

Regional  Medical Center

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

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Joe Keith	Chairperson	December 31, 2012
Steve Palmer	Vice-Chairperson	December 31, 2014
Suzanne Britt	Treasurer	December 31, 2010
Bev Preussner	Secretary	December 31, 2012
Kay Harris	Member	December 31, 2012
Chris Tegeler	Member	December 31, 2014
Kathy Waterman	Member	December 31, 2010
<u>Medical Center Officials</u>		
Lon Butikofer, RN, Ph.D	Chief Executive Officer	
Danette Kramer	Vice President of Finance/CFO	



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, 2009 and 2008, 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delaware County Memorial Hospital, d/b/a Regional Medical Center, as of June 30, 2009 and 2008, 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 31, 2009, 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 audits.

Management's Discussion and Analysis on pages 4 and 5 and the Budgetary Comparison Information on pages 24 and 25 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 31, 2009

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, 2009. 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 \$4,199,044 or 16.9%.
- The Medical Center's assets exceeded liabilities by \$22,957,330 at June 30, 2009.
- During the year, the Medical Center's total operating revenues increased 11.0% to \$26,311,390, while the operating expenses increased 16.4% to \$24,973,033. The Medical Center had income from operations of \$1,338,357 which is 5.1% of total operating revenues.
- The Medical Center made capital equipment and building investments totaling \$3,633,935 during the fiscal year. The source of funding for these items was derived from operations and revenue bond financing.

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, 2009, reports total assets of \$29,004,353, total liabilities of \$6,047,023 and net assets of \$22,957,330.

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 \$26,311,390 and total operating expenses of \$24,973,033 during fiscal year 2009. The operating income was \$1,388,357 in 2009, compared to an operating income of \$2,252,993 in 2008.

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 \$2,200,328 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.

The Medical Center is approved to draw a total of \$7,300,000 on a Series 2009 Hospital Revenue Bond by February 2011. This bond will help finance the Special Care Unit, Medical Office Building, Medical/Surgical Unit remodel, and new computer system.

Factors Bearing on Financial Future

Regional Medical Center has plans to install a new computer system by August 2010 at a total estimated cost of \$3,300,000. A new medical office building is being designed and is expected to be completed by December 2011. The total estimated cost of the medical office building is \$5,900,000.

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,198,225	\$ 1,005,254
Receivables		
Patient, net of estimated uncollectibles		
of \$3,076,000 in 2009 and \$2,941,000 in 2008	3,824,953	3,680,226
Succeeding year property tax	885,163	797,436
Estimated third-party payor settlements	450,000	720,000
Other	173,246	192,916
Supplies	479,467	381,213
Prepaid expense	233,347	154,056
	<u>7,244,401</u>	<u>6,931,101</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Investments		
By board for capital improvements	<u>3,740,900</u>	<u>2,170,318</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	<u>15,616,571</u>	<u>13,505,880</u>
OTHER ASSETS		
Gift fund investments - Note 6	1,988,367	1,955,105
Beneficial interest in charitable trust	148,000	148,000
Deferred financing costs - Note 7	54,410	-
Goodwill - Note 8	150,000	-
Joint ventures - Note 9	61,704	94,905
	<u>2,402,481</u>	<u>2,198,010</u>
Total other assets	<u>2,402,481</u>	<u>2,198,010</u>
Total assets	<u>\$ 29,004,353</u>	<u>\$ 24,805,309</u>

See notes to financial statements.

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 11	\$ 360,324	\$ 473,766
Accounts payable		
Trade	609,025	510,424
Construction	143,244	83,707
Estimated health claims payable - Note 13	140,000	130,092
Accrued expenses		
Salaries and wages	514,124	291,769
Paid leave	1,227,193	987,074
Interest	17,921	1,357
Payroll taxes and other	310,025	201,434
Deferred revenue for succeeding year property tax receivable	<u>885,163</u>	<u>797,436</u>
Total current liabilities	4,207,019	3,477,059
LONG-TERM DEBT, less current maturities - Note 11	<u>1,840,004</u>	<u>656,026</u>
Total liabilities	<u>6,047,023</u>	<u>4,133,085</u>
NET ASSETS		
Invested in capital assets, net of related debt	13,416,243	12,376,088
Restricted		
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	<u>9,393,087</u>	<u>8,148,136</u>
Total net assets	<u>22,957,330</u>	<u>20,672,224</u>
Total liabilities and net assets	<u>\$ 29,004,353</u>	<u>\$ 24,805,309</u>

