Financial Statements
June 30, 2012 and 2011

Regional Medical Center

Name	Title	Term Expires
	Board of Trustees	
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
	Medical Center Officials	
Lon Butikofer, RN, Ph.D	Chief Executive Officer	
Danette Kramer	Chief Financial Officer	

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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 (Medical Center), as of June 30, 2012 and 2011, 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 the Medical Center as of June 30, 2012 and 2011, 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 September 13, 2012, on our consideration of the Medical Center's internal control over financial reporting and on 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.

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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 and the Budgetary Comparison Information on pages 30 and 31 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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

September 13, 2012
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, 2012, 2011, and 2010. 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, 2012, indicates total assets of $43,084,821, total liabilities of $16,082,348, and net assets of $27,002,473.
- The Statements of Revenues, Expenses, and Changes in Net Assets indicates total operating revenues of $35,689,493 increased 9.6% over the previous fiscal year, total operating expenses of $35,286,021 increased 10.4% resulting in a gain from operations of $403,472, a 32.9% decrease from the previous year. A net non-operating gain of $789,897 brings the excess of revenues over expenses to $1,193,369, a 23.3% decrease.

- The Medical Center's current assets exceeded its current liabilities by $ 4,350,976 at June 30, 2012, providing a 1.86 current ratio.
- The Medical Center recorded an excess of revenues over expenses for fiscal year ended June 30, 2012, amounting to $ 1,193,369.
- Net days in accounts receivable were 52 at June 30, 2012.

Organization Highlights

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

- Finalized construction and began providing service from a new 43,000 square foot physician clinic building in July 2011
- Installed a new Siemens 40-slice CT scanner in April 2012
- Began a comprehensive Facility Master Planning process to plan for long-term needs of our patients
- Attested to Electronic Health Record (EHR) Meaningful Use Stage 1 in April 2012
- Began processes to employ, rather than contract, the providers in our Emergency Department

Capital Assets

Regional Medical Center finalized construction of a new $9,000,000 physician clinic building. 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.

Other capital asset investments included:

- Siemens 40-slice CT Scanner $602,950
- Video Colonoscopes $133,076
- Omnicell Pharmaceutical Dispensing Units $128,773
- Hematology Analyzer $65,500

Long-Term Debt

At year end, Regional Medical Center had $11,478,633 in short-term and long-term debt. The debt was incurred to construct the new physician office clinic, to install a new computer system, to acquire a new CT scanner, and to renovate the special care unit in 2009. The financing for the CT scanner was established through a capital lease. All other 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

Condensed Financial Statements

Balance Sheets

	June 30, 2012	June 30, 2011	June 30, 2010
Assets			
Current Assets			
Cash and cash equivalents	$ 1,862,465	$ 1,217,435	$ 1,046,241
Patient receivables, net of estimated uncollectibles	5,058,587	4,980,367	4,331,871
Succeeding year property tax	1,153,580	1,035,840	967,650
Estimated third-party payor settlements	285,000	600,000	730,000
Other assets	1,061,894	1,208,501	884,258
Total current assets	9,421,526	9,042,143	7,960,020
Assets Limited as to Use or Restricted	4,708,570	3,880,499	2,613,038
Capital Assets, Net	25,959,055	26,517,783	19,263,086
Other Assets			
Gift fund investments	2,466,577	2,380,013	2,346,578
Beneficial interest in charitable trust	148,000	148,000	148,000
Deferred financing costs	80,535	84,728	51,937
Goodwill	175,000	175,000	150,000
Joint ventures	125,558	84,458	82,549
Total other assets	2,995,670	2,872,199	2,779,064
Total assets	$ 43,084,821	$ 42,312,624	$ 32,615,208

Condensed Financial Statements

Balance Sheets (continued)

	June 30, 2012	June 30, 2011	June 30, 2010
Liabilities and Net Assets			
Current Liabilities			
Current maturities of long-term debt	$ 466,835	$ 374,648	$ 250,079
Accounts payable	1,056,335	1,860,376	1,041,645
Accrued expenses	2,393,800	2,308,442	2,346,767
Deferred revenue for succeeding year property tax receivable	1,153,580	1,035,840	967,650
Total current liabilities	5,070,550	5,579,306	4,606,141
Long-Term Debt, Less Current Maturities	11,011,798	10,945,670	3,783,502
Total liabilities	16,082,348	16,524,976	8,389,643
Net Assets			
Invested in capital assets, net of related debt	14,480,422	15,197,465	15,229,505
Restricted	148,000	148,000	148,000
Unrestricted	12,374,051	10,442,183	8,848,060
Total net assets	27,002,473	25,787,648	24,225,565
Total liabilities and net assets	$ 43,084,821	$ 42,312,624	$ 32,615,208

