IN EXCESS OF EXPENSES</b>	<b>1,893,981</b>	1,325,139
<b>OTHER CHANGES IN NET ASSETS</b>		
Beneficial interest in charitable trust	<b>148,000</b>	-
Capital contributions	<b>-</b>	17,569
<b>INCREASE IN NET ASSETS</b>	<b>2,041,981</b>	1,342,708
<b>NET ASSETS BEGINNING OF YEAR</b>	<b><u>15,547,800</u></b>	<u>14,205,092</u>
<b>NET ASSETS END OF YEAR</b>	<b><u>\$ 17,589,781</u></b>	<u>\$ 15,547,800</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 19,744,973	\$ 19,749,875
Payments of salaries, wages, and benefits	(9,051,205)	(8,466,006)
Payments of supplies and other expenses	(9,664,273)	(9,325,594)
Other receipts	<u>441,214</u>	<u>498,653</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>1,470,709</b></u>	<u>2,456,928</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County tax received	<b>682,983</b>	613,673
Noncapital contributions	<u>33,157</u>	<u>22,360</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u><b>716,140</b></u>	<u>636,033</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property and equipment	(2,967,827)	(3,085,095)
Proceeds from note payable	<b>1,106,199</b>	500,000
Principal paid on debt	(692,964)	(874,266)
Interest paid on debt	(71,774)	(61,575)
Distributions to beneficiaries	-	(3,500)
Capital contributions	-	17,569
Proceeds from sale of equipment	<u>15,000</u>	<u>7,000</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(2,611,366)</b></u>	<u>(3,499,867)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in assets limited as to use or restricted	<b>321</b>	261,732
(Increase) decrease in gift fund investments	(81,335)	36,905
Decrease in joint ventures	<b>3,677</b>	3,174
Investment income	<u>113,942</u>	<u>15,033</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u><b>36,605</b></u>	<u>316,844</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(387,912)</b>	(90,062)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>1,223,912</b></u>	<u>1,313,974</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>\$ 836,000</b></u>	<u>\$ 1,223,912</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,227,596	\$ 741,679
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,500,798	1,281,354
Provision for bad debts	551,579	501,402
Changes in assets and liabilities		
Receivables	(1,246,312)	(895,003)
Supplies	(17,732)	(8,919)
Prepaid expense	(60,456)	(30,927)
Accounts payable	28,612	(51,422)
Estimated third-party payor settlements	(560,000)	775,000
Accrued expenses	<u>46,624</u>	<u>143,764</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 1,470,709</u>	 <u>\$ 2,456,928</u>
 SUPPLEMENTAL NONCASH CAPITAL ACTIVITY		
Capital asset purchases included in accounts payable at June 30, 2007 and 2006	 <u>\$ 74,507</u>	 <u>\$ 80,900</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

---

**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. The Medical Center 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).

The Medical Center's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

*Reporting Entity*

For financial reporting purposes the Medical Center has included all funds, organizations, agencies, boards, commissions, and authorities. The Medical Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria 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 Medical Center has no component units which meet the Governmental Accounting Standards Board criteria.

*Basis of Presentation*

The balance sheet displays the Medical Center'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.
- *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 Medical Center's policy to use restricted resources first.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

---

*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 Medical Center 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 Medical Center 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 original maturities 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.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

---

*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

*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, 2007.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 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 Medical Center'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.

*Advertising Costs*

The Medical Center expenses advertising costs as incurred.

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

---

*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 items from the 2006 financial statements have been reclassified to conform to the current year presentation.