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$683,821 in 2009 and \$606,321 in 2008) - Notes 2 and 3	\$ 25,774,026	\$ 23,150,128
Other operating revenues	<u>537,364</u>	<u>551,224</u>
TOTAL OPERATING REVENUES	<u>26,311,390</u>	<u>23,701,352</u>
OPERATING EXPENSES		
Salaries and wages	11,591,000	9,694,210
Supplies and other expenses	11,868,061	10,186,695
Depreciation and amortization	<u>1,513,972</u>	<u>1,567,454</u>
TOTAL OPERATING EXPENSES	<u>24,973,033</u>	<u>21,448,359</u>
OPERATING INCOME	<u>1,338,357</u>	<u>2,252,993</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	798,628	747,149
Noncapital contributions	54,772	43,223
Interest expense	(56,346)	(61,852)
Investment income	116,992	113,673
Gain (loss) on disposal of capital assets	<u>10,104</u>	<u>(12,743)</u>
NET NONOPERATING REVENUES	<u>924,150</u>	<u>829,450</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS		
	2,262,507	3,082,443
Capital contributions and grants	<u>22,599</u>	<u>-</u>
INCREASE IN NET ASSETS	2,285,106	3,082,443
NET ASSETS BEGINNING OF YEAR	<u>20,672,224</u>	<u>17,589,781</u>
NET ASSETS END OF YEAR	<u>\$ 22,957,330</u>	<u>\$ 20,672,224</u>

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 25,899,299	\$ 21,886,949
Payments of salaries, wages, and benefits	(11,010,027)	(9,573,411)
Payments of supplies and other expenses	(11,947,005)	(10,118,490)
Other receipts	<u>557,034</u>	<u>524,720</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,499,301</u>	<u>2,719,768</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County tax received	<u>798,628</u>	747,149
Noncapital contributions	<u>54,772</u>	<u>43,223</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>853,400</u>	<u>790,372</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(3,612,910)	(769,296)
Proceeds from issuance of long-term debt	<u>1,525,904</u>	-
Principal paid on debt	(476,393)	(535,072)
Interest paid on debt	(39,782)	(63,209)
Payment of debt issuance costs	(54,410)	-
Increase in construction payable	<u>59,537</u>	9,200
Capital contributions and grants	<u>22,599</u>	-
Proceeds from sale of equipment	<u>19,376</u>	<u>6,303</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(2,556,079)</u>	<u>(1,352,074)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in assets limited as to use or restricted	(1,570,582)	(1,780,486)
Increase in gift fund investments	(33,262)	(311,991)
(Increase) decrease in joint ventures	<u>33,201</u>	<u>(10,008)</u>
Purchase of goodwill	(150,000)	-
Investment income	<u>116,992</u>	<u>113,673</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(1,603,651)</u>	<u>(1,988,812)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	192,971	169,254
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,005,254</u>	<u>836,000</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,198,225</u>	<u>\$ 1,005,254</u>

(continued)

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,338,357	\$ 2,252,993
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,513,972	1,567,454
Provision for bad debts	683,821	606,321
Changes in assets and liabilities		
Receivables	(808,878)	(976,004)
Supplies	(98,254)	(49,865)
Prepaid expense	(79,291)	37,330
Accounts payable - trade	98,601	80,740
Estimated health claims payable	9,908	(14,908)
Estimated third-party payor settlements	270,000	(920,000)
Accrued expenses	<u>571,065</u>	<u>135,707</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 3,499,301</u>	<u>\$ 2,719,768</u>
SUPPLEMENTAL NONCASH CAPITAL ACTIVITIES		
Capital asset purchases included in accounts payable at June 30, 2009 and 2008	<u>\$ 143,244</u>	<u>\$ 83,707</u>

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 accounting principles generally accepted in the United States of America 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, 2009 AND 2008

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 patient 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 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, 2009 AND 2008

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 are 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 class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such 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, 2009.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 and nonexchange 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 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, 2009 AND 2008

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.

Subsequent Events

The Medical Center has evaluated subsequent events through August 31, 2009, the date which the financial statements were available to be issued.

Reclassification

Certain items from the 2008 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 AND COMMUNITY BENEFITS

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$640,189 and \$350,137 for the years ended June 30, 2009 and 2008, respectively. The estimated costs of the charges foregone, based upon the Medical Center's overall cost to charge ratio calculation, for the years ended June 30, 2009 and 2008, were \$399,000 and \$218,000, respectively.

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

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

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:

(continued on next page)

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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 year ended June 30, 2007.

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, 2006.

