



Financial Statements  
June 30, 2010 and 2009

# 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**

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<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	



CPAs & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Delaware County Memorial Hospital, d/b/a Regional Medical Center, as of June 30, 2010 and 2009, 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, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2010, 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 25 and 26 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 Sully LLP*

Dubuque, Iowa  
August 9, 2010

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

## **Management's Discussion and Analysis**

Management of Regional Medical Center provides this Management's Discussion and Analysis of Regional Medical Center's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal years ended June 30, 2010 and 2009. We encourage readers to consider this information in conjunction with Regional Medical Center's financial statements, which follow.

### **Financial Highlights**

- The Medical Center's total assets increased by \$3,610,855 or 12.45%.
- The Medical Center's assets exceeded liabilities by \$24,225,565 at June 30, 2010.
- During the year, the Medical Center's total operating revenues increased 19.24% to \$31,372,556, while operating expenses increased 23.38% to \$30,812,556. These increases were largely due to the addition of six medical clinic locations in April 2009.
- The Medical Center had income from operations of \$560,000 which is 1.78% of total operating revenues.
- The Medical Center made capital equipment and building investments totaling \$5,625,670 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, 2010, reports total assets of \$32,615,208, total liabilities of \$8,389,643 and net assets of \$24,225,565.

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 \$31,372,556 and total operating expenses of \$30,812,556 during fiscal year 2010. The operating income was \$560,000 in 2010, compared to an operating income of \$1,338,357 in 2009.

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 \$4,033,581 in short-term and long-term debt.

The Medical Center is approved to draw a total of \$7,300,000 by February 2011 on a Series 2009 Hospital Revenue Bond. 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 \$8,700,000.

## **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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,046,241	\$ 1,198,225
Receivables		
Patient, net of estimated uncollectibles		
of \$3,385,000 in 2010 and \$3,076,000 in 2009	4,331,871	3,824,953
Succeeding year property tax	967,650	885,163
Estimated third-party payor settlements	730,000	450,000
Other	158,078	173,246
Supplies	471,912	479,467
Prepaid expense	254,268	233,347
	<u>7,960,020</u>	<u>7,244,401</u>
<b>ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4</b>		
Investments		
By board for capital improvements	2,939,958	3,740,900
	<u>19,263,086</u>	<u>15,616,571</u>
<b>CAPITAL ASSETS, net - Note 5</b>		
<b>OTHER ASSETS</b>		
Gift fund investments - Note 6	2,019,658	1,988,367
Beneficial interest in charitable trust	148,000	148,000
Deferred financing costs, net of accumulated amortization		
of \$2,473 in 2010 - Note 7	51,937	54,410
Goodwill - Note 8	150,000	150,000
Joint ventures - Note 9	82,549	61,704
	<u>2,452,144</u>	<u>2,402,481</u>
Total other assets	<u>2,452,144</u>	<u>2,402,481</u>
Total assets	<u>\$ 32,615,208</u>	<u>\$ 29,004,353</u>

See notes to financial statements.