*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, 2007 and 2006, were \$287,253 and \$272,772, respectively. The estimated costs of the charges foregone, based on the cost to charge ratio of the Medicare cost report, for the years end June 30, 2007 and 2006, were \$223,000 and \$212,000, 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, 2004. 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, 2007 AND 2006**

---

**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, 2003.

**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.

Revenue from the Medicare and Medicaid programs accounted for approximately 38% and 9%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2007, and 38% and 10%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2006.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2007 and 2006, is as follows:

	<u>2007</u>	<u>2006</u>
Total patient service revenue	<u>\$ 30,119,491</u>	<u>\$ 26,867,744</u>
Contractual adjustments		
Medicare	(4,855,978)	(4,545,548)
Medicaid	(1,610,320)	(992,664)
Other	<u>(2,164,518)</u>	<u>(1,433,354)</u>
Total contractual adjustments	<u>(8,630,816)</u>	<u>(6,971,566)</u>
Net patient service revenue	21,488,675	19,896,178
Provision for bad debts	<u>(551,579)</u>	<u>(501,402)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 20,937,096</u>	<u>\$ 19,394,776</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

---

**NOTE 4 – CASH AND DEPOSITS**

The Medical Center’s deposits in banks at June 30, 2007 and 2006, 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. Savings accounts classified as investments in the financial statements are presented as cash and deposits in this note.

At June 30, 2007 and 2006, the Medical Center’s carrying amounts of cash and deposits are as follows:

	<u>2007</u>	<u>2006</u>
Assets limited as to use or restricted by		
Board for capital improvements		
Savings accounts	<u>\$ 389,832</u>	<u>\$ 390,153</u>

The Medical Center’s investment policy 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. All of the above cash and deposits have a maturity date of less than one year.

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Medical Center are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

The Medical Center attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 5 – GIFT FUND INVESTMENTS**

Gift fund investments under other assets consist of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Money market account	\$ 777,521	\$ 922,783
Savings accounts	18,715	207,850
Certificates of deposit	508,294	97,735
Cash surrender value of life insurance policy	<u>338,584</u>	<u>333,411</u>
	<u>\$ 1,643,114</u>	<u>\$ 1,561,779</u>

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

Land, buildings, and equipment activity for the years ended June 30, 2007 and 2006, was as follows:

	June 30, 2006				June 30, 2007
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 70,419	\$ -	\$ -	\$ -	\$ 70,419
Land improvements	1,140,793	141,401	-	-	1,282,194
Buildings	14,456,728	1,844,212	-	468,076	16,769,016
Leasehold improvements	45,911	23,561	-	-	69,472
Equipment	9,421,573	953,216	(2,019,479)	-	8,355,310
Construction in progress	468,076	18,228	-	(468,076)	18,228
	<u>25,603,500</u>	<u>\$ 2,980,618</u>	<u>\$ (2,019,479)</u>	<u>\$ -</u>	<u>26,564,639</u>
Accumulated depreciation					
Land improvements	417,532	\$ 67,395	\$ -	\$ -	484,927
Buildings	5,424,857	631,109	-	-	6,055,966
Leasehold improvements	16,006	2,725	-	-	18,731
Equipment	6,783,781	799,319	(1,901,169)	-	5,681,931
	<u>12,642,176</u>	<u>\$ 1,500,548</u>	<u>\$ (1,901,169)</u>	<u>\$ -</u>	<u>12,241,555</u>
Total land, buildings, and equipment, net	<u>\$ 12,961,324</u>				<u>\$ 14,323,084</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

	June 30, 2005				June 30, 2006
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Cost					
Land	\$ 70,419	\$ -	\$ -	\$ -	\$ 70,419
Land improvements	912,289	228,504	-	-	1,140,793
Buildings	8,877,710	418,827	-	5,160,191	14,456,728
Leasehold improvements	37,358	8,553	-	-	45,911
Equipment	8,789,830	731,516	(176,942)	77,169	9,421,573
Construction in progress	4,004,502	1,700,934	-	(5,237,360)	468,076
	<u>22,692,108</u>	<u>\$ 3,088,334</u>	<u>\$ (176,942)</u>	<u>\$ -</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>\$ -</u>	<u>12,642,176</u>
Total land, buildings, and equipment, net	<u>\$ 11,167,114</u>				<u>\$ 12,961,324</u>

**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 building space under noncancelable long-term lease agreements. Total lease expense for the years ended June 30, 2007 and 2006, for all leases was \$121,386 and \$97,709, respectively.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

