



Financial Statements
June 30, 2011 and 2010

Regional Medical Center

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

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June 30, 2011 and 2010

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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>	
Bev Preussner	Chairperson	December 31, 2012
Steve Palmer	Vice Chairperson	December 31, 2014
Suzanne Britt	Treasurer	December 31, 2016
Joe Keith	Secretary	December 31, 2012
Kay Harris	Member	December 31, 2012
Chris Tegeler	Member	December 31, 2014
Kathy Waterman	Member	December 31, 2016
	<u>Medical Center Officials</u>	
Lon Butikofer, RN, Ph.D	Chief Executive Officer	
Danette Kramer	Chief Financial Officer	



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, 2011 and 2010, 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, 2011 and 2010, 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 11, 2011, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 9 and the Budgetary Comparison Information on pages 28 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eide Bailly LLP

August 11, 2011
Dubuque, Iowa

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

This discussion and analysis of the financial performance of Regional Medical Center provides an overall review of the Medical Center's financial activities and balances as of and for the years ended June 30, 2011, 2010, and 2009. The intent of this discussion is to provide further information on the Medical Center's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Medical Center's financial statements, including the notes thereto to enhance their understanding of the Medical Center's financial status.

Overview of the Financial Statements

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Medical Center's finances.

The Medical Center's financial statements offer short and long term information about its activities. The balance sheets include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Medical Center creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Medical Center's operations over the past year and can be used to determine whether the Medical Center has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statements of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Medical Center and the changes in them. The Medical Center's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth, and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2011, indicates total assets of \$42,312,624, total liabilities of \$16,524,976, and net assets of \$ 25,787,648.
- The Statements of Revenues, Expenses, and Changes in Net Assets indicates total operating revenues of \$32,571,110 increased 3.8% over the previous fiscal year, total operating expenses of \$31,970,050 increased 3.8% resulting in a gain from operations of \$601,060, a 7.3% increase from the previous year. A net non-operating gain of \$954,118 brings the excess of revenues over expenses to \$1,555,178, a 24.2% increase.
- The Medical Center's current assets exceeded its current liabilities by \$ 3,462,837 at June 30, 2011, providing a 1.62 current ratio.
- The Medical Center recorded an excess of revenues over expenses for fiscal year ended June 30, 2011, amounting to \$ 1,555,178.
- Net days in accounts receivable were 56 on June 30, 2011

Organization Highlights

Regional Medical Center continued to make many positive changes over this last fiscal year, including:

- Implemented a new McKesson Paragon computer software system in August 2010
- Acquired the Winthrop physician practice in July 2010
- Conducted an extensive 5-year Strategic Planning process
- Implemented an automated phone system in Regional Family Health
- Upgraded video systems in OR
- Completed final stages of ER and Ambulatory Surgery addition and renovation
- Began construction of new physician office clinic building
- Recruited four Nurse Practitioner providers to Regional Family Health
- Accepted resignation of Dr. Gentry, family practice physician, and began recruitment process to replace him

Condensed Financial Statements

Balance Sheets

	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,217,435	\$ 1,046,241	\$ 1,198,225
Receivables			
Patient, net of estimated uncollectibles	4,980,367	4,331,871	3,824,953
Succeeding year property tax	1,035,840	967,650	885,163
Estimated third-party payor settlements	600,000	730,000	450,000
Other	365,444	158,078	173,246
Other current assets	<u>843,057</u>	<u>726,180</u>	<u>712,814</u>
Total current assets	<u>9,042,143</u>	<u>7,960,020</u>	<u>7,244,401</u>
Assets Limited as to Use or Restricted	<u>4,217,526</u>	<u>2,939,958</u>	<u>3,740,900</u>
Total Capital Assets, Net	<u>26,517,783</u>	<u>19,263,086</u>	<u>15,616,571</u>
Other Assets			
Gift fund investments	2,042,986	2,019,658	1,988,367
Other	<u>492,186</u>	<u>432,486</u>	<u>414,114</u>
Total other assets	<u>2,535,172</u>	<u>2,452,144</u>	<u>2,402,481</u>
Total assets	<u>\$ 42,312,624</u>	<u>\$ 32,615,208</u>	<u>\$ 29,004,353</u>

Condensed Financial Statements

Balance Sheets (continued)

	June 30, 2011	June 30, 2010	June 30, 2009
Liabilities and Net Assets			
Current Liabilities			
Current maturities of long-term debt	\$ 374,648	\$ 250,079	\$ 360,324
Accounts payable			
Trade	573,213	616,106	609,025
Construction	887,163	235,539	143,244
Estimated health claims payable	400,000	190,000	140,000
Accrued expenses	2,308,442	2,346,767	2,069,263
Deferred revenue for succeeding year property tax receivable	1,035,840	967,650	885,163
Total current liabilities	5,579,306	4,606,141	4,207,019
Long-term Debt, Less Current Maturities	10,945,670	3,783,502	1,840,004
Total liabilities	16,524,976	8,389,643	6,047,023
Net Assets			
Invested in capital assets, net of related debt	15,197,465	15,229,505	13,416,243
Restricted			
Nonexpendable beneficial interest in charitable trust	148,000	148,000	148,000
Unrestricted	10,442,183	8,848,060	9,393,087
Total net assets	25,787,648	24,225,565	22,957,330
Total liabilities and net assets	\$ 42,312,624	\$ 32,615,208	\$ 29,004,353