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 42% and 10%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2009, and 40% and 11%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2008.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2009 and 2008, is as follows:

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Total patient service revenue	<u>\$ 38,638,513</u>	<u>\$ 33,281,162</u>
Contractual adjustments		
Medicare	(6,234,852)	(5,585,873)
Medicaid	(1,868,513)	(986,515)
Other	<u>(4,077,301)</u>	<u>(2,952,325)</u>
Total contractual adjustments	<u>(12,180,666)</u>	<u>(9,524,713)</u>
Net patient service revenue	<u>26,457,847</u>	23,756,449
Provision for bad debts	<u>(683,821)</u>	<u>(606,321)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 25,774,026</u>	<u>\$ 23,150,128</u>

NOTE 4 – CASH AND DEPOSITS

The Medical Center's deposits in banks at June 30, 2009 and 2008, 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, 2009 and 2008, the Medical Center's carrying amounts of cash and deposits are as follows:

	<u>2009</u>	<u>2008</u>
Assets limited as to use or restricted by Board for capital improvements		
Savings and money market accounts	<u>\$ 3,740,900</u>	<u>\$ 2,170,318</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.

DELAWARE COUNTY MEMORIAL HOSPITAL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

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.

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment activity for the years ended June 30, 2009 and 2008, was as follows:

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 70,419	\$ -	\$ -	\$ -	\$ 70,419
Land improvements	1,291,064	-	-	-	1,291,064
Buildings	17,061,108	2,437,079	-	194,690	19,692,877
Leasehold improvements	75,403	7,657	-	-	83,060
Equipment	7,751,520	786,191	(410,449)	14,470	8,141,732
Construction in progress	209,160	403,008	-	(209,160)	403,008
	<u>26,458,674</u>	<u>\$ 3,633,935</u>	<u>\$ (410,449)</u>	<u>\$ -</u>	<u>29,682,160</u>
Accumulated depreciation					
Land improvements	555,975	\$ 68,342	-	\$ -	624,317
Buildings	6,773,709	727,176	-	-	7,500,885
Leasehold improvements	22,785	4,316	-	-	27,101
Equipment	5,600,325	714,138	(401,177)	-	5,913,286
	<u>12,952,794</u>	<u>\$ 1,513,972</u>	<u>\$ (401,177)</u>	<u>\$ -</u>	<u>14,065,589</u>
Total land, buildings, and equipment, net	<u>\$ 13,505,880</u>				<u>\$ 15,616,571</u>

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

	June 30, 2007				June 30, 2008
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land	\$ 70,419	\$ -	\$ -	\$ -	\$ 70,419
Land improvements	1,282,194	8,870	-	-	1,291,064
Buildings	16,769,016	276,403	-	15,689	17,061,108
Leasehold improvements	69,472	5,931	-	-	75,403
Equipment	8,355,310	271,470	(875,260)	-	7,751,520
Construction in progress	18,228	206,621	-	(15,689)	209,160
	<u>26,564,639</u>	<u>\$ 769,295</u>	<u>\$ (875,260)</u>	<u>\$ -</u>	<u>26,458,674</u>
Accumulated depreciation					
Land improvements	484,927	\$ 71,048	\$ -	\$ -	555,975
Buildings	6,055,966	717,743	-	-	6,773,709
Leasehold improvements	18,731	4,054	-	-	22,785
Equipment	5,681,931	774,609	(856,215)	-	5,600,325
	<u>12,241,555</u>	<u>\$ 1,567,454</u>	<u>\$ (856,215)</u>	<u>\$ -</u>	<u>12,952,794</u>
Total land, buildings, and equipment, net	<u>\$ 14,323,084</u>				<u>\$ 13,505,880</u>

Construction in progress at June 30, 2009, represents costs incurred for the implementation of information technology software and the construction of a medical office building. The information technology software project is expected to be completed in August 2010 at a total estimated cost of \$3,300,000. The medical office building project is expected to be completed in December 2011 at a total estimated cost of \$5,900,000. Both projects will be financed primarily from future draws on the Series 2009 Hospital Revenue Bonds. Once those funds are exhausted, the projects will be financed through the Medical Center's cash reserves.