**NOTE 9 – LONG-TERM DEBT**

A schedule of changes in the Medical Center’s long-term debt for 2007 and 2006 follows:

	June 30 2006 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<b>June 30 2007 Balance</b>	<b>Amounts Due within One Year</b>
3.95% note payable, due in monthly installments through February 2010, secured by building addition	\$ 752,152	\$ -	\$ 194,482	\$ 557,670	\$ 202,259
4.95% note payable, due in annual installments through October 2008, secured by equipment	246,843	-	104,782	142,061	110,078
4.45% note payable, due in monthly installments through December, 2011, secured by Medical Center revenues	-	1,000,000	105,666	894,334	187,336
5.75% note payable, due in annual installments through October 2008	-	106,199	35,400	70,799	35,400
4.25% note payable, due in monthly installments through December 2006, secured by building addition	<u>252,634</u>	<u>-</u>	<u>252,634</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,251,629</u>	<u>\$ 1,106,199</u>	<u>\$ 692,964</u>	<u>1,664,864</u>	<u>\$ 535,073</u>
Less current maturities				<u>(535,073)</u>	
Long-term debt, less current maturities				<u><b>\$ 1,129,791</b></u>	

Long-term debt maturities are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 535,073	\$ 61,852	\$ 596,925
2009	473,765	38,752	512,517
2010	349,811	20,782	370,593
2011	214,145	9,313	223,458
2012	<u>92,070</u>	<u>1,038</u>	<u>93,108</u>
Total	<u>\$ 1,664,864</u>	<u>\$ 131,737</u>	<u>\$ 1,796,601</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007 AND 2006**

	June 30 2005 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30 2006 <u>Balance</u>	Amounts Due Within <u>One Year</u>
3.95% note payable, due in monthly 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
4.95% note payable, due in annual installments through October 2008, secured by equipment	346,574	-	99,731	246,843	104,782
3.2% note payable, due in annual installments through January 2006	<u>355,549</u>	<u>-</u>	<u>355,549</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,625,895</u>	<u>\$ 500,000</u>	<u>\$ 874,266</u>	1,251,629	<u>\$ 552,530</u>
Less current maturities				<u>(552,530)</u>	
Long-term debt, less current maturities				<u>\$ 699,099</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, 2007, 2006, and 2005. Contribution requirements are established by state statute. The Medical Center's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were \$514,515, \$483,530, and \$415,124, 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, 2007 AND 2006**

---

**NOTE 11 – CONTINGENCIES**

*Malpractice Insurance*

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on an occurrence basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million.

*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. Liabilities of \$145,000 and 100,000 have been established to record the incurred but not reported claims outstanding at June 30, 2007 and 2006, respectively. The liability is included within trade accounts payable on the balance sheet.

*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 the 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 regulatory 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, 2007 AND 2006**

---

**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, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	37%	35%
Medicaid	9	9
Commercial insurance	47	44
Other third-party payors and patients	<u>7</u>	<u>12</u>
	<u><b>100%</b></u>	<u>100%</u>

**NOTE 14 – DELAWARE COUNTY HEALTH CARE FOUNDATION**

Delaware County Health Care Foundation (Foundation) was dissolved effective October 15, 2006. As of June 30, 2006, the Foundation was considered a component unit of Delaware County Memorial Hospital, d/b/a Regional Medical Center. As a result, the Foundation's financial statements as of and for the year ended June 30, 2006, were discretely presented with the financial statements of the Medical Center. Effective, October 15, 2006, the Medical Center acquired all assets of the Foundation. They are included within gift fund investments on the balance sheet. The effect of this change was to increase the assets and net assets of the Medical Center for 2006 by \$638,996. Gift fund investments and unrestricted net assets as of the beginning of 2006 have been adjusted for the effect of retroactive application of this consolidation.