	<u>2010</u>	<u>2009</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt - Note 11	\$ 250,079	\$ 360,324
Accounts payable		
Trade	616,106	609,025
Construction	235,539	143,244
Estimated health claims payable - Note 13	190,000	140,000
Accrued expenses		
Salaries and wages	568,409	514,124
Paid leave	1,346,662	1,227,193
Interest	54,130	17,921
Payroll taxes and other	377,566	310,025
Deferred revenue for succeeding year property tax receivable	<u>967,650</u>	<u>885,163</u>
Total current liabilities	4,606,141	4,207,019
LONG-TERM DEBT, less current maturities - Note 11	<u>3,783,502</u>	<u>1,840,004</u>
Total liabilities	<u>8,389,643</u>	<u>6,047,023</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	15,229,505	13,416,243
Restricted		
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	<u>8,848,060</u>	<u>9,393,087</u>
Total net assets	<u>24,225,565</u>	<u>22,957,330</u>
Total liabilities and net assets	<u>\$ 32,615,208</u>	<u>\$ 29,004,353</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$821,503 in 2010 and \$683,821 in 2009) - Notes 2 and 3	\$ 30,820,540	\$ 25,774,026
Other operating revenues	<u>552,016</u>	<u>537,364</u>
<b>TOTAL OPERATING REVENUES</b>	<b><u>31,372,556</u></b>	<b><u>26,311,390</u></b>
OPERATING EXPENSES		
Salaries and wages	15,390,351	11,591,000
Supplies and other expenses	13,744,700	11,868,061
Depreciation and amortization	<u>1,677,505</u>	<u>1,513,972</u>
<b>TOTAL OPERATING EXPENSES</b>	<b><u>30,812,556</u></b>	<b><u>24,973,033</u></b>
<b>OPERATING INCOME</b>	<b><u>560,000</u></b>	<b><u>1,338,357</u></b>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	883,702	798,628
Noncapital contributions	57,600	54,772
Interest expense	(98,548)	(56,346)
Investment income	145,041	116,992
Gain (loss) on disposal of capital assets	<u>(295,596)</u>	<u>10,104</u>
<b>NET NONOPERATING REVENUES</b>	<b><u>692,199</u></b>	<b><u>924,150</u></b>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	1,252,199	2,262,507
Capital contributions and grants	<u>16,036</u>	<u>22,599</u>
<b>INCREASE IN NET ASSETS</b>	<b><u>1,268,235</u></b>	<b><u>2,285,106</u></b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b><u>22,957,330</u></b>	<b><u>20,672,224</u></b>
<b>NET ASSETS END OF YEAR</b>	<b><u>\$ 24,225,565</u></b>	<b><u>\$ 22,957,330</u></b>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of patient service revenue	\$ 30,033,622	\$ 25,899,299
Payments of salaries, wages, and benefits	(15,099,056)	(11,010,027)
Payments of supplies and other expenses	(13,748,512)	(11,947,005)
Other receipts	<u>563,704</u>	<u>561,427</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>1,749,758</b></u>	<u><b>3,503,694</b></u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County tax received	<b>887,182</b>	794,235
Noncapital contributions	<u>57,600</u>	<u>54,772</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u><b>944,782</b></u>	<u><b>849,007</b></u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(5,624,170)	(3,612,910)
Proceeds from issuance of long-term debt	2,193,577	1,525,904
Principal paid on debt	(360,324)	(476,393)
Interest paid on debt	(62,339)	(39,782)
Payment of debt issuance costs	-	(54,410)
Increase in construction payable	92,295	59,537
Capital contributions and grants	16,036	22,599
Proceeds from sale of capital assets	<u>4,554</u>	<u>19,376</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u><b>(3,740,371)</b></u>	<u><b>(2,556,079)</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) decrease in assets limited as to use or restricted	<b>800,942</b>	(1,570,582)
Increase in gift fund investments	(31,291)	(33,262)
(Increase) decrease in joint ventures	(20,845)	33,201
Purchase of goodwill	-	(150,000)
Investment income	<u>145,041</u>	<u>116,992</u>
<b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	<u><b>893,847</b></u>	<u><b>(1,603,651)</b></u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(151,984)</b>	192,971
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>1,198,225</b></u>	<u><b>1,005,254</b></u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u><b>\$ 1,046,241</b></u></u>	<u><u><b>\$ 1,198,225</b></u></u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 560,000	\$ 1,338,357
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	1,679,978	1,513,972
Provision for bad debts	821,503	683,821
Changes in assets and liabilities		
Receivables	(1,316,733)	(804,485)
Supplies	7,555	(98,254)
Prepaid expense	(20,921)	(79,291)
Accounts payable - trade	7,081	98,601
Estimated health claims payable	50,000	9,908
Estimated third-party payor settlements	(280,000)	270,000
Accrued expenses	241,295	571,065
	<u>1,749,758</u>	<u>3,503,694</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,749,758</u>	<u>\$ 3,503,694</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest (including amounts capitalized) in 2010 and 2009 was \$113,625 and \$57,703, respectively.		
SUPPLEMENTAL NONCASH CAPITAL ACTIVITIES		
Capital asset purchases included in accounts payable at June 30, 2010 and 2009	<u>\$ 235,539</u>	<u>\$ 143,244</u>

See notes to financial statements.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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

*Organization*

Delaware County Memorial Hospital, d/b/a Regional Medical Center, (Medical Center) is a 25-bed public Medical Center located in Manchester, Iowa, organized under Chapter 347 of the Iowa Code and governed by a seven member Board of Trustees elected for alternating terms of six years. 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 the following categories/components:

- *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:*
  - *Nonexpendable* – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Medical Center.
  - *Expendable* – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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- *Unrestricted net assets* consist of net assets not meeting the definition of the 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.