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Management's Discussion and Analysis
June 30, 2011 and 2010

Statements of Revenues, Expenses, and Changes in Net Assets

	June 30, 2011	June 30, 2010	June 30, 2009
Operating Revenues			
Net patient service revenue	\$ 31,917,975	\$ 30,692,592	\$ 25,774,026
Other operating revenues	653,135	679,964	537,364
Total Operating Revenues	<u>32,571,110</u>	<u>31,372,556</u>	<u>26,311,390</u>
Operating Expenses			
Salaries and wages	15,616,909	15,390,351	11,591,000
Supplies and other expenses	14,192,593	13,742,227	11,868,061
Depreciation and amortization	2,160,548	1,679,978	1,513,972
Total Operating Expenses	<u>31,970,050</u>	<u>30,812,556</u>	<u>24,973,033</u>
Operating Income	<u>601,060</u>	<u>560,000</u>	<u>1,338,357</u>
Nonoperating Revenues (Expenses)			
County tax revenue	968,736	883,702	798,628
Noncapital contributions	36,010	57,600	54,772
Interest expense	(152,597)	(98,548)	(56,346)
Investment income	102,777	145,041	116,992
Gain (loss) on disposal of capital assets	(808)	(295,596)	10,104
Net Nonoperating Revenues	<u>954,118</u>	<u>692,199</u>	<u>924,150</u>
Revenues in Excess of Expenses	1,555,178	1,252,199	2,262,507
Capital Contributions and Grants	<u>6,905</u>	<u>16,036</u>	<u>22,599</u>
Increase in Net Assets	1,562,083	1,268,235	2,285,106
Net Assets Beginning of Year	<u>24,225,565</u>	<u>22,957,330</u>	<u>20,672,224</u>
Net Assets End of Year	<u>\$ 25,787,648</u>	<u>\$ 24,225,565</u>	<u>\$ 22,957,330</u>

Capital Assets

Regional Medical Center began construction of a new physician office clinic in September 2010. The 43,000 square foot building provides space for primary care clinic operations, laboratory services, emergency services, conference room, sleep rooms, and a new ambulance garage. The building was opened for operations July 11, 2011.

Long-Term Debt

At year end, Regional Medical Center had \$11,320,318 in short-term and long-term debt. The debt was incurred to construct the new physician office clinic, to install a new computer system, and to renovate the special care unit in 2009. The financing was established through Revenue Bonds and Build America Bonds.

Economic and Other Factors and Next Year's Budget

The Medical Center's Board and Management considered many factors when preparing the fiscal year 2012 budget. Of primary consideration in the 2012 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered.

- Medicare and Medicaid reimbursement rates
- Managed Care contracts
- Increase in self pay accounts receivable due to uninsured and underinsured
- Staffing benchmarks
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Energy costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances

Summary

Regional Medical Center's Governing Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 360 employees provides to every person they serve. We would also like to thank each member of the Medical Staff for their dedication and support provided.

Contacting the Medical Center's Finance Department

The Medical Center's financial statements are designed to present users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Regional Medical Center
Attn: Chief Financial Officer
709 W Main St.
Manchester, IA 52057-0359

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,217,435	\$ 1,046,241
Receivables		
Patient, net of estimated uncollectibles		
of \$3,939,000 in 2011 and \$3,385,000 in 2010	4,980,367	4,331,871
Succeeding year property tax	1,035,840	967,650
Estimated third-party payor settlements	600,000	730,000
Other	365,444	158,078
Supplies	501,112	471,912
Prepaid expense	341,945	254,268
Total current assets	<u>9,042,143</u>	<u>7,960,020</u>
Assets Limited as to Use or Restricted - Note 4		
Investments		
By board for capital improvements	<u>4,217,526</u>	<u>2,939,958</u>
Capital Assets - Note 5		
Capital assets not being depreciated	8,761,285	2,857,631
Depreciable capital assets, net of accumulated depreciation	<u>17,756,498</u>	<u>16,405,455</u>
Total capital assets, net	<u>26,517,783</u>	<u>19,263,086</u>
Other Assets		
Gift fund investments - Note 6	2,042,986	2,019,658
Beneficial interest in charitable trust	148,000	148,000
Deferred financing costs, net of accumulated amortization		
of \$5,806 in 2011 and \$2,473 in 2010 - Note 7	84,728	51,937
Goodwill - Note 8	175,000	150,000
Joint ventures - Note 9	84,458	82,549
Total other assets	<u>2,535,172</u>	<u>2,452,144</u>
Total assets	<u>\$ 42,312,624</u>	<u>\$ 32,615,208</u>

See Notes to Financial Statements

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Balance Sheets
June 30, 2011 and 2010

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 11	\$ 374,648	\$ 250,079
Accounts payable		
Trade	573,213	616,106
Construction	887,163	235,539
Estimated health claims payable - Note 13	400,000	190,000
Accrued expenses		
Salaries and wages	278,606	568,409
Paid leave	1,494,127	1,346,662
Interest	124,178	54,130
Payroll taxes and other	411,531	377,566
Deferred revenue for succeeding year property tax receivable	1,035,840	967,650
Total current liabilities	5,579,306	4,606,141
Long-Term Debt, Less Current Maturities - Note 11	10,945,670	3,783,502
Total liabilities	16,524,976	8,389,643
Net Assets		
Invested in capital assets, net of related debt	15,197,465	15,229,505
Restricted		
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	10,442,183	8,848,060
Total net assets	25,787,648	24,225,565
Total liabilities and net assets	\$ 42,312,624	\$ 32,615,208