**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, 2007**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 682,983	\$ -	\$ 682,983	\$ 682,508	\$ 475
Estimated other revenues/receipts	<u>21,736,019</u>	<u>(281,534)</u>	<u>21,454,485</u>	<u>22,392,608</u>	<u>(938,123)</u>
	22,419,002	(281,534)	22,137,468	23,075,116	(937,648)
Expenses/disbursements	<u>20,377,021</u>	<u>2,067,345</u>	<u>22,444,366</u>	<u>23,465,376</u>	<u>1,021,010</u>
Net	2,041,981	(2,348,879)	(306,898)	(390,260)	<u>\$ 83,362</u>
Balance beginning of year	<u>15,547,800</u>	<u>(12,371,956)</u>	<u>3,175,844</u>	<u>1,402,102</u>	
Balance end of year	<u>\$ 17,589,781</u>	<u>\$(14,720,835)</u>	<u>\$ 2,868,946</u>	<u>\$ 1,011,842</u>	

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007**

---

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 not amended during the year ended June 30, 2007.

For the year ended June 30, 2007, the Medical Center's expenditures did not exceed the amount budgeted.



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 34 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 10, 2007

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>PATIENT SERVICE REVENUE</b>		
Routine services	\$ 3,069,564	\$ 2,631,150
Mental health	2,516,589	2,129,621
Delivery and labor rooms	216,477	157,674
Operating and recovery rooms	2,734,258	2,599,765
Medical supplies	584,592	540,367
Emergency services	2,503,193	2,440,755
Laboratory and blood bank	4,375,990	3,851,663
Electrocardiology	628,064	364,245
Cardiac rehab	80,275	67,440
Radiology	5,236,626	4,584,312
Cardiology	64,005	106,986
Pharmacy	2,619,462	2,870,035
Dialysis	-	800
Anesthesiology	900,629	913,118
Respiratory therapy	263,383	263,864
Physical therapy	1,010,486	871,695
Speech therapy	116,197	96,864
Occupational therapy	234,127	141,841
Ambulance	633,798	435,050
Clinic	57,450	44,408
Community health	2,432,560	1,887,956
Public health	129,019	140,907
	<u>30,406,744</u>	<u>27,140,516</u>
Charity care	<u>(287,253)</u>	<u>(272,772)</u>
	<u>\$ 30,119,491</u>	<u>\$ 26,867,744</u>
<b>Total patient service revenue*</b>		
<b>*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED</b>		
Inpatient revenue	\$ 5,902,110	\$ 5,152,180
Outpatient revenue	24,504,634	21,988,336
Charity care	<u>(287,253)</u>	<u>(272,772)</u>
	<u>30,119,491</u>	<u>26,867,744</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(4,855,978)	(4,545,548)
Medicaid	(1,610,320)	(92,664)
Other	<u>(2,164,518)</u>	<u>(1,433,354)</u>
	<u>(8,630,816)</u>	<u>(6,971,566)</u>
<b>Total contractual adjustments</b>		
<b>NET PATIENT SERVICE REVENUE</b>	<b>21,488,675</b>	<b>19,896,178</b>
<b>PROVISION FOR BAD DEBTS</b>	<b><u>(551,579)</u></b>	<b><u>(501,402)</u></b>
<b>NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)</b>	<b><u>\$ 20,937,096</u></b>	<b><u>\$ 19,394,776</u></b>