Statements of Revenues, Expenses, and Changes in Net Assets

	Years Ended June 30,		
	2012	2011	2010
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	$ 34,749,121	$ 31,917,975	$ 30,692,592
Other operating revenues	940,372	653,135	679,964
Total Operating Revenues	35,689,493	32,571,110	31,372,556
Operating Expenses			
Salaries and wages	17,110,877	15,616,909	15,390,351
Supplies and other expenses	15,186,044	14,192,593	13,744,700
Depreciation and amortization	2,989,100	2,160,548	1,677,505
Total Operating Expenses	35,286,021	31,970,050	30,812,556
Operating Income	403,472	601,060	560,000
Nonoperating Revenues (Expenses)			
County tax revenue	1,036,379	968,736	883,702
Noncapital contributions	106,149	36,010	57,600
Interest expense	(600,995)	(152,597)	(98,548)
Investment income	101,858	102,777	145,041
Build America Bond interest subsidy	85,868	-	-
Gain (loss) on disposal of capital assets	60,638	(808)	(295,596)
Net Nonoperating Revenues	789,897	954,118	692,199
Revenues in Excess of Expenses	1,193,369	1,555,178	1,252,199
Capital Contributions and Grants	21,456	6,905	16,036
Increase in Net Assets	1,214,825	1,562,083	1,268,235
Net Assets, Beginning of Year	25,787,648	24,225,565	22,957,330
Net Assets, End of Year	$ 27,002,473	$ 25,787,648	$ 24,225,565

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 395 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

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 1,862,465	$ 1,217,435
Receivables		
Patient, net of estimated uncollectibles		
of $1,272,000 in 2012 and $970,000 in 2011	5,058,587	4,980,367
Succeeding year property tax	1,153,580	1,035,840
Estimated third-party payor settlements	285,000	600,000
Other	118,128	365,444
Supplies	563,852	501,112
Prepaid expense	379,914	341,945
Total current assets	9,421,526	9,042,143
Assets Limited as to Use or Restricted - Note 3		
Investments		
By board for capital improvements	4,708,570	3,880,499
Capital Assets - Note 4		
Capital assets not being depreciated	113,423	8,761,285
Depreciable capital assets, net of accumulated depreciation	25,845,632	17,756,498
Total capital assets, net	25,959,055	26,517,783
Other Assets		
Gift fund investments - Note 5	2,466,577	2,380,013
Beneficial interest in charitable trust	148,000	148,000
Deferred financing costs, net of accumulated amortization		
of $9,999 in 2012 and $5,806 in 2011	80,535	84,728
Goodwill - Note 6	175,000	175,000
Joint ventures - Note 7	125,558	84,458
Total other assets	2,995,670	2,872,199
Total assets	$ 43,084,821	$ 42,312,624

See Notes to Financial Statements

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 9	$ 466,835	$ 374,648
Accounts payable		
Trade	731,335	573,213
Construction	-	887,163
Estimated health claims payable - Note 11	325,000	400,000
Accrued expenses		
Salaries and wages	452,838	278,606
Paid leave	1,571,782	1,494,127
Interest	121,831	124,178
Payroll taxes and other	247,349	411,531
Deferred revenue for succeeding year property tax receivable	1,153,580	1,035,840
Total current liabilities	5,070,550	5,579,306
Long-Term Debt, Less Current Maturities - Note 9	11,011,798	10,945,670
Total liabilities	16,082,348	16,524,976
Net Assets		
Invested in capital assets, net of related debt	14,480,422	15,197,465
Restricted		
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	12,374,051	10,442,183
Total net assets	27,002,473	25,787,648
Total liabilities and net assets	$ 43,084,821	$ 42,312,624

	2012	2011
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $1,174,923 in 2012 and $823,074 in 2011) - Note 2	$ 34,749,121	$ 31,917,975
Other operating revenues	940,372	653,135
Total Operating Revenues	35,689,493	32,571,110
Operating Expenses		
Salaries and wages	17,110,877	15,616,909
Supplies and other expenses	15,186,044	14,192,593
Depreciation and amortization	2,989,100	2,160,548
Total Operating Expenses	35,286,021	31,970,050
Operating Income	403,472	601,060
Nonoperating Revenues (Expenses)		
County tax revenue	1,036,379	968,736
Noncapital contributions	106,149	36,010
Interest expense	(600,995)	(152,597)
Investment income	101,858	102,777
Build America Bond interest subsidy	85,868	-
Gain (loss) on disposal of capital assets	60,638	(808)
Net Nonoperating Revenues	789,897	954,118
Revenues in Excess of Expenses	1,193,369	1,555,178
Capital Contributions and Grants	21,456	6,905
Increase in Net Assets	1,214,825	1,562,083
Net Assets Beginning of Year	25,787,648	24,225,565
Net Assets End of Year	$ 27,002,473	$ 25,787,648