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Statements of Revenues, Expenses, and Changes in Net Assts
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$823,074 in 2011 and \$821,503 in 2010) - Notes 2 and 3	\$ 31,917,975	\$ 30,692,592
Other operating revenues	<u>653,135</u>	<u>679,964</u>
Total Operating Revenues	<u>32,571,110</u>	<u>31,372,556</u>
Operating Expenses		
Salaries and wages	15,616,909	15,390,351
Supplies and other expenses	14,192,593	13,742,227
Depreciation and amortization	<u>2,160,548</u>	<u>1,679,978</u>
Total Operating Expenses	<u>31,970,050</u>	<u>30,812,556</u>
Operating Income	<u>601,060</u>	<u>560,000</u>
Nonoperating Revenues (Expenses)		
County tax revenue	968,736	883,702
Noncapital contributions	36,010	57,600
Interest expense	(152,597)	(98,548)
Investment income	102,777	145,041
Loss on disposal of capital assets	<u>(808)</u>	<u>(295,596)</u>
Net Nonoperating Revenues	<u>954,118</u>	<u>692,199</u>
Revenues in Excess of Expenses	1,555,178	1,252,199
Capital Contributions and Grants	<u>6,905</u>	<u>16,036</u>
Increase in Net Assets	1,562,083	1,268,235
Net Assets Beginning of Year	<u>24,225,565</u>	<u>22,957,330</u>
Net Assets End of Year	<u>\$ 25,787,648</u>	<u>\$ 24,225,565</u>

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Receipts of patient service revenue	\$ 31,399,479	\$ 29,905,674
Payments of salaries, wages, and benefits	(15,725,282)	(15,149,056)
Payments of supplies and other expenses	(14,142,363)	(13,698,512)
Other receipts	445,262	691,652
Net Cash Provided by Operating Activities	1,977,096	1,749,758
Cash Flows from Noncapital Financing Activities		
County tax received	969,243	887,182
Noncapital contributions	36,010	57,600
Net Cash Provided by Noncapital Financing Activities	1,005,253	944,782
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(9,418,005)	(5,624,170)
Proceeds from issuance of long-term debt	7,580,518	2,193,577
Principal paid on debt	(293,781)	(360,324)
Interest paid on debt	(82,549)	(62,339)
Payment of debt issuance costs	(36,124)	-
Increase in construction payable	651,624	92,295
Capital contributions and grants	6,905	16,036
Proceeds from sale of capital assets	5,285	4,554
Net Cash used for Capital and Related Financing Activities	(1,586,127)	(3,740,371)
Cash Flows from Investing Activities		
(Increase) decrease in assets limited as to use or restricted	(1,277,568)	800,942
Increase in gift fund investments	(23,328)	(31,291)
Increase in joint ventures	(1,909)	(20,845)
Purchase of goodwill	(25,000)	-
Investment income	102,777	145,041
Net Cash Provided by (used for) Investing Activities	(1,225,028)	893,847
Net Increase (Decrease) in Cash and Cash Equivalents	171,194	(151,984)
Cash and Cash Equivalents at Beginning of Year	1,046,241	1,198,225
Cash and Cash Equivalents at End of Year	\$ 1,217,435	\$ 1,046,241

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Income to Net Cash Provided		
by Operating Activities		
Operating income	\$ 601,060	\$ 560,000
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	2,160,548	1,679,978
Provision for bad debts	823,074	821,503
Changes in assets and liabilities		
Receivables	(1,679,443)	(1,316,733)
Supplies	(29,200)	7,555
Prepaid expense	(87,677)	(20,921)
Accounts payable - trade	(42,893)	7,081
Estimated health claims payable	210,000	50,000
Estimated third-party payor settlements	130,000	(280,000)
Accrued expenses	(108,373)	241,295
	\$ 1,977,096	\$ 1,749,758
Net Cash Provided by Operating Activities		
 Supplemental Disclosure of Cash Flow Information		
Cash paid for interest (including amounts capitalized) in 2011 and 2010 was \$357,632 and \$113,625, respectively.		
 Supplemental Noncash Capital Activities		
Capital asset purchases included in accounts payable at June 30, 2011 and 2010	\$ 887,163	\$ 235,539

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.

Tax Exempt Status

The Medical Center is an Iowa non-profit 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 is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Medical Center believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Medical Center would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

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.

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'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. 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.

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Medical Center has elected not to apply provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

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.

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 tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Trustees 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 Trustees 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

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, 2011 and 2010.

Deferred Revenue

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

Operating Revenues and Expenses

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

Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

To fulfill its mission of community service, the Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is 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.

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 11, 2011, the date which the financial statements were available to be issued.

Reclassifications

Certain items from the 2010 financial statements have been reclassified to conform to the current year presentation. The reclassifications had no impact on increase in net assets.

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 \$601,867 and \$566,556 for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, were \$407,000 and \$381,000, 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:

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, 2009.

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, 2008.

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 39% and 11%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2011, and 40% and 11%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2010. The 2011 net patient service revenue increased approximately \$667,000 due to prior-year retroactive adjustments in excess of amounts previously estimated.

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.