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2007 AND 2006**

---

	<u>2007</u>	<u>2006</u>
OTHER OPERATING REVENUES		
Rent	\$ 191,290	\$ 175,832
Education services	71,864	64,111
Cafeteria	59,725	59,784
Outside pharmacy	58,279	47,754
Massage therapy	47,106	43,769
Purchase discounts	35,991	31,325
Fitness center memberships	22,511	32,066
Vending machines	1,191	1,241
Other	<u>15,867</u>	<u>16,471</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 503,824</u>	 <u>\$ 472,353</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 264,606	\$ 242,079
Supplies and other expenses	<u>28,872</u>	<u>31,759</u>
	<u>293,478</u>	<u>273,838</u>
<b>ROUTINE SERVICES</b>		
Salaries and wages	1,262,496	1,104,131
Supplies and other expenses	<u>121,464</u>	<u>102,213</u>
	<u>1,383,960</u>	<u>1,206,344</u>
<b>NURSERY</b>		
Salaries and wages	52,253	66,081
Supplies and other expenses	<u>6,329</u>	<u>14,433</u>
	<u>58,582</u>	<u>80,514</u>
<b>SPECIAL CARE UNIT</b>		
Salaries and wages	84,995	65,815
Supplies and other expenses	<u>2,424</u>	<u>4,927</u>
	<u>87,419</u>	<u>70,742</u>
<b>MENTAL HEALTH</b>		
Salaries and wages	1,160,204	1,205,977
Supplies and other expenses	<u>611,767</u>	<u>640,693</u>
	<u>1,771,971</u>	<u>1,846,670</u>
<b>DELIVERY AND LABOR ROOMS</b>		
Salaries and wages	25,526	29,044
Supplies and other expenses	<u>5,946</u>	<u>6,278</u>
	<u>31,472</u>	<u>35,322</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries and wages	377,414	344,384
Supplies and other expenses	<u>143,321</u>	<u>138,912</u>
	<u>520,735</u>	<u>483,296</u>
<b>MEDICAL SUPPLIES</b>		
Supplies and other expenses	<u>342,491</u>	<u>318,119</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	435,539	381,503
Supplies and other expenses	<u>809,763</u>	<u>846,970</u>
	<u>1,245,302</u>	<u>1,228,473</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>LABORATORY AND BLOOD BANK</b>		
Salaries and wages	\$ 428,061	\$ 407,100
Supplies and other expenses	<u>495,980</u>	<u>611,264</u>
	<u>924,041</u>	<u>1,018,364</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	4,797	5,601
Supplies and other expenses	<u>123,418</u>	<u>48,595</u>
	<u>128,215</u>	<u>54,196</u>
<b>CARDIAC REHAB</b>		
Salaries and wages	34,283	34,772
Supplies and other expenses	<u>6,038</u>	<u>2,366</u>
	<u>40,321</u>	<u>37,138</u>
<b>RADIOLOGY</b>		
Salaries and wages	451,486	409,303
Supplies and other expenses	<u>546,201</u>	<u>770,024</u>
	<u>997,687</u>	<u>1,179,327</u>
<b>CARDIOLOGY</b>		
Salaries and wages	2,278	2,965
Supplies and other expenses	<u>17,875</u>	<u>19,190</u>
	<u>20,153</u>	<u>22,155</u>
<b>PHARMACY</b>		
Salaries and wages	275,176	298,494
Supplies and other expenses	<u>680,132</u>	<u>800,234</u>
	<u>955,308</u>	<u>1,098,728</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>601,983</u>	<u>573,308</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	58,348	49,019
Supplies and other expenses	<u>11,532</u>	<u>18,598</u>
	<u>69,880</u>	<u>67,617</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	\$ 423,205	\$ 425,493
Supplies and other expenses	<u>64,534</u>	<u>16,723</u>
	<u>487,739</u>	<u>442,216</u>
<b>SPEECH THERAPY</b>		
Supplies and other expenses	<u>68,764</u>	<u>43,779</u>
<b>OCCUPATIONAL THERAPY</b>		
Supplies and other expenses	<u>119,907</u>	<u>74,219</u>
<b>AMBULANCE</b>		
Salaries and wages	145,410	143,439
Supplies and other expenses	<u>26,239</u>	<u>25,554</u>
	<u>171,649</u>	<u>168,993</u>
<b>CLINIC</b>		
Salaries and wages	104,184	110,878
Supplies and other expenses	<u>15,032</u>	<u>34,376</u>
	<u>119,216</u>	<u>145,254</u>
<b>OUTREACH CLINIC</b>		
Supplies and other expenses	<u>90,594</u>	<u>73,194</u>
<b>COMMUNITY HEALTH</b>		
Salaries and wages	924,363	748,920
Supplies and other expenses	<u>303,037</u>	<u>172,294</u>
	<u>1,227,400</u>	<u>921,214</u>
<b>PUBLIC HEALTH</b>		
Salaries and wages	109,574	89,816
Supplies and other expenses	<u>43,465</u>	<u>36,901</u>
	<u>153,039</u>	<u>126,717</u>
<b>SOCIAL SERVICES</b>		
Salaries and wages	7,067	9,981
Supplies and other expenses	<u>36</u>	<u>-</u>
	<u>7,103</u>	<u>9,981</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
MEDICAL RECORDS		
Salaries and wages	\$ 347,395	\$ 321,391
Supplies and other expenses	<u>118,520</u>	<u>86,879</u>
	<u>465,915</u>	408,270
DIETARY		
Salaries and wages	160,705	155,485
Supplies and other expenses	<u>77,899</u>	<u>70,200</u>
	<u>238,604</u>	225,685
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	241,682	238,271
Supplies and other expenses	<u>766,297</u>	<u>696,138</u>
	<u>1,007,979</u>	934,409
HOUSEKEEPING		
Salaries and wages	163,829	161,953
Supplies and other expenses	<u>31,280</u>	<u>22,888</u>
	<u>195,109</u>	184,841
LAUNDRY		
Salaries and wages	14,734	15,598
Supplies and other expenses	<u>75,123</u>	<u>73,517</u>
	<u>89,857</u>	89,115
ADMINISTRATIVE SERVICES		
Salaries and wages	1,538,219	1,542,277
Supplies and other expenses	<u>1,048,380</u>	<u>1,075,393</u>
	<u>2,586,599</u>	2,617,670
UNASSIGNED EXPENSES		
Depreciation and amortization	1,500,798	1,281,354
Insurance	133,592	134,379
Employee benefits	<u>2,076,462</u>	<u>1,650,009</u>
	<u>3,710,852</u>	3,065,742
TOTAL OPERATING EXPENSES	<u>\$ 20,213,324</u>	<u>\$ 19,125,450</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,  
AND COLLECTION STATISTICS  
JUNE 30, 2007 AND 2006**