	2012	2011
Cash Flows from Operating Activities		
Receipts of patient service revenue	$ 34,985,901	$ 31,399,479
Payments of salaries, wages, and benefits	(17,023,172)	(15,725,282)
Payments of supplies and other expenses	(15,203,631)	(14,142,363)
Other receipts	1,190,080	445,262
Net Cash Provided by Operating Activities	3,949,178	1,977,096
Cash Flows from Noncapital Financing Activities		
County tax received	1,033,987	969,243
Noncapital contributions	106,149	36,010
Net Cash Provided by Noncapital Financing Activities	1,140,136	1,005,253
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(1,866,530)	(9,418,005)
Proceeds from issuance of long-term debt	-	7,580,518
Cash paid for capital lease obligations	(26,465)	(7,884)
Principal paid on debt	(374,648)	(285,897)
Interest paid on debt	(603,342)	(82,549)
Payment of debt issuance costs	-	(36,124)
Increase (decrease) in construction payable	(887,163)	651,624
Captial contributions and grants	21,456	6,905
Build America Bond interest subsidy	85,868	-
Proceeds from sale of capital assets	60,417	5,285
Net Cash used for Capital and Related Financing Activities	(3,590,407)	(1,586,127)
Cash Flows from Investing Activities		
Purchase of assets limited as to use or restricted	(3,474,756)	(1,697,044)
Proceeds from sale of assets limited as to use or restricted	2,646,685	429,583
Purchase of gift fund investments	(140,840)	(34,964)
Proceeds from sale of gift fund investments	54,276	1,529
Increase in joint ventures	(41,100)	(1,909)
Purchase of goodwill	-	(25,000)
Investment income	101,858	102,777
Net Cash used for Investing Activities	(853,877)	(1,225,028)
Net Increase in Cash and Cash Equivalents	645,030	171,194
Cash and Cash Equivalents at Beginning of Year	1,217,435	1,046,241
Cash and Cash Equivalents at End of Year	$ 1,862,465	$ 1,217,435

	2012	2011
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 403,472	$ 601,060
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	2,989,100	2,160,548
Provision for bad debts	1,174,923	823,074
Changes in assets and liabilities		
Receivables	(1,003,435)	(1,679,443)
Supplies	(62,740)	(29,200)
Prepaid expense	(37,969)	(87,677)
Accounts payable - trade	158,122	(42,893)
Estimated health claims payable	(75,000)	210,000
Estimated third-party payor settlements	315,000	130,000
Accrued expenses	87,705	(108,373)
Net Cash Provided by Operating Activities	$ 3,949,178	$ 1,977,096

	2012	2011
Supplemental Noncash Capital Activities		
Capital asset purchases included in accounts payable at June 30, 2012 and 2011	$ -	$ 887,163

The hospital entered into capital lease obligations in the amount of $559,428 in 2011.

Supplemental Disclosure of Cash Flow Information

Cash paid for interest (including amounts capitalized) in 2012 and 2011 was $603,342 and $357,632, respectively.

Note 1 - Organization and 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 tax 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:

<u>Nonexpendable</u> – 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 (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

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.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, 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.

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 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 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. 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

Deferred Financing Costs

Deferred financing costs are amortized over the period the related obligation is outstanding using the effective interest method.

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, 2012 and 2011.

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. Net 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 and Community Benefit

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.

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 $555,582 and $601,867 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, were $368,000 and $407,000, 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.

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.

Advertising Costs

The Medical Center expenses advertising costs as incurred.

Investment Income

Interest on cash and deposits is included in nonoperating revenues and expenses.

Self Insurance Reserves

The Medical Center provides for self-insurance reserves for estimated incurred but not reported claims for its employee health plan. These reserves, which are included in current liabilities on the balance sheets, are estimated based upon historical submission and payment data, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

These incentive payments are available for the next four years. To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Medical Center recognizes EHR incentive payments as revenue when there is reasonable assurance that the Medical Center will comply with the conditions attached to the incentive payments. As the entire EHR incentive payment is received in a lump sum for critical access hospitals and the Medical Center must annually attest to increasingly stringent meaningful use criteria, the EHR incentive payment is first recognized as a deferred revenue with a ratable recognition of revenue over a specified time period. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amounts of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Reclassifications have been made to the June 30, 2011, financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - 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 audited by the Medicare fiscal intermediary through the year ended June 30, 2010. Clinical services are paid on a cost basis or fixed fee schedule.