*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 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.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
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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.

*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.

*Capital Assets*

Capital assets acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets 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 period 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

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
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*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, 2010 and 2009.

*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.

(continued on next page)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
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**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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*Advertising Costs*

The Medical Center expenses advertising costs as incurred.

*Grants and Contributions*

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

*Subsequent Events*

The Medical Center has evaluated subsequent events through August 9, 2010, the date which the financial statements were available to be issued.

*Reclassifications*

Certain items from the 2009 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

*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 \$566,556 and \$640,189 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, were \$381,000 and \$399,000, 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.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**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 year ended June 30, 2008.

**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, 2007.

**Other Payors**

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 40% and 11%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2010, and 42% and 10%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2009.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Medical Center may incur a liability for a claims overpayment at a future date. The Medical Center is unable to determine if it will be audited and, if so, the extent of liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Medical Center's policy to adjust revenue for deductions from overpayment amounts, or additions from underpayment amounts, determined under the RAC audits at the time a change in reimbursement is agreed upon between the Medical Center and CMS.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Total patient service revenue	<u>\$ 44,573,694</u>	<u>\$ 38,638,513</u>
Contractual adjustments		
Medicare	(5,996,524)	(6,234,852)
Medicaid	(2,152,072)	(1,868,513)
Other	<u>(4,783,055)</u>	<u>(4,077,301)</u>
Total contractual adjustments	<u>(12,931,651)</u>	<u>(12,180,666)</u>
Net patient service revenue	<b>31,642,043</b>	26,457,847
Provision for bad debts	<u>(821,503)</u>	<u>(683,821)</u>
Net patient service revenue (net of provision for bad debts)	<u><b>\$ 30,820,540</b></u>	<u>\$ 25,774,026</u>

**NOTE 4 – CASH AND DEPOSITS**

The Medical Center's deposits in banks at June 30, 2010 and 2009, 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, 2010 and 2009, the Medical Center's carrying amounts of cash and deposits are as follows:

	<u>2010</u>	<u>2009</u>
Assets limited as to use or restricted by		
Board for capital improvements		
Savings and money market accounts	<u>\$ 2,939,958</u>	<u>\$ 3,740,900</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, 2010 AND 2009**

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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 – CAPITAL ASSETS**

Capital assets activity for the years ended June 30, 2010 and 2009, was as follows:

	June 30, 2009				June 30, 2010
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Capital assets					
Land	\$ 70,419	\$ -	\$ -	\$ -	\$ 70,419
Land improvements	1,291,064	-	-	-	1,291,064
Buildings	19,692,877	1,720,645	(275,000)	82,462	21,220,984
Leasehold improvements	83,060	-	-	-	83,060
Equipment	8,141,732	1,351,951	(412,816)	86,408	9,167,275
Construction in progress	403,008	2,553,074	-	(168,870)	2,787,212
	<u>29,682,160</u>	<u>\$ 5,625,670</u>	<u>\$ (687,816)</u>	<u>\$ -</u>	<u>34,620,014</u>
Accumulated depreciation					
Land improvements	624,317	\$ 66,871	\$ -	\$ -	691,188
Buildings	7,500,885	822,678	7,448	-	8,316,115
Leasehold improvements	27,101	4,613	-	-	31,714
Equipment	5,913,286	783,343	378,718	-	6,317,911
	<u>14,065,589</u>	<u>\$ 1,677,505</u>	<u>\$ 386,166</u>	<u>\$ -</u>	<u>15,356,928</u>
Total capital assets, net	<u>\$ 15,616,571</u>				<u>\$ 19,263,086</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

	June 30, 2008				June 30, 2009
	Balance	Additions	Deductions	Transfers	Balance
Capital assets					
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 capital assets, net	<u>\$ 13,505,880</u>				<u>\$ 15,616,571</u>