**ANALYSIS OF AGING**

Days Since Discharge	2007		2006	
	Amount	Percent to Total	Amount	Percent to Total
30 days or less	\$ 2,772,652	46.21%	\$ 2,478,230	51.15%
31 to 60 days	1,509,645	25.16	955,707	19.73
61 to 90 days	613,688	10.23	450,666	9.30
91 to 180 days	595,517	9.93	550,449	11.36
181 days and over	<u>508,402</u>	<u>8.47</u>	<u>409,872</u>	<u>8.46</u>
	<b>5,999,904</b>	<b>100.00%</b>	4,844,924	100.00%
Less: Allowance for doubtful accounts	337,857		290,000	
Allowance for contractual adjustments	<u>2,325,000</u>		<u>1,850,000</u>	
Net	<u>\$ 3,337,047</u>		<u>\$ 2,704,924</u>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2007 AND 2006**

	2007	2006
BALANCE, BEGINNING OF YEAR	\$ 290,000	\$ 200,000
Add: Provision for bad debts	551,579	501,402
Recoveries of accounts written off	204,401	167,391
Less: Accounts written off	<u>(708,123)</u>	<u>(578,793)</u>
BALANCE, END OF YEAR	<u>\$ 337,857</u>	<u>\$ 290,000</u>

	2007	2006
<b>COLLECTION STATISTICS</b>		
Net accounts receivable – patients	\$ 3,337,047	\$ 2,704,924
Number of days charges outstanding (1)	55	49
Uncollectible accounts (2)	\$ 913,472	\$ 853,935
Percentage of uncollectible accounts to total charges	3.0%	3.1%