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, 2009.

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 47% and 10%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2012, and 39% and 11%, respectively, for the year ended June 30, 2011. 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 net patient service revenue for the years ended June 30, 2012 and 2011 increased approximately $364,000 and $667,000, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated.

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.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2012 and 2011, is as follows:

	2012	2011
Total Patient Service Revenue	$ 52,149,478	$ 45,893,815
Contractual Adjustments		
Medicare	(7,125,531)	(6,161,714)
Medicaid	(2,131,036)	(1,759,056)
Other	(6,968,867)	(5,231,996)
Total contractual adjustments	(16,225,434)	(13,152,766)
Net Patient Service Revenue	35,924,044	32,741,049
Provision for Bad Debts	(1,174,923)	(823,074)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 34,749,121	$ 31,917,975

Note 3 - Cash and Deposits

The Medical Center's deposits in banks at June 30, 2012 and 2011, 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, 2012 and 2011, the Medical Center's carrying amounts of cash and deposits are as follows:

	2012	2011
Assets Limited as to Use or Restricted by		
Board for Capital Improvements		
Savings and money market accounts	$ 4,708,570	$ 3,880,499

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 4 - Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011, was as follows:

	June 30, 2011 Balance	Additions	Deductions	Transfers	June 30, 2012 Balance
Capital Assets Not Being Depreciated:					
Land	$ 70,419	$ 4,819	$ -	$ -	$ 75,238
Construction in progress	8,690,866	8,520	-	(8,661,201)	38,185
Total capital assets not being depreciated	8,761,285	13,339	-	(8,661,201)	113,423
Capital Assets Being Depreciated:					
Land improvements	1,309,554	70,654	-	-	1,380,208
Buildings	21,640,177	444,301	-	8,661,201	30,745,679
Leasehold improvements	83,060	-	-	-	83,060
Equipment	11,530,009	1,911,003	817,796	-	12,623,216
Total capital assets being depreciated	34,562,800	2,425,958	817,796	8,661,201	44,832,163
Less Accumulated Depreciation for:					
Land improvements	758,182	69,201	-	-	827,383
Buildings	9,212,757	1,264,158	-	-	10,476,915
Leasehold improvements	36,328	4,614	-	-	40,942
Equipment	6,799,035	1,646,935	804,679	-	7,641,291
Total accumulated depreciation	16,806,302	2,984,908	804,679	-	18,986,531
Total Capital Assets Being Depreciated, Net	17,756,498	(558,950)	13,117	8,661,201	25,845,632
Total Capital Assets, Net	$ 26,517,783	$ (545,611)	$ 13,117	$ -	$ 25,959,055

Construction in progress at June 30, 2012, represents preliminary costs for future construction projects.

	June 30, 2010 Balance	Additions	Deductions	Transfers	June 30, 2011 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	2,857,631	7,940,594	-	(2,036,940)	8,761,285
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	31,762,383	1,485,410	721,933	2,036,940	34,562,800
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	15,356,928	2,157,215	707,841	-	16,806,302
Total Capital Assets Being Depreciated, Net	16,405,455	(671,805)	14,092	2,036,940	17,756,498
Total Capital Assets, Net	$ 19,263,086	$ 7,268,789	$ 14,092	$ -	$ 26,517,783

Note 5 - Gift Fund Investments

Gift fund investments under other assets consist of the following at June 30, 2012 and 2011:

	2012	2011
Money Market Account	$ 1,556,056	$ 1,475,481
Savings Accounts	39,872	46,933
Certificates of Deposit	536,651	527,539
Accrued Interest Receivable	5,009	5,293
Cash Surrender Value	328,989	324,767
	$ 2,466,577	$ 2,380,013

Note 6 - Goodwill

During the year ended June 30, 2009, the Medical Center acquired goodwill through the acquisition of two clinics. The Medical Center acquired additional goodwill through the acquisition of another clinic during the year ended June 30, 2011. The clinics operate as a single reporting unit, Regional Family Health. Goodwill reported as of June 30, 2012 and 2011 is $175,000.