NOTE 6 – GIFT FUND INVESTMENTS

Gift fund investments under other assets consist of the following at June 30, 2009 and 2008:

	2009	2008
Money market account	\$ 1,102,709	\$ 1,069,953
Savings accounts	3,432	17,721
Certificates of deposit	552,440	529,905
Cash surrender value of life insurance policy	329,786	337,526
	<u>\$ 1,988,367</u>	<u>\$ 1,955,105</u>

NOTE 7 – DEFERRED FINANCING COSTS

During the year ended June 30, 2009, the Medical Center incurred deferred financing costs on the issuance of its Series 2009 Hospital Revenue Bonds. Amortization of the deferred financing costs will begin during fiscal year 2010. The costs will be amortized on the effective interest method over the period of the bond issue.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 8 – GOODWILL

During the year ended June 30, 2009, the Medical Center acquired goodwill through the acquisition of two clinics. The clinics operate as a single reporting unit, Regional Family Health. A summary of goodwill as of June 30, 2009, was as follows:

	<u>Gross Carrying Amount</u>
Patient lists	<u>\$ 150,000</u>

The change in the carrying amount of goodwill for the year ended June 30, 2009, is as follows:

	<u>Regional Family Health</u>
Balance as of July 1, 2008	\$ -
Goodwill acquired during the year	150,000
Impairment losses	<u>-</u>
Balance as of June 30, 2009	<u>\$ 150,000</u>

Regional Family Health is tested annually for impairment after the quarter ending June 30th, the close of the Medical Center's fiscal year. No impairment losses were recognized for the year ended June 30, 2009.

NOTE 9 – JOINT VENTURES

The Medical Center has invested monies in various joint ventures for the use of equipment and purchase of services. These joint ventures have been recorded under the equity method of accounting.

NOTE 10 – LEASES

The Medical Center leases building space under lease agreements. Total lease expense for the years ended June 30, 2009 and 2008, for all leases was \$123,280 and \$118,064, respectively.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 11 – LONG-TERM DEBT

A schedule of changes in the Medical Center’s long-term debt for 2009 and 2008 follows:

	June 30, 2008 Balance	Additions	Payments	June 30, 2009 Balance	Amounts Due Within One Year
3.95% note payable, due in monthly installments through February 2010, secured by building addition	\$ 355,411	\$ -	\$ 210,441	\$ 144,970	\$ 144,970
4.95% note payable, due in annual installments, matured during fiscal year 2009, secured by equipment	31,983	-	31,983	-	-
4.45% note payable, due in monthly installments through December 2011, secured by Medical Center revenues	706,998	-	195,942	511,056	204,841
5.75% note payable, due in annual installments, matured during fiscal year 2009	35,400	-	35,400	-	-
4.75% Series 2009 Hospital Revenue Bonds, interest only until February 2011, principal maturing in varying annual amounts from February 2011 to April 2031, collateralized by a pledge of the Medical Center's net revenues	-	1,525,905	-	1,525,905	-
Capitalized lease, due in annual installments through April 2011	-	21,025	2,628	18,397	10,513
Total long-term debt	<u>\$ 1,129,792</u>	<u>\$ 1,546,930</u>	<u>\$ 476,394</u>	<u>2,200,328</u>	<u>\$ 360,324</u>
Less current maturities				<u>(360,324)</u>	
Long-term debt, less current maturities				<u>\$ 1,840,004</u>	

The Medical Center is approved to draw a total of \$7,300,000 by February 2011 on the Series 2009 Hospital Revenue Bonds to complete various construction projects at the Medical Center.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Long-term debt maturities are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>		
2010	\$ 360,324	\$ 93,262	\$ 453,586		
2011	241,284	81,642	322,926		
2012	139,865	71,572	211,437		
2013	50,115	68,214	118,329		
2014	52,548	65,781	118,329		
2015-2019	303,576	288,069	591,645		
2020-2024	384,777	206,868	591,645		
2025-2029	487,697	103,948	591,645		
2030-2031	<u>180,142</u>	<u>7,214</u>	<u>187,356</u>		
Total	<u>\$ 2,200,328</u>	<u>\$ 986,570</u>	<u>\$ 3,186,898</u>		

	<u>June 30, 2007 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2008 Balance</u>	<u>Amounts Due Within One Year</u>
3.95% note payable, due in monthly installments through February 2010, secured by building addition	\$ 557,670	\$ -	\$ 202,259	\$ 355,411	\$ 210,441
4.95% note payable, due in annual installments, matured during fiscal year 2009, secured by equipment	142,061	-	110,078	31,983	31,983
4.45% note payable, due in monthly installments through December 2011, secured by Medical Center revenues	894,334	-	187,336	706,998	195,942
5.75% note payable, due in annual installments, matured during fiscal year 2009	<u>70,799</u>	<u>-</u>	<u>35,399</u>	<u>35,400</u>	<u>35,400</u>
Total long-term debt	<u>\$ 1,664,864</u>	<u>\$ -</u>	<u>\$ 535,072</u>	1,129,792	<u>\$ 473,766</u>
Less current maturities				<u>(473,766)</u>	
Long-term debt, less current maturities				<u>\$ 656,026</u>	

(continued on next page)

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 12 – 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 4.10% of their annual covered salary, and the Medical Center is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Plan members were required to contribute 3.90% and 3.70% of their annual covered salary, and the Medical Center was required to contribute 6.05% and 5.75% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. Contribution requirements are established by state statute. The Medical Center's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$711,753, \$581,494, and \$514,515, respectively, equal to the required contributions for each year.