(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, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>SUPPLIES</b>		
Pharmacy	\$ 119,934	\$ 104,153
Storeroom	86,094	83,209
Operating room	76,104	74,426
Laboratory	22,686	24,674
Radiology	7,441	9,528
Emergency room	7,280	7,432
Physical therapy	8,319	7,395
Dietary	<u>3,490</u>	<u>2,799</u>
 Total	 <u>\$ 331,348</u>	 <u>\$ 313,616</u>
 <b>PREPAID EXPENSE</b>		
Insurance	\$ 77,768	\$ 73,459
Maintenance agreements	82,363	40,990
Pharmacy supplies	<u>31,255</u>	<u>16,481</u>
 Total	 <u>\$ 191,386</u>	 <u>\$ 130,930</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**STATISTICAL INFORMATION (UNAUDITED)**  
**YEARS ENDED JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>PATIENT DAYS</b>		
Medical Center		
Acute	<b>2,087</b>	2,317
Swing-bed	<b>809</b>	725
Newborn	<b>356</b>	424
<b>NUMBER OF BEDS</b>		
Medical Center	<b>25</b>	25
<b>PERCENTAGE OF OCCUPANCY (excluding newborn)</b>		
	<b>32%</b>	33%
<b>DISCHARGES</b>		
Medical Center		
Acute	<b>660</b>	704
Swing-bed	<b>116</b>	114
<b>AVERAGE LENGTH OF STAY</b>		
Medical Center		
Acute	<b>3.16</b>	3.29
Swing-bed	<b>6.97</b>	6.36
<b>MOST RECENT YEAR END ROUTINE SERVICE RATES</b>		
Private	<b>\$ 795.00</b>	\$ 575.00
Semi-private	<b>795.00</b>	575.00
Nursery	<b>575.00</b>	575.00



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, as of June 30, 2007 and 2006, 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 10, 2007. 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 audit, we considered Delaware County Memorial Hospital's, d/b/a Regional Medical Center, internal control over financial reporting (internal control) as a basis in for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Delaware County Memorial Hospital's, d/b/a Regional Medical Center, internal control. Accordingly, we do not express an opinion on the effectiveness of Delaware County Memorial Hospital's, d/b/a Regional Medical Center, internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Delaware County Memorial Hospital's, d/b/a Regional Medical Center, ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of Delaware County Memorial Hospital's, d/b/a Regional Medical Center, financial statements that is more than inconsequential will not be prevented or detected by Delaware County Memorial Hospital's, d/b/a Regional Medical Center, internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Delaware County Memorial Hospital's, d/b/a Regional Medical Center, internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe that none are material weaknesses.

### **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, 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, 2007, 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.

We also noted certain additional matters that we reported to management in a separate letter dated August 10, 2007.

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 other parties to whom Delaware County Memorial Hospital, d/b/a Regional Medical Center, 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, 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 black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
August 10, 2007

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULE OF FINDINGS**  
**YEAR ENDED JUNE 30, 2007**

---

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

**SIGNIFICANT DEFICIENCIES:**

I-A-07     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 – This is not an unusual condition in organizations of your size. We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Medical Center should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Furthermore, the Medical Center should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management concurs with the finding and recommendation. We are aware of the situation and will continually review the assignment of duties, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-07     Preparation of Financial Statements – The Medical Center does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the Medical Center's management and those charged with governance should decide whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – We are aware of the situation and will continually review the risks associated with this condition because of cost or other considerations.

Conclusion – Response accepted.

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007**

---

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

- II-A-07     Certified Budget – Disbursements during the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07     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-07     Travel Expense – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.
- II-D-07     Business Transactions – The Medical Center had transactions with a business partially owned by a spouse of an employee as follows:
- |                  |                     |
|------------------|---------------------|
| Building project | \$          129,821 |
|------------------|---------------------|
- II-E-07     Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-07     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-07     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.