Note 7 - 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 8 - Leases

The Medical Center leases certain equipment and building space under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense in June 30, 2012 and 2011 for all operating leases was $111,050 and $95,869, respectively. The capitalized leased assets consist of:

	2012
Major movable equipment	$ 602,950
Less accumulated amortization	(60,295)
	$ 542,655

Minimum future lease payments for the capital leases are as follows:

Year Ending June 30,	
2013	$ 122,689
2014	122,689
2015	122,689
2016	122,689
2017	81,793
Total minimum lease payments	572,549
Less interest	(39,586)
Present value of minimum lease payments - Note 9	$ 532,963

Note 9 - Long-Term Debt

A summary of changes in the Medical Center's long-term debt for 2012 and 2011 follows:

	June 30, 2011 Balance	Additions	Payments	June 30, 2012 Balance	Amounts Due Within One Year
Note Payable #1 (A)	$ 92,070	$ -	$ 92,070	$ -	$ -
Hospital Revenue Bonds Series 2009 (B)	7,228,248	-	222,926	7,005,322	235,153
Taxable Hospital Revenue Bonds Series 2010 (C)	4,000,000	-	59,652	3,940,348	123,778
Capitalized Lease Obligations (D) - Note 8	-	559,428	26,465	532,963	107,904
Total Long-Term Debt	$ 11,320,318	$ 559,428	$ 401,113	11,478,633	$ 466,835
Less Current Maturities				(466,835)	
Long-Term Debt, Less Current Maturities				$ 11,011,798	

	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
Capitalized Lease Obligations	7,884	-	7,884	-	-
Total Long-Term Debt	$ 4,033,581	$ 7,580,518	$ 293,781	11,320,318	$ 374,648
Less Current Maturities				(374,648)	
Long-Term Debt, Less Current Maturities				$ 10,945,670	

(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.

(D) The Medical Center entered into a $569,650 capital lease for a CT scanner during fiscal year 2012. Payment of principal and interest at 3.64% are payable monthly through December 2016.

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

Year Ending June 30,	Principal	Interest	Total
2013	$ 466,835	$ 612,021	$ 1,078,856
2014	491,447	590,300	1,081,747
2015	517,011	559,793	1,076,804
2016	538,324	532,190	1,070,514
2017	444,551	508,514	953,065
2018-2022	2,553,427	2,172,506	4,725,933
2023-2027	3,311,117	1,444,743	4,755,860
2028-2032	3,155,921	497,929	3,653,850
Total	$ 11,478,633	$ 6,917,996	$ 18,396,629

Under the terms of the revenue bonds financing, the Medical Center places limits on the incurrence of additional borrowings and is required to satisfy certain measures of financial performance.

A summary of interest cost on borrowed funds during the years ended June 30, 2012 and 2011, is as follows:

	2012	2011
Interest Cost		
Capitalized as part of construction project	$ -	$ 275,084
Recognized as interest expense	600,995	152,597
Total	$ 600,995	$ 427,681

Note 10 - Pension and Retirement Benefits

The Medical Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary, and the Medical Center is required to contribute 8.07% of annual covered payroll for the year ended June 30, 2012. Plan members were required to contribute 4.50% and 4.30% of their annual covered salary, and the Medical Center was required to contribute 6.95% and 6.65% of annual covered payroll for the years ended June 30, 2011 and 2010, respectively. Contribution requirements are established by state statute. The Medical Center’s contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were $1,331,939, $1,054,045, and $979,453, respectively, equal to the required contributions for each year.

Note 11 - Contingencies

Malpractice Insurance

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on 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 and has a stop-loss limit of $45,000. Liabilities of $325,000 and $400,000 have been established to record the incurred but not reported claims outstanding at June 30, 2012 and 2011, respectively. The liability is included within accounts payable on the balance sheet.

Litigations, Claims, and Disputes

The Medical Center is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Medical Center.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 12 - Risk Management

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

Note 13 - Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2012 and 2011, was as follows:

	2012	2011
Medicare	37%	39%
Medicaid	6%	5%
Commerical Insurance	32%	39%
Other Third-Party Payors and Patients	25%	17%
	100%	100%

Note 14 - Electronic Health Record Incentive Payments

The Medical Center recognized revenue of $251,400 for the year ended June 30, 2012, related to the initial Medicaid EHR incentive payment received. The incentive payment is included in other operating revenue in the accompanying financial statements. The $251,400 represents 40% of the potential benefit to be received from the State of Iowa Medicaid program. Since the remaining payments are contingent upon the Medical Center meeting future EHR objectives, there are no amounts accrued as receivable from the State of Iowa Medicaid program. The Medical Center did not receive any Medicare EHR funding during the year ended June 30, 2012.

Note 15 - Subsequent Events

The Medical Center has evaluated subsequent events through September 13, 2012, the date which the financial statements were available to be issued.

Required Supplementary Information
June 30, 2012

Regional Medical Center

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Amended Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	$ 1,036,379	$ (2,392)	$ 1,033,987	$ 1,010,095	$ 23,892
Estimated Other Revenues/Receipts	36,065,462	445,167	36,510,629	35,143,445	1,367,184
	37,101,841	442,775	37,544,616	36,153,540	1,391,076
Expenses/Disbursements	35,887,016	97,935	35,984,951	36,031,500	46,549
Net	1,214,825	344,840	1,559,665	122,040	$ 1,437,625
Balance Beginning of Year	25,787,648	(18,309,701)	7,477,947	(4,536,377)	
Balance End of Year	$ 27,002,473	$ (17,964,861)	$ 9,037,612	$ (4,414,337)	

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from the Medical Center preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Medical Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was amended during the year ended June 30, 2012.