NOTE 13 – 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 annual 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 \$140,000 and 130,092 have been established to record the incurred but not reported claims outstanding at June 30, 2009 and 2008, respectively. The liability is included within trade accounts payable on the balance sheet.

Health Care Legislation and Regulation

The health care 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 health care 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 health care providers. Violation of these laws and regulations could result in expulsion from government health care 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.

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

Litigation

The Medical Center is involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effects to the Medical Center's financial position or results of operations.

NOTE 14 – RISK MANAGEMENT

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

NOTE 15 – 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, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	36%	37%
Medicaid	9	10
Commercial insurance	45	45
Other third-party payors and patients	10	8
	<u>100%</u>	<u>100%</u>

NOTE 16 – CLINIC ACQUISITIONS

On April 1, 2009, the Medical Center acquired two clinics, one based in Manchester, Iowa, and one based in Strawberry Point, Iowa. The results of those clinics' operations have been included in the financial statements since that date. As a result of the acquisition, it is expected the Medical Center will increase its market concentration in those geographic locations.

The aggregate purchase price for the two clinics was \$959,267. The following table summarizes the fair values of the assets acquired and liabilities assumed at the April 1, 2009, date of acquisition.

	<u>Acquisition Cost</u>
Accounts receivable	\$ 597,953
Supplies	25,834
Equipment	353,800
Prepaid expense	24,675
Goodwill	150,000
Paid leave assumed	(81,770)
Forgiveness of receivable due from clinic	(111,225)
	<u>\$ 959,267</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, 2009**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 798,628	\$ -	\$ 798,628	\$ 797,436	\$ 1,192
Estimated other revenues/receipts	<u>26,515,857</u>	<u>1,772,857</u>	<u>28,288,714</u>	<u>24,045,243</u>	<u>4,243,471</u>
	27,314,485	1,772,857	29,087,342	24,842,679	4,244,663
Expenses/disbursements	<u>25,029,379</u>	<u>2,261,148</u>	<u>27,290,527</u>	<u>29,670,597</u>	<u>2,380,070</u>
Net	2,285,106	(488,291)	1,796,815	(4,827,918)	<u>\$ 6,624,733</u>
Balance beginning of year	<u>20,672,224</u>	<u>(15,541,547)</u>	<u>5,130,677</u>	<u>4,128,983</u>	
Balance end of year	<u>\$ 22,957,330</u>	<u>\$(16,029,838)</u>	<u>\$ 6,927,492</u>	<u>\$ (698,935)</u>	

**DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective 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, 2009.

For the year ended June 30, 2009, 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 35 marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

Dubuque, Iowa
August 31, 2009

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PATIENT SERVICE REVENUE		
Routine services	\$ 3,672,154	\$ 3,413,213
Mental health	2,917,554	2,485,280
Delivery and labor rooms	353,692	301,821
Operating and recovery rooms	4,489,932	3,101,117
Medical supplies	707,893	674,671
Emergency services	3,633,974	3,232,134
Laboratory and blood bank	5,136,047	5,000,847
Electrocardiology	596,900	496,382
Cardiac rehab	91,580	74,351
Radiology	6,293,273	5,649,688
Cardiology	79,507	72,391
Pharmacy	2,736,252	2,676,577
Anesthesiology	1,072,997	992,611
Respiratory therapy	339,028	350,039
Physical therapy	904,979	979,840
Speech therapy	116,857	94,884
Occupational therapy	221,230	247,468
Ambulance	786,710	742,494
Regional Family Health	1,567,448	-
Other clinics	135,933	61,577
Community health	3,258,011	2,866,498
Public health	166,751	117,416
	<u>39,278,702</u>	<u>33,631,299</u>
Charity care	<u>(640,189)</u>	<u>(350,137)</u>
	<u>\$ 38,638,513</u>	<u>\$ 33,281,162</u>
Total patient service revenue*		
*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED		
Inpatient revenue	\$ 6,920,612	\$ 6,496,932
Outpatient revenue	32,358,090	27,134,367
Charity care	<u>(640,189)</u>	<u>(350,137)</u>
Total patient service revenue	<u>38,638,513</u>	<u>33,281,162</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(6,234,852)	(5,585,873)
Medicaid	(1,868,513)	(986,515)
Other	<u>(4,077,301)</u>	<u>(2,952,325)</u>
Total contractual adjustments	<u>(12,180,666)</u>	<u>(9,524,713)</u>
NET PATIENT SERVICE REVENUE	26,457,847	23,756,449
PROVISION FOR BAD DEBTS	<u>(683,821)</u>	<u>(606,321)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 25,774,026</u>	<u>\$ 23,150,128</u>