Construction in progress at June 30, 2010, 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, 2010 and 2009:

	2010	2009
Money market account	\$ 1,129,963	\$ 1,102,709
Savings accounts	48,462	3,432
Certificates of deposit	517,598	552,440
Cash surrender value of life insurance policy	323,635	329,786
	<u>\$ 2,019,658</u>	<u>\$ 1,988,367</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 began 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, 2010 AND 2009**

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**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 value of goodwill for the year ended June 30, 2010, is as follows:

	<u>Regional Family Health</u>
Balance as of July 1, 2009	\$ 150,000
Goodwill acquired during the year	-
Impairment losses	<u>-</u>
Balance as of June 30, 2010	<u>\$ 150,000</u>

Regional Family Health is tested annually for impairment after the quarter ending June 30<sup>th</sup>, the close of the Medical Center's fiscal year. No impairment losses were recognized for the year ended June 30, 2010.

**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, 2010 and 2009, for all leases was \$166,088 and \$123,280, respectively.

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**NOTE 11 – LONG-TERM DEBT**

A schedule of changes in the Medical Center’s long-term debt for 2010 and 2009 follows:

	June 30, 2009 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	<b>June 30, 2010 Balance</b>	<b>Amounts Due Within One Year</b>
3.95% note payable, due in monthly installments through February 2010, secured by building addition	\$ 144,970	\$ -	\$ 144,970	\$ -	\$ -
4.45% note payable, due in monthly installments through December 2011, secured by Medical Center revenues	511,056	-	204,841	<b>306,215</b>	<b>214,145</b>
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	2,193,577	-	<b>3,719,482</b>	<b>28,050</b>
Capitalized lease, due in annual installments through April 2011	<u>18,397</u>	<u>-</u>	<u>10,513</u>	<u><b>7,884</b></u>	<u><b>7,884</b></u>
Total long-term debt	<u>\$ 2,200,328</u>	<u>\$ 2,193,577</u>	<u>\$ 360,324</u>	<u><b>4,033,581</b></u>	<u><b>\$ 250,079</b></u>
Less current maturities				<u><b>(250,079)</b></u>	
Long-term debt, less current maturities				<u><b>\$ 3,783,502</b></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, 2010 AND 2009**

	June 30, 2008 <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	June 30, 2009 <u>Balance</u>	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>	2,200,328	<u>\$ 360,324</u>
Less current maturities				(360,324)	
Long-term debt, less current maturities				<u>\$ 1,840,004</u>	

Long-term debt maturities are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 250,079	\$ 231,804	\$ 481,883
2012	207,656	173,886	381,542
2013	121,197	167,237	288,434
2014	127,081	161,353	288,434
2015	133,251	155,183	288,434
2016-2020	769,804	672,366	1,442,170
2021-2025	975,712	466,459	1,442,171
2026-2030	1,236,695	205,475	1,442,170
2031	212,106	4,220	216,326
Total	<u>\$4,033,581</u>	<u>\$2,237,983</u>	<u>\$6,271,564</u>

(continued on next page)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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A summary of interest cost and investment income on borrowed funds during the years ended June 30, 2010 and 2009, is as follows:

	<u>2010</u>	<u>2009</u>
Interest cost:		
Capitalized as part of construction project	\$ 51,286	\$ 17,921
Recognized as interest expense	<u>98,548</u>	<u>56,346</u>
 Total	 <u>\$ 149,834</u>	 <u>\$ 74,267</u>

**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 4.30% of their annual covered salary, and the Medical Center is required to contribute 6.65% of annual covered payroll for the year ended June 30, 2010. Plan members were required to contribute 4.10% and 3.90% of their annual covered salary, and the Medical Center was required to contribute 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2009 and 2008, respectively. Contribution requirements are established by state statute. The Medical Center's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were \$979,453, \$711,753, and \$581,494, 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 \$190,000 and 140,000 have been established to record the incurred but not reported claims outstanding at June 30, 2010 and 2009, respectively. The liability is included within accounts payable on the balance sheet.

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

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*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.

*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, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	35%	36%
Medicaid	8	9
Commercial insurance	48	45
Other third-party payors and patients	<u>9</u>	<u>10</u>
	<u><b>100%</b></u>	<u><b>100%</b></u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

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**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.