For the year ended June 30, 2012, the Medical Center's expenditures did not exceed the amended amount budgeted.

Supplementary Information
June 30, 2012 and 2011

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

We have audited the financial statements of Delaware County Memorial Hospital, d/b/a Regional Medical Center (Medical Center), as of and for the years ended June 30, 2012 and 2011, and our report thereon dated September 13, 2012, which expressed an unqualified opinion on those financial statements, appears on page 2. 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 revenues, operating expenses, patient receivables, allowance for doubtful accounts, collection statistics, supplies and prepaid expense, and statistical information are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole. The schedules of patient receivables, allowance for doubtful accounts, collection statistics, and statistical information, which are the responsibility of management, have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Eide Bailly LLP

September 13, 2012
Dubuque, Iowa

	2012	2011
Patient Service Revenue		
Routine services	$ 5,287,312	$ 3,718,074
Mental health	-	195
Delivery and labor rooms	304,176	372,306
Operating and recovery rooms	6,834,251	6,137,137
Medical supplies	1,189,994	1,065,910
Emergency services	4,529,250	4,231,684
Laboratory and blood bank	6,965,411	5,667,885
Electrocardiology	761,161	571,836
Cardiac rehab	81,620	97,130
Radiology	8,005,794	6,690,798
Cardiology	36,974	30,649
Pharmacy	3,199,117	2,888,068
Anesthesiology	1,322,986	1,311,860
Respiratory therapy	368,219	399,438
Physical therapy	1,101,035	1,067,267
Speech therapy	127,766	142,050
Occupational therapy	222,200	303,923
Ambulance	809,267	684,837
Regional Family Health	8,119,860	7,496,940
Other clinics	166,475	194,598
Community health	3,086,724	3,237,249
Public health	185,468	185,848
	52,705,060	46,495,682
Charity care	(555,582)	(601,867)
Total patient service revenue*	$ 52,149,478	$ 45,893,815
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	$ 11,010,400	$ 8,159,871
Outpatient revenue	41,694,660	38,335,811
Charity care	(555,582)	(601,867)
Total patient service revenue	52,149,478	45,893,815
Contractual Adjustments		
Medicare	(7,125,531)	(6,161,714)
Medicaid	(2,131,036)	(1,759,056)
Other	(6,968,867)	(5,231,996)
Total contractual adjustments	(16,225,434)	(13,152,766)
Net Patient Service Revenue	35,924,044	32,741,049
Provision for Bad Debts	(1,174,923)	(823,074)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 34,749,121	$ 31,917,975

	2012	2011
Other Operating Revenues		
Medicaid Electronic Health Records incentive	$ 251,400	$ -
Rent	183,900	198,935
Parents as teachers	145,228	125,715
Purchase discounts	75,940	42,524
Outside pharmacy	74,272	86,876
Massage therapy	65,406	60,983
Cafeteria	63,038	53,084
Education services	34,102	47,184
Other	23,752	14,864
Fitness center memberships	21,996	21,590
Vending machines	1,338	1,380
Total Other Operating Revenues	$ 940,372	$ 653,135

	2012	2011
Nursing Administration		
Salaries and wages	$ 423,827	$ 281,826
Supplies and other expenses	44,363	32,395
	468,190	314,221
Routine Services		
Salaries and wages	1,976,197	1,924,764
Supplies and other expenses	145,390	101,572
	2,121,587	2,026,336
Nursery		
Salaries and wages	64,625	49,896
Supplies and other expenses	10,828	8,769
	75,453	58,665
Mental Health		
Salaries and wages	-	8,445
Supplies and other expenses	-	6,475
	-	14,920
Delivery and Labor Rooms		
Salaries and wages	883	-
Supplies and other expenses	75	5,901
	958	5,901
Operating and Recovery Rooms		
Salaries and wages	838,277	728,990
Supplies and other expenses	307,064	249,851
	1,145,341	978,841
Medical Supplies		
Supplies and other expenses	778,251	660,349
Emergency Services		
Salaries and wages	942,442	868,965
Supplies and other expenses	900,675	850,301
	1,843,117	1,719,266
Laboratory and Blood Bank		
Salaries and wages	526,465	473,909
Supplies and other expenses	651,970	519,375
	1,178,435	993,284