CPAs & BUSINESS ADVISORS

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

We have audited the financial statements of Delaware County Memorial Hospital, d/b/a Regional Medical Center, for the year ended June 30, 2007, and have issued our report thereon dated August 10, 2007. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated May 14, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Delaware County Memorial Hospital, d/b/a Regional Medical Center. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Delaware County Memorial Hospital's, d/b/a Regional Medical Center, compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Delaware County Memorial Hospital, d/b/a Regional Medical Center, are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2007. We noted no transactions entered into by the Medical Center during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient receivables, the amounts either owed to or receivable from third-party payors, and the liability for self-insured employee medical insurance for claims incurred but not reported at year-end.

Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments. The estimate for the claims incurred but not reported at year-end related to the Medical Center's self-insured employee health plan is based on historical trends. The estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Medical Center's financial reporting process (that is, cause future financial statements to be materially misstated). Audit adjustments that, in our judgment, indicate matters that could have a significant effect on the Medical Center's financial reporting process are listed individually below. All of the adjustments we proposed were posted by the Medical Center.

We discussed all adjustments to the financial statements with the Medical Center's staff during the audit. The following adjustments were made during the fiscal year 2007 audit:

Revenues in excess of expenses prior to audit adjustments	\$ 1,822,876
To adjust contractual and bad debt allowances and adjustments	118,042
To adjust cash surrender value of life insurance	(30,160)
To adjust patient receivables	(18,800)
Other adjustments	<u>2,023</u>
Revenues in excess of expenses as reported	<u>\$ 1,893,981</u>

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Medical Center’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Medical Center’s auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing and completing our audit.

### **Other Comments**

We have included additional comments regarding the Medical Center’s operations.

This information is intended solely for the use of the officials, employees, and constituents of Delaware County Memorial Hospital, d/b/a Regional Medical Center, and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to you and your staff for the fine cooperation that we received during the course of the audit. We look forward to many years of continued service to Delaware County Memorial Hospital, d/b/a Regional Medical Center.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa  
August 10, 2007

xc: Mr. Lon Butikofer, RN, Ph.D

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**YEAR ENDED JUNE 30, 2007**  
**OTHER COMMENTS**

---

**Journal Entry Review**

There are several journal entries made monthly by the Chief Financial Officer and accounting staff. Currently, the Chief Financial Officer reviews entries made by accounting staff. However, there is no review process in place for entries made by the Chief Financial Officer. To minimize errors and improve internal control over financial reporting, we recommend that journal entries prepared by the Chief Financial Officer be reviewed by other accounting staff.

**Bad Debt Write-off**

During audit work, it was noted that the Business Office Manager has the capability to perform all functions of writing off accounts receivable within the Medical Center's computer system. Without proper review procedures in place, the possibility exists for a receivable account to be improperly written off and not detected by other Medical Center personnel. To improve internal control over financial reporting, we recommend that the Chief Financial Officer reconcile amounts written off to allowance for doubtful accounts per the general ledger to the periodic listing submitted from the collection agency. The control will reduce the risk that an accounts receivable could be improperly written off.

**Risk Assessment Audit Standards**

The Auditing Standards Board of the American Institute of Certified Public Accountants has issued a suite of new auditing standards (Statements of Auditing Standards Nos. 104-111) related to the consideration of audit risk.

These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement (whether caused by error or fraud) in a financial statement audit. They also provide guidance on designing and performing audit procedures that are responsive to those assessed risks. Additionally, the Statements establish standards and provide guidance on planning and supervision (determining audit risk and materiality), the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements under audit.

The primary objective of these standards is to enhance the auditor's consideration of audit risk by specifying, among other things:

- A more in-depth understanding of the entity and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate those risks.
- Based upon the understanding obtained, a more rigorous assessment of the risks of where and how financial statements could be materially misstated.
- Improved linkage between the auditor's assessment of risks and the nature, timing, and extent of audit procedures performed in response to those risks.

Auditors will be required to implement these standards for all audit engagements for periods beginning on or after December 15, 2006. As a result, these standards will be in effect for the audit of your financial statements for the year ending June 30, 2008. These standards may have a significant impact on the Medical Center's audit.