	Acquisition Cost
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>



Required Supplementary Information  
June 30, 2010 and 2009

## Regional Medical Center

**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, 2010**

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	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 883,702	\$ 3,480	\$ 887,182	\$ 859,181	\$ 28,001
Estimated other revenues/receipts	<u>31,295,637</u>	<u>1,789,947</u>	<u>33,085,584</u>	<u>31,607,678</u>	<u>1,477,906</u>
	32,179,339	1,793,427	33,972,766	32,466,859	1,505,907
Expenses/disbursements	<u>30,911,104</u>	<u>3,983,297</u>	<u>34,894,401</u>	<u>34,793,651</u>	<u>(100,750)</u>
Net	1,268,235	(2,189,870)	(921,635)	(2,326,792)	<u>\$ 1,405,157</u>
Balance beginning of year	<u>22,957,330</u>	<u>(16,029,838)</u>	<u>6,927,492</u>	<u>(698,935)</u>	
Balance end of year	<u>\$ 24,225,565</u>	<u>\$ (18,219,708)</u>	<u>\$ 6,005,857</u>	<u>\$ (3,025,727)</u>	

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2010**

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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 not amended during the year ended June 30, 2010.

For the year ended June 30, 2010, the Medical Center's expenditures exceeded the amount budgeted.



CPAs & BUSINESS ADVISORS

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

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

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the schedule of statistical information on page 36 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 9, 2010

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF NET PATIENT SERVICE REVENUE**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>PATIENT SERVICE REVENUE</b>		
Routine services	\$ 3,343,100	\$ 3,672,154
Mental health	2,308,647	2,917,554
Delivery and labor rooms	326,048	353,692
Operating and recovery rooms	5,576,185	4,489,932
Medical supplies	862,413	707,893
Emergency services	3,705,025	3,633,974
Laboratory and blood bank	5,315,376	5,136,047
Electrocardiology	580,664	596,900
Cardiac rehab	97,944	91,580
Radiology	6,773,744	6,293,273
Cardiology	29,800	79,507
Pharmacy	2,645,916	2,736,252
Anesthesiology	1,351,544	1,072,997
Respiratory therapy	327,592	339,028
Physical therapy	942,201	904,979
Speech therapy	113,287	116,857
Occupational therapy	127,403	221,230
Ambulance	787,168	786,710
Regional Family Health	6,437,606	1,567,448
Other clinics	178,732	135,933
Community health	3,099,780	3,258,011
Public health	210,075	166,751
	<u>45,140,250</u>	<u>39,278,702</u>
Charity care	<u>(566,556)</u>	<u>(640,189)</u>
	<u>\$ 44,573,694</u>	<u>\$ 38,638,513</u>
<b>*TOTAL PATIENT SERVICE REVENUE - RECLASSIFIED</b>		
Inpatient revenue	\$ 6,260,385	\$ 6,920,612
Outpatient revenue	38,879,865	32,358,090
Charity care	<u>(566,556)</u>	<u>(640,189)</u>
Total patient service revenue	<u>44,573,694</u>	<u>38,638,513</u>
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(5,996,524)	(6,234,852)
Medicaid	(2,152,072)	(1,868,513)
Other	<u>(4,783,055)</u>	<u>(4,077,301)</u>
Total contractual adjustments	<u>(12,931,651)</u>	<u>(12,180,666)</u>
<b>NET PATIENT SERVICE REVENUE</b>	<b>31,642,043</b>	<b>26,457,847</b>
<b>PROVISION FOR BAD DEBTS</b>	<b><u>(821,503)</u></b>	<b><u>(683,821)</u></b>
<b>NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)</b>	<b><u>\$ 30,820,540</u></b>	<b><u>\$ 25,774,026</u></b>