	2012	2011
Electrocardiology		
Salaries and wages	$ 6,468	$ 5,172
Supplies and other expenses	152,552	120,588
	159,020	125,760
Cardiac Rehab		
Salaries and wages	42,497	46,896
Supplies and other expenses	3,660	2,597
	46,157	49,493
Radiology		
Salaries and wages	577,410	538,131
Supplies and other expenses	764,137	714,016
	1,341,547	1,252,147
Cardiology		
Salaries and wages	2,522	1,964
Pharmacy		
Salaries and wages	391,896	372,589
Supplies and other expenses	1,097,095	974,972
	1,488,991	1,347,561
Anesthesiology		
Supplies and other expenses	997,785	947,644
Respiratory Therapy		
Salaries and wages	101,576	100,013
Supplies and other expenses	19,261	13,042
	120,837	113,055
Physical Therapy		
Salaries and wages	531,171	484,026
Supplies and other expenses	51,191	38,074
	582,362	522,100
Speech Therapy		
Supplies and other expenses	89,868	88,003
Occupational Therapy		
Supplies and other expenses	99,930	130,118

	2012	2011
Ambulance		
Salaries and wages	$ 267,887	$ 207,989
Supplies and other expenses	51,384	31,726
	319,271	239,715
Regional Family Health		
Salaries and wages	4,815,523	4,433,419
Supplies and other expenses	1,044,909	964,345
	5,860,432	5,397,764
Outreach Clinic		
Supplies and other expenses	20,824	3,286
Other Clinics		
Salaries and wages	153,595	134,274
Supplies and other expenses	14,494	10,173
	168,089	144,447
Community Health		
Salaries and wages	1,240,266	1,176,267
Supplies and other expenses	493,540	470,608
	1,733,806	1,646,875
Public Health		
Salaries and wages	79,986	156,152
Supplies and other expenses	19,777	19,600
	99,763	175,752
Social Services		
Salaries and wages	3,497	3,419
Supplies and other expenses	37	212
	3,534	3,631
Parents as Teachers		
Salaries and wages	102,638	88,239
Supplies and other expenses	34,207	16,269
	136,845	104,508
Medical Records		
Salaries and wages	687,268	413,025
Supplies and other expenses	75,711	58,377
	762,979	471,402

	2012	2011
Dietary		
Salaries and wages	$ 242,576	$ 260,301
Supplies and other expenses	90,158	89,603
	332,734	349,904
Plant Operation and Maintenance		
Salaries and wages	315,416	281,623
Supplies and other expenses	588,281	678,571
	903,697	960,194
Implantable Devices		
Supplies and other expenses	22,769	-
Housekeeping		
Salaries and wages	310,464	263,430
Supplies and other expenses	47,005	43,895
	357,469	307,325
Laundry		
Salaries and wages	7,249	16,323
Supplies and other expenses	85,578	74,453
	92,827	90,776
Administrative Services		
Salaries and wages	2,458,256	2,296,862
Supplies and other expenses	1,504,180	1,533,028
	3,962,436	3,829,890
Unassigned Expenses		
Depreciation and amortization	2,989,100	2,160,548
Insurance	217,139	254,275
Employee benefits	4,761,956	4,480,130
	7,968,195	6,894,953
Total Operating Expenses	$ 35,286,021	$ 31,970,050

Analysis of Aging

	2012		2011	
Days Since Discharge	Amount	Percent to Total	Amount	Percent to Total
30 Days or Less	$ 4,639,239	49.91%	$ 4,506,679	50.52%
31 to 60 Days	1,949,721	20.98%	1,784,620	20.01%
61 to 90 Days	808,977	8.70%	1,010,297	11.33%
91 to 180 Days	909,695	9.79%	822,005	9.22%
181 Days and over	987,372	10.62%	795,754	8.92%
	9,295,004	100.00%	8,919,355	100.00%
Less: Allowance for Doubtful Accounts	1,272,000		970,000	
Allowance for Contractual Adjustments	2,964,417		2,968,988	
Net	$ 5,058,587		$ 4,980,367	

Collection Statistics

	2012	2011
Net Accounts Receivable - Patients	$ 5,058,587	$ 4,980,367
Number of Days Charges Outstanding (1)	52	56
Uncollectible Accounts (2)	$ 1,799,461	$ 1,512,426
Percentage of Uncollectible Accounts to Total Charges	3.41%	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.