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OTHER OPERATING REVENUES		
Rent	\$ 204,943	\$ 201,360
Cafeteria	74,350	72,316
Massage therapy	69,678	50,083
Outside pharmacy	63,086	60,858
Education services	61,794	74,445
Purchase discounts	19,574	40,723
Fitness center memberships	17,704	23,452
Vending machines	1,527	1,102
Other	<u>24,708</u>	<u>26,885</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 537,364</u>	 <u>\$ 551,224</u>

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 280,644	\$ 281,314
Supplies and other expenses	<u>29,484</u>	<u>30,530</u>
	<u>310,128</u>	<u>311,844</u>
ROUTINE SERVICES		
Salaries and wages	1,661,542	1,435,194
Supplies and other expenses	<u>175,562</u>	<u>160,379</u>
	<u>1,837,104</u>	<u>1,595,573</u>
NURSERY		
Salaries and wages	77,953	66,011
Supplies and other expenses	<u>9,106</u>	<u>10,920</u>
	<u>87,059</u>	<u>76,931</u>
SPECIAL CARE UNIT		
Salaries and wages	72,563	57,658
Supplies and other expenses	<u>8,661</u>	<u>7,277</u>
	<u>81,224</u>	<u>64,935</u>
MENTAL HEALTH		
Salaries and wages	1,089,684	1,021,606
Supplies and other expenses	<u>568,570</u>	<u>519,092</u>
	<u>1,658,254</u>	<u>1,540,698</u>
DELIVERY AND LABOR ROOMS		
Salaries and wages	29,108	26,609
Supplies and other expenses	<u>9,242</u>	<u>7,286</u>
	<u>38,350</u>	<u>33,895</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	485,349	404,497
Supplies and other expenses	<u>192,304</u>	<u>153,727</u>
	<u>677,653</u>	<u>558,224</u>
MEDICAL SUPPLIES		
Supplies and other expenses	<u>390,263</u>	<u>379,931</u>
EMERGENCY SERVICES		
Salaries and wages	720,767	459,950
Supplies and other expenses	<u>984,587</u>	<u>919,518</u>
	<u>1,705,354</u>	<u>1,379,468</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
LABORATORY AND BLOOD BANK		
Salaries and wages	\$ 489,447	\$ 472,382
Supplies and other expenses	<u>603,050</u>	<u>575,592</u>
	<u>1,092,497</u>	<u>1,047,974</u>
ELECTROCARDIOLOGY		
Salaries and wages	5,792	5,377
Supplies and other expenses	<u>106,062</u>	<u>73,996</u>
	<u>111,854</u>	<u>79,373</u>
CARDIAC REHAB		
Salaries and wages	31,843	29,069
Supplies and other expenses	<u>3,716</u>	<u>1,175</u>
	<u>35,559</u>	<u>30,244</u>
RADIOLOGY		
Salaries and wages	504,250	473,723
Supplies and other expenses	<u>701,195</u>	<u>689,048</u>
	<u>1,205,445</u>	<u>1,162,771</u>
CARDIOLOGY		
Salaries and wages	2,200	1,623
Supplies and other expenses	<u>17,420</u>	<u>20,925</u>
	<u>19,620</u>	<u>22,548</u>
PHARMACY		
Salaries and wages	327,215	314,783
Supplies and other expenses	<u>763,328</u>	<u>718,631</u>
	<u>1,090,543</u>	<u>1,033,414</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>757,150</u>	<u>633,735</u>
RESPIRATORY THERAPY		
Salaries and wages	72,461	70,562
Supplies and other expenses	<u>17,339</u>	<u>14,344</u>
	<u>89,800</u>	<u>84,906</u>

(continued)