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OTHER OPERATING REVENUES		
Rent	\$ 187,435	\$ 204,943
Outside pharmacy	84,257	63,086
Education services	74,168	61,794
Massage therapy	68,331	69,678
Cafeteria	65,539	74,350
Purchase discounts	36,147	19,574
Fitness center memberships	19,543	17,704
Vending machines	1,219	1,527
Other	<u>15,377</u>	<u>24,708</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 552,016</u>	 <u>\$ 537,364</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>NURSING ADMINISTRATION</b>		
Salaries and wages	\$ 288,405	\$ 280,644
Supplies and other expenses	<u>45,574</u>	<u>29,484</u>
	<u>333,979</u>	<u>310,128</u>
<b>ROUTINE SERVICES</b>		
Salaries and wages	1,702,488	1,661,542
Supplies and other expenses	<u>100,754</u>	<u>175,562</u>
	<u>1,803,242</u>	<u>1,837,104</u>
<b>NURSERY</b>		
Salaries and wages	62,406	77,953
Supplies and other expenses	<u>18,280</u>	<u>9,106</u>
	<u>80,686</u>	<u>87,059</u>
<b>SPECIAL CARE UNIT</b>		
Salaries and wages	62,756	72,563
Supplies and other expenses	<u>23,563</u>	<u>8,661</u>
	<u>86,319</u>	<u>81,224</u>
<b>MENTAL HEALTH</b>		
Salaries and wages	980,045	1,089,684
Supplies and other expenses	<u>518,902</u>	<u>568,570</u>
	<u>1,498,947</u>	<u>1,658,254</u>
<b>DELIVERY AND LABOR ROOMS</b>		
Salaries and wages	11,726	29,108
Supplies and other expenses	<u>9,591</u>	<u>9,242</u>
	<u>21,317</u>	<u>38,350</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries and wages	542,487	485,349
Supplies and other expenses	<u>206,644</u>	<u>192,304</u>
	<u>749,131</u>	<u>677,653</u>
<b>MEDICAL SUPPLIES</b>		
Supplies and other expenses	<u>533,018</u>	<u>390,263</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	936,078	720,767
Supplies and other expenses	<u>840,374</u>	<u>984,587</u>
	<u>1,776,452</u>	<u>1,705,354</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>LABORATORY AND BLOOD BANK</b>		
Salaries and wages	\$ 479,493	\$ 489,447
Supplies and other expenses	<u>547,776</u>	<u>603,050</u>
	<u>1,027,269</u>	<u>1,092,497</u>
<b>ELECTROCARDIOLOGY</b>		
Salaries and wages	6,857	5,792
Supplies and other expenses	<u>103,745</u>	<u>106,062</u>
	<u>110,602</u>	<u>111,854</u>
<b>CARDIAC REHAB</b>		
Salaries and wages	35,161	31,843
Supplies and other expenses	<u>2,102</u>	<u>3,716</u>
	<u>37,263</u>	<u>35,559</u>
<b>RADIOLOGY</b>		
Salaries and wages	556,366	504,250
Supplies and other expenses	<u>698,461</u>	<u>701,195</u>
	<u>1,254,827</u>	<u>1,205,445</u>
<b>CARDIOLOGY</b>		
Salaries and wages	2,498	2,200
Supplies and other expenses	-	<u>17,420</u>
	<u>2,498</u>	<u>19,620</u>
<b>PHARMACY</b>		
Salaries and wages	334,858	327,215
Supplies and other expenses	<u>900,843</u>	<u>763,328</u>
	<u>1,235,701</u>	<u>1,090,543</u>
<b>ANESTHESIOLOGY</b>		
Supplies and other expenses	<u>947,019</u>	<u>757,150</u>
<b>RESPIRATORY THERAPY</b>		
Salaries and wages	79,551	72,461
Supplies and other expenses	<u>12,668</u>	<u>17,339</u>
	<u>92,219</u>	<u>89,800</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	502,104	482,145
Supplies and other expenses	<u>35,628</u>	<u>27,081</u>
	<u>537,732</u>	<u>509,226</u>
<b>SPEECH THERAPY</b>		
Supplies and other expenses	<u>63,726</u>	<u>71,913</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF OPERATING EXPENSES**  
**YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>\$ 69,079</u>	<u>\$ 116,677</u>
AMBULANCE		
Salaries and wages	<u>188,802</u>	182,431
Supplies and other expenses	<u>49,952</u>	<u>31,548</u>
	<u>238,754</u>	<u>213,979</u>
REGIONAL FAMILY HEALTH		
Salaries and wages	<u>3,791,141</u>	846,072
Supplies and other expenses	<u>785,172</u>	<u>639,448</u>
	<u>4,576,313</u>	<u>1,485,520</u>
OUTREACH CLINIC		
Supplies and other expenses	<u>-</u>	<u>52,496</u>
OTHER CLINICS		
Salaries and wages	<u>122,289</u>	113,961
Supplies and other expenses	<u>9,773</u>	<u>14,914</u>
	<u>132,062</u>	<u>128,875</u>
COMMUNITY HEALTH		
Salaries and wages	<u>1,111,941</u>	1,062,837
Supplies and other expenses	<u>367,928</u>	<u>343,777</u>
	<u>1,479,869</u>	<u>1,406,614</u>
PUBLIC HEALTH		
Salaries and wages	<u>164,637</u>	102,209
Supplies and other expenses	<u>32,608</u>	<u>28,035</u>
	<u>197,245</u>	<u>130,244</u>
SOCIAL SERVICES		
Salaries and wages	<u>3,877</u>	<u>4,726</u>
MEDICAL RECORDS		
Salaries and wages	<u>349,167</u>	319,487
Supplies and other expenses	<u>57,146</u>	<u>43,452</u>
	<u>406,313</u>	<u>362,939</u>
DIETARY		
Salaries and wages	<u>253,977</u>	219,275
Supplies and other expenses	<u>82,629</u>	<u>89,690</u>
	<u>336,606</u>	<u>308,965</u>