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 the 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
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Notes to Financial Statements
June 30, 2011 and 2010

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Total Patient Service Revenue	\$ 45,893,815	\$ 44,445,746
Contractual Adjustments		
Medicare	(6,161,714)	(5,996,524)
Medicaid	(1,759,056)	(2,152,072)
Other	(5,231,996)	(4,783,055)
Total contractual adjustments	(13,152,766)	(12,931,651)
Net Patient Service Revenue	32,741,049	31,514,095
Provision for Bad Debts	(823,074)	(821,503)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 31,917,975	\$ 30,692,592

Note 4 - Cash and Deposits

The Medical Center's deposits in banks at June 30, 2011 and 2010, 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, 2011 and 2010, the Medical Center's carrying amounts of cash and deposits are as follows:

	2011	2010
Assets Limited as to Use or Restricted by		
Board for Capital Improvements		
Savings and money market accounts	\$ 4,217,526	\$ 2,939,958

The Medical Center's investment policy states that for the general savings account, floating bond fund, designating funds, and investable funds shall have maturities that do not exceed one year. Any funds that are to be invested longer must have advance approval by the Finance Committee. All of the above cash and deposits have a maturity date of less than one year.

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

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

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

Note 5 - Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010, was as follows:

	June 30, 2010				June 30, 2011
	Balance	Additions	Deductions	Transfers	Balance
Capital Assets Not Being Depreciated:					
Land	\$ 70,419	\$ -	\$ -	\$ -	\$ 70,419
Construction in progress	2,787,212	7,940,594	-	(2,036,940)	8,690,866
Total capital assets not being depreciated	<u>2,857,631</u>	<u>7,940,594</u>	<u>-</u>	<u>(2,036,940)</u>	<u>8,761,285</u>
Capital Assets Being Depreciated:					
Land improvements	1,291,064	-	-	18,490	1,309,554
Buildings	21,220,984	370,198	-	48,995	21,640,177
Leasehold improvements	83,060	-	-	-	83,060
Equipment	9,167,275	1,115,212	721,933	1,969,455	11,530,009
Total capital assets being depreciated	<u>31,762,383</u>	<u>1,485,410</u>	<u>721,933</u>	<u>2,036,940</u>	<u>34,562,800</u>
Less Accumulated Depreciation for:					
Land improvements	691,188	66,994	-	-	758,182
Buildings	8,316,115	896,642	-	-	9,212,757
Leasehold improvements	31,714	4,614	-	-	36,328
Equipment	6,317,911	1,188,965	707,841	-	6,799,035
Total accumulated depreciation	<u>15,356,928</u>	<u>2,157,215</u>	<u>707,841</u>	<u>-</u>	<u>16,806,302</u>
Total Capital Assets Being Depreciated, Net	<u>16,405,455</u>	<u>(671,805)</u>	<u>14,092</u>	<u>2,036,940</u>	<u>17,756,498</u>
Total Capital Assets, Net	<u>\$ 19,263,086</u>	<u>\$ 7,268,789</u>	<u>\$ 14,092</u>	<u>\$ -</u>	<u>\$ 26,517,783</u>

Delaware County Memorial Hospital
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Notes to Financial Statements
June 30, 2011 and 2010

	June 30, 2009				June 30, 2010
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	<u>Balance</u>
Capital Assets Not Being Depreciated:					
Land	\$ 70,419	\$ -	\$ -	\$ -	\$ 70,419
Construction in progress	403,008	2,553,074	-	(168,870)	2,787,212
Total capital assets not being depreciated	<u>473,427</u>	<u>2,553,074</u>	<u>-</u>	<u>(168,870)</u>	<u>2,857,631</u>
Capital Assets Being Depreciated:					
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
Total capital assets being depreciated	<u>29,208,733</u>	<u>3,072,596</u>	<u>687,816</u>	<u>168,870</u>	<u>31,762,383</u>
Less Accumulated Depreciation for:					
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
Total accumulated depreciation	<u>14,065,589</u>	<u>1,677,505</u>	<u>386,166</u>	<u>-</u>	<u>15,356,928</u>
Total Capital Assets Being Depreciated, Net	<u>15,143,144</u>	<u>1,395,091</u>	<u>301,650</u>	<u>168,870</u>	<u>16,405,455</u>
Total Capital Assets, Net	<u>\$ 15,616,571</u>	<u>\$ 3,948,165</u>	<u>\$ 301,650</u>	<u>\$ -</u>	<u>\$ 19,263,086</u>

Construction in progress at June 30, 2011, represents costs incurred for the construction of a medical office building. The medical office building project is expected to be completed in July 2011 at a total estimated cost of \$9,000,000. The project will be financed through Series 2009 and 2010 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Money Market Account	\$ 1,143,747	\$ 1,129,963
Savings Accounts	46,933	48,462
Certificates of Deposit	527,539	517,598
Cash Surrender Value of Life Insurance Policy	<u>324,767</u>	<u>323,635</u>
	<u>\$ 2,042,986</u>	<u>\$ 2,019,658</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.

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, 2011, was as follows:

	Gross Carrying Amount
Patient Lists	\$ 175,000

The change in the carrying value of goodwill for the year ended June 30, 2011, is as follows:

	Regional Family Health
Balance as of July 1, 2010	\$ 150,000
Goodwill Acquired During the Year	25,000
Impairment Losses	-
Balance as of June 30, 2011	\$ 175,000

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, 2011.