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PHYSICAL THERAPY		
Salaries and wages	\$ 482,145	\$ 456,327
Supplies and other expenses	<u>27,081</u>	<u>68,328</u>
	<u>509,226</u>	<u>524,655</u>
SPEECH THERAPY		
Supplies and other expenses	<u>71,913</u>	<u>71,071</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>116,677</u>	<u>127,898</u>
AMBULANCE		
Salaries and wages	182,431	161,614
Supplies and other expenses	<u>31,548</u>	<u>36,864</u>
	<u>213,979</u>	<u>198,478</u>
REGIONAL FAMILY HEALTH		
Salaries and wages	846,072	-
Supplies and other expenses	<u>639,448</u>	<u>-</u>
	<u>1,485,520</u>	<u>-</u>
OUTREACH CLINIC		
Supplies and other expenses	<u>52,496</u>	<u>80,754</u>
OTHER CLINICS		
Salaries and wages	113,961	108,780
Supplies and other expenses	<u>14,914</u>	<u>7,518</u>
	<u>128,875</u>	<u>116,298</u>
COMMUNITY HEALTH		
Salaries and wages	1,062,837	969,374
Supplies and other expenses	<u>343,777</u>	<u>300,044</u>
	<u>1,406,614</u>	<u>1,269,418</u>
PUBLIC HEALTH		
Salaries and wages	102,209	94,928
Supplies and other expenses	<u>28,035</u>	<u>20,031</u>
	<u>130,244</u>	<u>114,959</u>
SOCIAL SERVICES		
Salaries and wages	<u>4,726</u>	<u>5,225</u>

(continued)

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
MEDICAL RECORDS		
Salaries and wages	\$ 319,487	\$ 324,063
Supplies and other expenses	<u>43,452</u>	<u>81,811</u>
	<u>362,939</u>	<u>405,874</u>
DIETARY		
Salaries and wages	219,275	176,422
Supplies and other expenses	<u>89,690</u>	<u>82,705</u>
	<u>308,965</u>	<u>259,127</u>
PLANT OPERATION AND MAINTENANCE		
Salaries and wages	333,187	302,139
Supplies and other expenses	<u>662,344</u>	<u>756,602</u>
	<u>995,531</u>	<u>1,058,741</u>
HOUSEKEEPING		
Salaries and wages	237,248	179,555
Supplies and other expenses	<u>41,620</u>	<u>23,011</u>
	<u>278,868</u>	<u>202,566</u>
LAUNDRY		
Salaries and wages	18,057	13,322
Supplies and other expenses	<u>70,153</u>	<u>76,217</u>
	<u>88,210</u>	<u>89,539</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	1,818,547	1,782,103
Supplies and other expenses	<u>1,380,551</u>	<u>1,132,321</u>
	<u>3,199,098</u>	<u>2,914,424</u>
UNASSIGNED EXPENSES		
Depreciation and amortization	1,513,972	1,567,454
Insurance	129,431	137,018
Employee benefits	<u>2,787,892</u>	<u>2,268,396</u>
	<u>4,431,295</u>	<u>3,972,868</u>
TOTAL OPERATING EXPENSES	<u>\$ 24,973,033</u>	<u>\$ 21,448,359</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,
AND COLLECTION STATISTICS
JUNE 30, 2009 AND 2008**

ANALYSIS OF AGING

<u>Day Since Discharge</u>	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
30 days or less	\$ 3,356,001	48.63%	\$ 2,891,381	43.67%
31 to 60 days	1,401,160	20.30%	1,511,632	22.83%
61 to 90 days	819,198	11.87%	794,140	11.99%
91 to 180 days	738,960	10.71%	801,646	12.11%
181 days and over	585,762	8.49%	622,761	9.40%
	6,901,081	100.00%	6,621,560	100.00%
Less: Allowance for doubtful accounts	385,043		366,334	
Allowance for contractual adjustments	2,691,085		2,575,000	
Net	\$ 3,824,953		\$ 3,680,226	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
BALANCE, BEGINNING OF YEAR	\$ 366,334	\$ 337,857
Add: Provision for bad debts	683,821	606,321
Recoveries of accounts written off	293,146	229,182
Less: Accounts written off	(958,258)	(807,026)
BALANCE, END OF YEAR	\$ 385,043	\$ 366,334

	<u>2009</u>	<u>2008</u>
COLLECTION STATISTICS		
Net accounts receivable - patients	\$ 3,824,953	\$ 3,680,226
Number of days charges outstanding (1)	48	57
Uncollectible accounts (2)	\$ 1,350,769	\$ 1,011,740
Percentage of uncollectible accounts to total charges	3.5%	3.0%

(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
SCHEDULES OF SUPPLIES/PREPAID EXPENSE
JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
SUPPLIES		
Pharmacy	\$ 145,273	\$ 123,479
Operating room	126,680	113,724
Storeroom	109,529	92,529
Clinics	33,165	-
Laboratory	32,991	27,291
Physical therapy	11,986	10,474
Emergency room	8,381	7,855
Radiology	7,588	2,217
Dietary	3,874	3,644
	<u> </u>	<u> </u>
Total	<u>\$ 479,467</u>	<u>\$ 381,213</u>
 PREPAID EXPENSE		
Maintenance agreements	\$ 146,654	\$ 84,368
Insurance	83,614	69,688
Other	3,079	-
	<u> </u>	<u> </u>
Total	<u>\$ 233,347</u>	<u>\$ 154,056</u>

DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PATIENT DAYS		
Acute	2,303	2,297
Swing-bed	665	767
Newborn	365	358
NUMBER OF BEDS	25	25
PERCENTAGE OF OCCUPANCY (excluding newborn)	33%	34%
DISCHARGES		
Acute	777	848
Swing-bed	106	133
AVERAGE LENGTH OF STAY		
Acute (excluding newborn)	2.96	2.71
Swing-bed	6.27	5.77
MOST RECENT YEAR END ROUTINE SERVICE RATES		
Private	\$ 895	\$ 827
Semi-private	895	827
Nursery	600	575



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**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, 2009 and 2008, 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 31, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Delaware County Memorial Hospital's, d/b/a Regional Medical Center, internal control over financial reporting.

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

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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 certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2009, 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.

Delaware County Memorial Hospital's, d/b/a Regional Medical Center, responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Medical Center's responses, we did not audit the Medical Center's responses, and accordingly, we express no opinion on them.

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 Bailly LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
August 31, 2009

**DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties

Criteria – One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Recommendation – 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. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. 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 agrees with the finding and has reviewed the operating procedures of Delaware County Memorial Hospital, d/b/a Regional Medical Center. Due to the limited number of office employees, management will continue to monitor the Medical Center's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

I-B-09 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

**DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part I: Findings Related to the Financial Statements: (continued)

Condition – Delaware County Memorial Hospital, d/b/a Regional Medical Center, does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Medical Center. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Medical Center management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Medical Center's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 Certified Budget – Disbursements during the year ended June 30, 2009, did not exceed the amount budgeted.

II-B-09 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-09 Travel Expense – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

**DELAWARE COUNTY MEMORIAL HOSPITAL
d/b/a REGIONAL MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009**

Part II: Other Findings Related to Required Statutory Reporting: (continued)

II-D-09 Business Transactions – The Medical Center had transactions with a business partially owned by a spouse of an employee as follows:

Building project	\$	1,820,000
Payable due to related party as of June 30, 2009	\$	66,532

II-E-09 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-09 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-09 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.

II-H-09 Publication of Sale of Real and Personal Property – Chapter 347.30 of the Code of Iowa states “A county or city hospital shall serve notice and hold a public hearing before selling or leasing any real or personal property. The notice shall definitely describe the property, indicate the date and location of the hearing, and shall be published by at least one insertion each week for two consecutive weeks in a newspaper having general circulation in the county where the property is located.” The Medical Center sold personal property during the year without proper notice of publication prior to the sale.

Recommendation – In the future it is recommended that the Medical Center publish proper notice in accordance with Chapter 347.30 of the Code of Iowa prior to the sale of property.

Response – Going forward the Medical Center will publish proper notice in accordance with Chapter 347.30 of the Code of Iowa prior to the sale of personal property that has use to the general public. Therefore, if the item is equipment that is strictly for medical use, the Medical Center will continue to find an appropriate “purchaser” of the equipment at a fair price.

Conclusion – Response accepted.



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, 2009, and have issued our report thereon dated August 31, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 28, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. 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, 2009. We noted no transactions entered into by the Medical Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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, the liability for self-insured employee medical insurance claims incurred but not reported at year-end, and depreciation expense.

Collectibility of Patient Receivables – Management's estimate of the collectibility of patient receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – 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 that 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.

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Self-Funded Health Insurance Liability – Management’s estimate of self-funded health insurance liability is based on the timing and amounts of historical payments.

Depreciation Expense – Management’s estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop these estimates related to the collectibility of patient receivables, amounts either owed to or receivable from third-party payors, self-funded health insurance liability, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 2009 audit:

Revenues in excess of expenses prior to audit adjustments	\$ 2,202,153
To adjust construction in progress	58,775
To adjust debt issuance costs	54,410
To adjust estimated health claims payable	<u>(52,831)</u>
Revenues in excess of expenses as reported	<u>\$ 2,262,507</u>

The net effect of the adjustments was to increase net assets by \$60,354.

In addition, the following balance sheet reclassifications were detected as a result of our audit procedures and have been corrected by management.

To increase construction in progress and to increase construction payables	\$ 29,607
--	-----------

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 31, 2009.

Management 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.

Other Audit Findings or Issues

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.

This information is intended solely for the use of the Board of Trustees and management 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 31, 2009

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