(continued)

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	\$ 414,735	\$ 333,187
Supplies and other expenses	<u>636,033</u>	<u>662,344</u>
	<u>1,050,768</u>	<u>995,531</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	288,154	237,248
Supplies and other expenses	<u>42,447</u>	<u>41,620</u>
	<u>330,601</u>	<u>278,868</u>
<b>LAUNDRY</b>		
Salaries and wages	26,888	18,057
Supplies and other expenses	<u>73,488</u>	<u>70,153</u>
	<u>100,376</u>	<u>88,210</u>
<b>ADMINISTRATIVE SERVICES</b>		
Salaries and wages	2,091,464	1,818,547
Supplies and other expenses	<u>1,510,986</u>	<u>1,380,551</u>
	<u>3,602,450</u>	<u>3,199,098</u>
<b>UNASSIGNED EXPENSES</b>		
Depreciation and amortization	1,677,505	1,513,972
Insurance	281,593	129,431
Employee benefits	<u>4,137,198</u>	<u>2,787,892</u>
	<u>6,096,296</u>	<u>4,431,295</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 30,812,556</u>	<u>\$ 24,973,033</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS,  
AND COLLECTION STATISTICS  
JUNE 30, 2010 AND 2009**

**ANALYSIS OF AGING**

<u>Days Since Discharge</u>	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
30 days or less	\$ 3,344,749	43.34%	\$ 3,356,001	48.63%
31 to 60 days	1,895,150	24.56%	1,401,160	20.30%
61 to 90 days	867,667	11.24%	819,198	11.87%
91 to 180 days	1,042,973	13.52%	738,960	10.71%
181 days and over	566,141	7.34%	585,762	8.49%
	<b>7,716,680</b>	<b>100.00%</b>	6,901,081	100.00%
Less: Allowance for doubtful accounts	422,239		385,043	
Allowance for contractual adjustments	2,962,570		2,691,085	
Net	<b>\$ 4,331,871</b>		<b>\$ 3,824,953</b>	

**ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
BALANCE, BEGINNING OF YEAR	\$ 385,043	\$ 366,334
Add: Provision for bad debts	821,503	683,821
Recoveries of accounts written off	288,434	293,146
Less: Accounts written off	(1,072,741)	(958,258)
BALANCE, END OF YEAR	<b>\$ 422,239</b>	<b>\$ 385,043</b>

**COLLECTION STATISTICS**

	<u>2010</u>	<u>2009</u>
Net accounts receivable - patients	\$ 4,331,871	\$ 3,824,953
Number of days charges outstanding (1)	51	48
Uncollectible accounts (2)	\$ 1,464,848	\$ 1,350,769
Percentage of uncollectible accounts to total charges	3.2%	3.5%

(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.