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, 2011 and 2010, for all leases was \$95,869 and \$166,088, respectively.

Note 11 - Long-Term Debt

A schedule of changes in the Medical Center's long-term debt for 2011 and 2010 follows:

	June 30, 2010 Balance	Additions	Payments	June 30, 2011 Balance	Amounts Due Within One Year
Note Payable #1 (A)	\$ 306,215	\$ -	\$ 214,145	\$ 92,070	\$ 92,070
Hospital Revenue Bonds					
Series 2009 (B)	3,719,482	3,580,518	71,752	7,228,248	222,926
Taxable Hospital Revenue					
Bonds Series 2010 (C)	-	4,000,000	-	4,000,000	59,652
Capital Lease Obligations	7,884	-	7,884	-	-
Total Long-Term Debt	<u>\$ 4,033,581</u>	<u>\$ 7,580,518</u>	<u>\$ 293,781</u>	<u>11,320,318</u>	<u>\$ 374,648</u>
Less Current Maturities				<u>(374,648)</u>	
Long-Term Debt, Less Current Maturities				<u>\$ 10,945,670</u>	

	June 30, 2009 Balance	Additions	Payments	June 30, 2010 Balance	Amounts Due Within One Year
Note Payable #1 (A)	\$ 511,056	\$ -	\$ 204,841	\$ 306,215	\$ 214,145
Hospital Revenue Bonds					
Series 2009 (B)	1,525,905	2,193,577	-	3,719,482	28,050
Note Payable #2	144,970	-	144,970	-	-
Capital Lease Obligations	18,397	-	10,513	7,884	7,884
Total Long-Term Debt	<u>\$ 2,200,328</u>	<u>\$ 2,193,577</u>	<u>\$ 360,324</u>	<u>4,033,581</u>	<u>\$ 250,079</u>
Less Current Maturities				<u>(250,079)</u>	
Long-Term Debt, Less Current Maturities				<u>\$ 3,783,502</u>	

- (A) Note payable #1 requires monthly payments of principal and interest, with interest at the rate of 4.45%. Principal and interest payments are due through December 11, 2011, secured by Medical Center revenues.
- (B) The Hospital Revenue Bonds, Series 2009, were drawn in the amount of \$7,300,000 during fiscal years 2010 and 2011. Payment of principal and interest at 4.75% are payable monthly through April 1, 2031. On April 1, 2016, and every five years thereafter, the interest rate will be adjusted to a rate equal to the Five Year U.S. Treasury Index plus 275 basis points; provided however, that the rate shall never be below 4.75% per annum. The bonds are collateralized by a pledge of the Medical Center's net revenues.
- (C) The Taxable Hospital Revenue Bonds, Series 2010, were drawn in the amount of \$4,000,000 during fiscal year 2011. Payment of principal and interest at 6.125% are payable semi-annually on January 1 and July 1, through January 1, 2031. On July 1, 2016, and every five years thereafter, the interest rate will be adjusted to a rate equal to the Federal Home Loan Bank (FHLB) rate plus 350 basis points; provided however, that the rate shall never be below 5.50% per annum. The bonds are collateralized by a pledge of the Medical Center's net revenues.

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Notes to Financial Statements
June 30, 2011 and 2010

Aggregate future payments of principal and interest on long-term debt obligations are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 374,648	\$ 598,273	\$ 972,921
2013	358,931	578,859	937,790
2014	380,199	551,800	931,999
2015	402,315	527,752	930,067
2016	420,073	507,585	927,658
2017-2021	2,449,845	2,172,506	4,622,351
2022-2026	3,177,607	1,444,743	4,622,350
2027-2031	3,756,700	497,929	4,254,629
Total	<u>\$ 11,320,318</u>	<u>\$ 6,879,447</u>	<u>\$ 18,199,765</u>

A summary of interest cost on borrowed funds during the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Interest Cost		
Capitalized as part of construction project	\$ 275,084	\$ 51,286
Recognized as interest expense	<u>152,597</u>	<u>98,548</u>
Total	<u>\$ 427,681</u>	<u>\$ 149,834</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 4.50% of their annual covered salary, and the Medical Center is required to contribute 6.95% of annual covered payroll for the year ended June 30, 2011. Plan members were required to contribute 4.30% and 4.10% of their annual covered salary, and the Medical Center was required to contribute 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2010 and 2009, respectively. Contribution requirements are established by state statute. The Medical Center's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$1,054,045, \$979,453, and \$711,753, 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 \$400,000 and \$190,000 have been established to record the incurred but not reported claims outstanding at June 30, 2011 and 2010, respectively. The liability is included within 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.

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, 2011 and 2010, was as follows:

	2011	2010
Medicare	39%	35%
Medicaid	5%	8%
Commerical Insurance	39%	48%
Other Third-Party Payors and Patients	17%	9%
	100%	100%

Note 16 - Clinic Acquisition

On July 1, 2010, the Medical Center acquired a clinic based in Winthrop, Iowa. The results of the clinic's 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 that geographic location.

The aggregate purchase price for the Winthrop Clinic was \$149,234. The following table summarizes the fair values of the assets acquired on July 1, 2010, the date of acquisition.