	2012	2011
Supplies		
Storeroom	$ 167,928	$ 146,695
Pharmacy	154,253	150,461
Operating room	143,470	128,268
Laboratory	37,020	36,042
Clinics	32,644	19,883
Radiology	9,896	3,853
Emergency room	9,080	9,405
Dietary	5,903	3,335
Physical therapy	3,658	3,170
Total	$ 563,852	$ 501,112
Prepaid Expense		
Maintenance agreements	$ 277,522	$ 222,854
Insurance	102,392	119,091
Total	$ 379,914	$ 341,945

	2012	2011
Patient Days		
Acute	2,267	2,107
Swing-bed	850	841
Newborn	295	378
Number of Beds	25	25
Percentage of Occupancy (Excluding Newborn)	34%	32%
Discharges		
Acute	782	788
Swing-bed	108	115
Average Length of Stay		
Acute (excluding newborn)	2.90	2.67
Swing-bed	7.87	7.31
Most Recent Year End Routine Service Rates		
Acute	$ 1,500	$ 1,025
Swing Bed	1,025	760
Nursery	800	705

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, 2012, 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 September 13, 2012. 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

The Medical Center's management is responsible for establishing and maintaining effective 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 entity'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 Reponses 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-12 and I-B-12 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*.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2012, 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 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.

Eide Bailly LLP

September 13, 2012
Dubuque, Iowa

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-12 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-12 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-12 **Certified Budget** – Disbursements during the year ended June 30, 2012, did not exceed the amount budgeted per the amended budget.

II-B-12 **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-12 **Travel Expense** – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

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

II-D-12 **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	$	311,760
Rent expense	$	47,040

II-E-12 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-12 **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-12 **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.

September 13, 2012

To 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 (Medical Center), for the year ended June 30, 2012. 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 1, 2012. 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, 2012. 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 – Management's 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.

The financial statement disclosures are neutral, consistent, and clear.

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. The following adjustment was made during the audit:

To adjust the estimated health insurance liability at June 30, 2012:	$75,000

The net effect of the adjustments was to increase net assets by $75,000.

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 September 13, 2012.

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 Matters

Following are additional comments for informational purposes only:

<u>Community Health Needs Assessment under 501(r)</u>

Beginning for tax years after March 23, 2012, hospitals must conduct a Community Health Needs Assessment (CHNA) at least every three years as a result of the Patient Protection Act of 2010. For most organizations, the first one must be completed by the tax year ending in 2013 or two previous tax years.

The CHNA is considered conducted when a written report is provided to the public via the organization's website or a related organization's website. The written report must include the following elements:

- Description of the community and how it was determined
- Description of the process and methods used to conduct the assessment
- Description of involvement from persons of the community
- Description of the community health needs identified
- Description of other existing health care facilities in the community and how they help meet the needs of the community.

In addition to obtaining a written needs assessment report, the organization needs to develop an implementation strategy that describes how they plan to meet the health needs identified. If certain needs will not be met, the implementation strategy must identify each need that will not be met by the organization and its reasons for not meeting the need. The implementation strategy must be adopted by the board in the year the CHNA was conducted and attached to the organization's Form 990 Schedule H.

Each hospital facility within the organization must comply with these rules. Failure to comply will result in a $50,000 excise tax imposed for each facility that does not meet the requirements. The excise tax is imposed each year in which the facility is not in compliance with the requirement. Failure to comply can also result in loss of tax exempt status for the organization.

We recommend that management develop a strategy to conduct a CHNA with an implementation strategy as soon as possible. Current detail guidance issued by the IRS in Notice 2011-52 addresses how a CHNA and implementation strategy should be completed until final guidance is issued. We recommend that you follow the Notice in completing the CHNA to ensure the organization meets IRS requirements. Please consult your tax professional for questions or assistance needed in meeting the above requirement.

We also would like to remind you that the following requirements should already be in place under IRC section 501(r) to qualify for tax exemption under 501(c)(3):

- A written financial assistance policy must be in place with certain required components. In addition, the organization must have a policy that requires it to provide emergency medical care regardless of a patient's eligibility under the financial assistance policy.

- Charges for emergency or other medically necessary care for persons under the financial assistance policy must be not more than the lowest amounts charged to insured patients and gross charges may not be used.
- Extraordinary collection actions cannot be engaged in before making reasonable efforts to determine a patient’s eligibility for free or discounted care.

We recommend that management assess and determine their current status for meeting the above requirements of 501(r). The Form 990 will require reporting on the above 501(r) requirements for the 2011 tax filing year.

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 the 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.

The joint committee was expected to issue a final standard to be voted on by the FASB and IASB boards in 2011. If approved it was anticipated that the effective date would have been for financial statements issued in calendar year 2013. After the announcement of the new exposure draft, the timeline for an effective date of the final standard is unknown.

We recommend that you review the proposed guidance and its impact on future financial reporting for the Medical Center.

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

Sincerely,

EIDE BAILLY LLP

Eide Bailly LLP

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