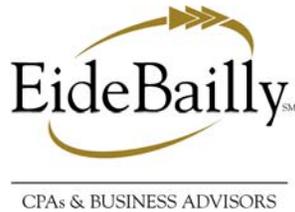
**DELAWARE COUNTY MEMORIAL HOSPITAL**  
**d/b/a REGIONAL MEDICAL CENTER**  
**SCHEDULES OF SUPPLIES/PREPAID EXPENSE**  
**JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>SUPPLIES</b>		
Pharmacy	\$ 160,349	\$ 145,273
Operating room	124,561	126,680
Storeroom	114,132	109,529
Laboratory	33,752	32,991
Clinics	13,499	33,165
Physical therapy	10,239	11,986
Emergency room	6,462	8,381
Radiology	4,849	7,588
Dietary	4,069	3,874
	<u>\$ 471,912</u>	<u>\$ 479,467</u>
<b>PREPAID EXPENSE</b>		
Maintenance agreements	\$ 117,604	\$ 146,654
Insurance	136,664	83,614
Other	-	3,079
	<u>\$ 254,268</u>	<u>\$ 233,347</u>

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)  
YEARS ENDED JUNE 30, 2010 AND 2009**

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	<u>2010</u>	<u>2009</u>
<b>PATIENT DAYS</b>		
Acute	<b>1,944</b>	2,303
Swing-bed	<b>582</b>	665
Newborn	<b>339</b>	365
<b>NUMBER OF BEDS</b>	<b>25</b>	25
<b>PERCENTAGE OF OCCUPANCY (excluding newborn)</b>	<b>28%</b>	33%
<b>DISCHARGES</b>		
Acute	<b>726</b>	777
Swing-bed	<b>93</b>	106
<b>AVERAGE LENGTH OF STAY</b>		
Acute (excluding newborn)	<b>2.68</b>	2.96
Swing-bed	<b>6.26</b>	6.27
<b>MOST RECENT YEAR END ROUTINE SERVICE RATES</b>		
Private	<b>\$ 940</b>	\$ 895
Semi-private	<b>940</b>	895
Nursery	<b>625</b>	600



**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**

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

We have audited the accompanying balance sheets of Delaware County Memorial Hospital, d/b/a Regional Medical Center, as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended and have issued our report thereon dated August 9, 2010. 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 an 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting. 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## 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, 2010, 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.



Dubuque, Iowa  
August 9, 2010

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2010**

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

**SIGNIFICANT DEFICIENCIES:**

I-A-10            Segregation of Duties

Criteria – One important aspect of internal control 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-10            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 control 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, 2010**

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**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-10 Certified Budget – Hospital disbursements during the year ended June 30, 2010, exceeded amounts budgeted by \$100,750.

Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

**DELAWARE COUNTY MEMORIAL HOSPITAL  
d/b/a REGIONAL MEDICAL CENTER  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2010**

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

- II-B-10 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-10 Travel Expense – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.
- II-D-10 Business Transactions – The Medical Center had transactions with a business partially owned by a spouse of two employees and rent expense from physicians who are employed by the Medical Center as follows:
- |                  |    |         |
|------------------|----|---------|
| Building project | \$ | 142,188 |
| Rent expense     | \$ | 24,000  |
- II-E-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-10 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-10 Publication of Bills Allowed and Salaries – Chapter 347.13(11) 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.



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

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In planning and performing our audit of the financial statements of Delaware County Memorial Hospital, d/b/a Regional Medical Center, as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) 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 an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Medical Center's internal control to be significant deficiencies:

#### Preparation of Financial Statements

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 control 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, 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. 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. 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.

#### Segregation of Duties

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

This communication 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.

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.



Dubuque, Iowa  
August 9, 2010

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



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

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We have audited the financial statements of Delaware County Memorial Hospital, d/b/a Regional Medical Center, for the year ended June 30, 2010. 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 June 18, 2010. 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, 2010. 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.

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.

#### *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 9, 2010.

#### *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.

The Board of Trustees  
Delaware County Memorial Hospital  
d/b/a Regional Medical Center  
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*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 Finance Committee, 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 cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa  
August 9, 2010

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