	Acquisition Cost
Accounts Receivable	\$ 52,250
Equipment	65,897
Inventory	5,787
Prepaid Expense	300
Goodwill	25,000
	\$ 149,234



Required Supplementary Information
June 30, 2011 and 2010

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)
Required Supplementary Information
Year Ended June 30, 2011

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	\$ 968,736	\$ 507	\$ 969,243	\$ 942,555	\$ 26,688
Estimated Other Revenues/Receipts	<u>32,715,994</u>	<u>6,858,333</u>	<u>39,574,327</u>	<u>34,600,095</u>	<u>4,974,232</u>
	33,684,730	6,858,840	40,543,570	35,542,650	5,000,920
Expenses/Disbursements	<u>32,122,647</u>	<u>6,948,833</u>	<u>39,071,480</u>	<u>36,873,300</u>	<u>(2,198,180)</u>
Net	1,562,083	(89,993)	1,472,090	(1,330,650)	<u>\$ 2,802,740</u>
Balance Beginning of Year	<u>24,225,565</u>	<u>(18,219,708)</u>	<u>6,005,857</u>	<u>(3,025,727)</u>	
Balance End of Year	<u>\$ 25,787,648</u>	<u>\$ (18,309,701)</u>	<u>\$ 7,477,947</u>	<u>\$ (4,356,377)</u>	

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, 2011.

For the year ended June 30, 2011, the Medical Center's expenditures exceeded the amount budgeted.



Supplementary Information
June 30, 2011 and 2010

Regional  Medical Center



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 schedules of net patient service revenue, other operating revenue, operating expenses, and supplies/prepaid expenses are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The schedules of net patient service revenue, other operating revenue, operating expenses, and supplies/prepaid expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedules of patient receivables, allowance for doubtful accounts, and collection statistics, and statistical information on pages 37 and 39, respectively, have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Eide Bailly LLP

August 11, 2011
Dubuque, Iowa

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Schedules of Net Patient Service Revenue
Years Ended June 30, 2011 and 2010

	2011	2010
Patient Service Revenue		
Routine services	\$ 3,718,074	\$ 3,343,100
Mental health	195	2,180,699
Delivery and labor rooms	372,306	326,048
Operating and recovery rooms	6,137,137	5,576,185
Medical supplies	1,065,910	862,413
Emergency services	4,231,684	3,705,025
Laboratory and blood bank	5,667,885	5,315,376
Electrocardiology	571,836	580,664
Cardiac rehab	97,130	97,944
Radiology	6,690,798	6,773,744
Cardiology	30,649	29,800
Pharmacy	2,888,068	2,645,916
Anesthesiology	1,311,860	1,351,544
Respiratory therapy	399,438	327,592
Physical therapy	1,067,267	942,201
Speech therapy	142,050	113,287
Occupational therapy	303,923	127,403
Ambulance	684,837	787,168
Regional Family Health	7,496,940	6,437,606
Other clinics	194,598	178,732
Community health	3,237,249	3,099,780
Public health	185,848	210,075
	46,495,682	45,012,302
Charity care	(601,867)	(566,556)
Total patient service revenue*	\$ 45,893,815	\$ 44,445,746
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	\$ 8,159,871	\$ 6,260,385
Outpatient revenue	38,335,811	38,751,917
Charity care	(601,867)	(566,556)
Total patient service revenue	45,893,815	44,445,746
Contractual Adjustments		
Medicare	(6,161,714)	(5,996,524)
Medicaid	(1,759,056)	(2,152,072)
Other	(5,231,996)	(4,783,055)
Total contractual adjustments	(13,152,766)	(12,931,651)
Net Patient Service Revenue	32,741,049	31,514,095
Provision for Bad Debts	(823,074)	(821,503)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 31,917,975	\$ 30,692,592

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Schedules of Other Operating Revenues
Years Ended June 30, 2011 and 2010

	2011	2010
Other Operating Revenues		
Rent	\$ 198,935	\$ 187,435
Parents as teachers	125,715	127,948
Outside pharmacy	86,876	84,257
Education services	47,184	74,168
Massage therapy	60,983	68,331
Cafeteria	53,084	65,539
Purchase discounts	42,524	36,147
Fitness center memberships	21,590	19,543
Vending machines	1,380	1,219
Other	14,864	15,377
Total Other Operating Revenues	\$ 653,135	\$ 679,964

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

	2011	2010
Nursing Administration		
Salaries and wages	\$ 281,826	\$ 288,405
Supplies and other expenses	32,395	45,574
	314,221	333,979
Routine Services		
Salaries and wages	1,923,348	1,702,488
Supplies and other expenses	103,231	100,754
	2,026,579	1,803,242
Nursery		
Salaries and wages	49,896	62,406
Supplies and other expenses	8,769	18,280
	58,665	80,686
Special Care Unit		
Salaries and wages	1,416	62,756
Supplies and other expenses	(1,659)	23,563
	(243)	86,319
Mental Health		
Salaries and wages	17,213	900,150
Supplies and other expenses	6,475	500,110
	23,688	1,400,260
Delivery and Labor Rooms		
Salaries and wages	-	11,726
Supplies and other expenses	5,901	9,591
	5,901	21,317
Operating and Recovery Rooms		
Salaries and wages	728,990	542,487
Supplies and other expenses	249,851	206,644
	978,841	749,131
Medical Supplies		
Supplies and other expenses	660,349	533,018
Emergency Services		
Salaries and wages	868,965	936,078
Supplies and other expenses	850,301	840,374
	1,719,266	1,776,452
Laboratory and Blood Bank		
Salaries and wages	473,909	479,493
Supplies and other expenses	519,375	547,776
	993,284	1,027,269

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Electrocardiology		
Salaries and wages	\$ 5,172	\$ 6,857
Supplies and other expenses	<u>120,588</u>	<u>103,745</u>
	<u>125,760</u>	<u>110,602</u>
Cardiac Rehab		
Salaries and wages	46,896	35,161
Supplies and other expenses	<u>2,597</u>	<u>2,102</u>
	<u>49,493</u>	<u>37,263</u>
Radiology		
Salaries and wages	538,131	556,366
Supplies and other expenses	<u>714,016</u>	<u>698,461</u>
	<u>1,252,147</u>	<u>1,254,827</u>
Cardiology		
Salaries and wages	<u>1,964</u>	<u>2,498</u>
Pharmacy		
Salaries and wages	372,589	334,858
Supplies and other expenses	<u>974,972</u>	<u>900,843</u>
	<u>1,347,561</u>	<u>1,235,701</u>
Anesthesiology		
Supplies and other expenses	<u>947,644</u>	<u>947,019</u>
Respiratory Therapy		
Salaries and wages	100,013	79,551
Supplies and other expenses	<u>13,042</u>	<u>12,668</u>
	<u>113,055</u>	<u>92,219</u>
Physical Therapy		
Salaries and wages	484,026	502,104
Supplies and other expenses	<u>38,074</u>	<u>35,628</u>
	<u>522,100</u>	<u>537,732</u>
Speech Therapy		
Supplies and other expenses	<u>88,003</u>	<u>63,726</u>
Occupational Therapy		
Supplies and other expenses	<u>130,118</u>	<u>69,079</u>

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

	2011	2010
Ambulance		
Salaries and wages	\$ 207,989	\$ 188,802
Supplies and other expenses	31,726	49,952
	239,715	238,754
Regional Family Health		
Salaries and wages	4,433,419	3,791,141
Supplies and other expenses	964,345	785,172
	5,397,764	4,576,313
Outreach Clinic		
Supplies and other expenses	3,286	-
Other Clinics		
Salaries and wages	134,274	122,289
Supplies and other expenses	10,173	9,773
	144,447	132,062
Community Health		
Salaries and wages	1,176,267	1,111,941
Supplies and other expenses	470,608	367,928
	1,646,875	1,479,869
Public Health		
Salaries and wages	147,384	164,637
Supplies and other expenses	19,600	32,608
	166,984	197,245
Social Services		
Salaries and wages	3,419	3,877
Supplies and other expenses	32	-
	3,451	3,877
Parents as Teachers		
Salaries and wages	88,239	79,895
Supplies and other expenses	16,269	18,792
	104,508	98,687
Medical Records		
Salaries and wages	413,025	349,167
Supplies and other expenses	58,377	57,146
	471,402	406,313

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010

	2011	2010
Dietary		
Salaries and wages	\$ 260,301	\$ 253,977
Supplies and other expenses	89,603	82,629
	349,904	336,606
Plant Operation and Maintenance		
Salaries and wages	281,623	414,735
Supplies and other expenses	678,571	636,033
	960,194	1,050,768
Housekeeping		
Salaries and wages	263,430	288,154
Supplies and other expenses	43,895	42,447
	307,325	330,601
Laundry		
Salaries and wages	16,323	26,888
Supplies and other expenses	74,453	73,488
	90,776	100,376
Administrative Services		
Salaries and wages	2,296,862	2,091,464
Supplies and other expenses	1,533,208	1,508,513
	3,830,070	3,599,977
Unassigned Expenses		
Depreciation and amortization	2,160,548	1,679,978
Insurance	254,275	281,593
Employee benefits	4,480,130	4,137,198
	6,894,953	6,098,769
Total Operating Expenses	\$ 31,970,050	\$ 30,812,556

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

Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited)
June 30, 2011 and 2010

Analysis of Aging

<u>Days Since Discharge</u>	<u>2011</u>		<u>2010</u>	
	Amount	Percent to Total	Amount	Percent to Total
30 Days or Less	\$ 4,506,679	50.52%	\$ 3,344,749	43.34%
31 to 60 Days	1,784,620	20.01%	1,895,150	24.56%
61 to 90 Days	1,010,297	11.33%	867,667	11.24%
91 to 180 Days	822,005	9.22%	1,042,973	13.52%
181 Days and over	795,754	8.92%	566,141	7.34%
	<u>8,919,355</u>	<u>100.00%</u>	<u>7,716,680</u>	<u>100.00%</u>
Less: Allowance for Doubtful Accounts	489,965		422,239	
Allowance for Contractual Adjustments	<u>3,449,023</u>		<u>2,962,570</u>	
Net	<u>\$ 4,980,367</u>		<u>\$ 4,331,871</u>	

Allowance for Doubtful Accounts

	<u>Years Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Balance, Beginning of Year	\$ 422,239	\$ 385,043
Add: Provision for Bad Debts	823,074	821,503
Recoveries of Accounts Written Off	339,508	288,434
Less: Accounts Written Off	<u>(1,094,856)</u>	<u>(1,072,741)</u>
Balance, End of Year	<u>\$ 489,965</u>	<u>\$ 422,239</u>

Collection Statistics

	<u>2011</u>	<u>2010</u>
Net Accounts Receivable - Patients	\$ 4,980,367	\$ 4,331,871
Number of Days Charges Outstanding (1)	56	51
Uncollectible Accounts (2)	\$ 1,512,426	\$ 1,464,848
Percentage of Uncollectible Accounts to Total Charges	3.25%	3.25%

(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, 2011 and 2010

	2011	2010
Supplies		
Pharmacy	\$ 150,461	\$ 160,349
Operating room	128,268	124,561
Storeroom	146,695	114,132
Laboratory	36,042	33,752
Clinics	19,883	13,499
Physical therapy	3,170	10,239
Emergency room	9,405	6,462
Radiology	3,853	4,849
Dietary	3,335	4,069
Total	\$ 501,112	\$ 471,912
 Prepaid Expense		
Maintenance agreements	\$ 222,854	\$ 117,604
Insurance	119,091	136,664
Total	\$ 341,945	\$ 254,268

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Patient Days		
Acute	2,107	1,944
Swing-bed	841	582
Newborn	378	339
Number of Beds	25	25
Percentage of Occupancy (Excluding Newborn)	32%	28%
Discharges		
Acute	788	726
Swing-bed	115	93
Average Length of Stay		
Acute (excluding newborn)	2.67	2.68
Swing-bed	7.31	6.26
Most Recent Year End Routine Service Rates		
Private	\$ 1,025	\$ 940
Semi-private	1,025	940
Nursery	705	625



**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 sheet of Delaware County Memorial Hospital, d/b/a Regional Medical Center (Medical Center), as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated August 11, 2011. We conducted our audit 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 the Medical Center's, 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 the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's 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 as items I-A-11 and I-B-11 to be significant deficiencies. 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 Medical Center's financial statements 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, 2011, 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.

The Medical Center's 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, and 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.



August 11, 2011
Dubuque, Iowa

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-11 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-11 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).

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-11 Certified Budget – Medical Center disbursements during the year ended June 30, 2011, exceeded the amount budgeted by \$2,198,180.

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.

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

- II-B-11 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-11 Travel Expense** – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.
- II-D-11 Business Transactions** – The Medical Center had transactions with a business partially owned by the spouses of two employees and rent expense from physicians who are employed by the Medical Center as follows:
- | | | |
|------------------|----|---------|
| Building project | \$ | 223,867 |
| Rent expense | \$ | 24,000 |
- II-E-11 Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-11 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-11 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

We have audited the financial statements of Delaware County Memorial Hospital, d/b/a Regional Medical Center, for the year ended June 30, 2011. 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 28, 2011. 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, 2011. 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, amounts either owed to or receivable from third-party payors, self-funded health insurance liability, 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 11, 2011.

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.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Matters

Following are additional comments for informational purposes only:

Transmission of Electronic Health Information and the Implementation of ICD-10

The International Classification of Diseases (ICD) has gone through its tenth revision (ICD-10). The replacement of ICD-9 is mandated effective October 1, 2013. Where ICD-9 contains more than 17,000 codes, ICD-10 contains more than 141,000 codes and accommodates a significant number of new diagnoses and procedures. The use of ICD-10-CM (Clinical Modifications) and ICD-10-PCS (Procedure Coding System) applies to all "Covered Entities," which includes, in part, hospitals, physicians, nursing homes, home health agencies, health plans, and health care clearinghouses that transmit electronic health information in connection with the HIPAA (Health Insurance Portability and Accountability Act) transaction standards.

The adoption of ICD-10-CM and ICD-10-PCS will enable providers and others to better study the relationship of cost to specific medical conditions. Greater specificity in clinical coding provides an important reference point for improving our understanding of medical treatment and should enable system designers to create new and better health information systems.

In relation to the adoption of ICD-10, further regulation was also issued which calls for an updated version of the current HIPAA electronic transaction standard (Version 5010). The newer version replaces the existing HIPAA transaction standards on January 1, 2012. The newer version (5010) of the electronic standards is necessary in order to distinguish the reporting of the new ICD-10 codes.

The failure to successfully implement ICD-10 could create coding and billing backlogs, cause cash flow delays, increase claims rejections/denials, lead to unintended shifts in payment and place payer contracts and/or market share arrangements at risk due to poor quality rating or high costs.

We encourage facilities to plan for the implementation of ICD-10 by

- Conducting an information systems inventory
- Assessing vendor readiness and support
- Creating staff awareness
- Assessing and planning for staff training needs
- Evaluating health plan contract implications
- Budget planning (system transitions, education, decreased productivity, potential denials)
- Identifying gaps in health record documentation.

Eide Bailly has staff available that can assist your facility in assessment of the above noted areas, such as information technology, coding, education and financial planning for ICD-10. We have a certified ICD-10-CM trainer on our Health Care Consulting team who is available to provide education to pertinent personnel in the facility.

Accounting for Leases

On August 17, 2010, the Financial Accounting Standards Board (FASB) issued proposed accounting standards update 1850-100, *Leases*. This proposal has been discussed over the last several years and seeks to change the way in which substantially all leases are reflected in financial statements. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be recognized on the balance sheet. Assets and liabilities recognized by lessees and lessors would be measured on a basis that:

- a) Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.
- b) Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.
- c) Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

We recommend that you review the proposed guidance and consider responding to the questions included in the proposed standard if these changes are of concern.

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.

The Board of Trustees
Delaware County Memorial Hospital
d/b/a Regional Medical Center
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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 "Eric Sully LLP".

Dubuque, Iowa
August 11, 2011

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