Financial Statements
June 30, 2013 and 2012

Regional Medical Center

Name	Title	Term Expires
	Board of Trustees	
Bev Preussner	Chairperson	December 31, 2018
Steve Palmer	Vice Chairperson	December 31, 2014
Suzanne Britt	Treasurer	December 31, 2016
Joe Keith	Secretary	December 31, 2018
Diane Gatto	Member	December 31, 2018
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

Report on the Financial Statements

We have audited the accompanying financial statements of Delaware County Memorial Hospital, d/b/a Regional Medical Center (Medical Center), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Medical Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10, the Budgetary Comparison Information on pages 33 and 34, and the Schedule of Funding Progress for the Retiree Health Plan on page 35 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated January 2, 2014, 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, 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* in considering the Medical Center's internal control over financial reporting and compliance.

Eide Bailly LLP

January 2, 2014
Dubuque, Iowa

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, 2013, 2012, and 2011. 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 position, 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 position. 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 Position report the net position of the Medical Center and the changes in it. The Medical Center's net position - 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 position is 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, 2013, indicates total assets of $46,359,705, total liabilities of $15,912,081, deferred inflows of $1,887,320, and net position of $28,560,304.
- The Statement of Revenues, Expenses, and Changes in Net Position indicates total operating revenues of $40,056,543 increased 12.3% over the previous fiscal year, total operating expenses of $39,099,066 increased 10.8% over the previous fiscal year, resulting in a gain from operations of $957,477, a 2.4% operating margin. A net non-operating gain of $592,539 brings the excess of revenues over expenses to $1,550,016, a 29.9% increase over the previous fiscal year.
- The Medical Center's current assets exceeded its current liabilities by $6,120,782 at June 30, 2013, providing a 2.44 current ratio.
- The Medical Center recorded an excess of revenues over expenses for fiscal year ended June 30, 2013, amounting to $1,550,016.

Organization Highlights

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

- Opening a walk-in clinic in Regional Family Health in January 2013.
- Employment of hospitalists to assist physicians in the treatment of patients needing inpatient and observation care.
- Employment of the Emergency Department providers, rather than contracting their services.
- Implemented da Vinci robotic surgical equipment in June 2013.
- Acquired approximately 24 acres of land adjacent to the hospital campus.

Capital Assets

Regional Medical Center purchased approximately 24 acres of land adjacent to the hospital campus for $696,027. The land will be used in part for additional staff and patient parking. Design work on the parking lot began in FY 2013, and construction is expected to be complete by December 2013.

The Medical Center acquired the Winthrop clinic building in December 2012 for $274,320.

Significant capital equipment purchases included:

- Robotic Surgical Equipment $1,490,000
- Ambulance $153,370
- Lab Immunochemistry Equipment $149,200
- Sterilizer $141,541
- C Arm $122,000
- Omnicell Pharmaceutical Dispensing Units $108,428

Long-Term Debt

At year end, Regional Medical Center had $12,435,675 in short-term and long-term debt. The debt was incurred to acquire the da Vinci robotic surgery equipment, to construct a new physician office clinic, to install a new computer system, to acquire a new CT scanner, and to renovate the special care unit. The financing for the da Vinci robotic surgery equipment, and the CT scanner were established through capital leases. 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 2013 budget. Of primary consideration in the 2013 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

Condensed Financial Statements

Balance Sheets

	June 30, 2013	June 30, 2012	June 30, 2011
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	$ 2,000,021	$ 1,862,465	$ 1,217,435
Patient receivables, net of estimated uncollectibles	5,847,192	5,058,587	4,980,367
Succeeding year property tax	1,260,123	1,153,580	1,035,840
Estimated third-party payor settlements	154,000	285,000	600,000
Other assets	1,107,894	1,061,894	1,208,501
Total current assets	10,369,230	9,421,526	9,042,143
Assets Limited as to Use or Restricted	5,808,971	4,708,570	3,880,499
Capital Assets, Net	27,317,425	25,959,055	26,517,783
Other Assets			
Gift fund investments	2,513,002	2,466,577	2,380,013
Beneficial interest in charitable trust	148,000	148,000	148,000
Debt issuance costs, net	-	80,535	84,728
Joint ventures	91,744	125,558	84,458
Total other assets	2,752,746	2,820,670	2,697,199
Total assets	46,248,372	42,909,821	42,137,624
Deferred Outflows of Resources			
Goodwill, net of accumulated amortization	111,333	175,000	175,000
Total assets and deferred outflows of resources	$ 46,359,705	$ 43,084,821	$ 42,312,624

Condensed Financial Statements

Balance Sheets (continued)

	June 30, 2013	June 30, 2012	June 30, 2011
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities			
Current maturities of long-term debt	$ 772,042	$ 466,835	$ 374,648
Accounts payable	983,942	1,056,335	1,860,376
Accrued expenses	2,492,464	2,393,800	2,308,442
Total current liabilities	4,248,448	3,916,970	4,543,466
Long-Term Debt, Less Current Maturities	11,663,633	11,011,798	10,945,670
Total liabilities	15,912,081	14,928,768	15,489,136
Deferred Inflows of Resources			
Deferred revenue for succeeding year property tax	1,260,123	1,153,580	1,035,840
Electronic health record incentive	627,197	-	-
Total deferred inflows of resources	1,887,320	1,153,580	1,035,840
Net Position			
Net investment in capital assets	14,881,750	14,480,422	15,197,465
Restricted	148,000	148,000	148,000
Unrestricted	13,530,554	12,374,051	10,442,183
Total net position	28,560,304	27,002,473	25,787,648
Total liabilities, deferred inflows of resources, and net position	$ 46,359,705	$ 43,084,821	$ 42,312,624

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,		
	2013	2012	2011
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	$ 38,134,164	$ 34,563,653	$ 31,732,127
Other operating revenues	1,922,379	1,116,564	838,983
Total Operating Revenues	40,056,543	35,680,217	32,571,110
Operating Expenses			
Salaries and wages	19,357,496	17,110,877	15,616,909
Supplies and other expenses	16,443,007	15,186,044	14,192,593
Depreciation and amortization	3,298,563	2,984,907	2,160,548
Total Operating Expenses	39,099,066	35,281,828	31,970,050
Operating Income	957,477	398,389	601,060
Nonoperating Revenues (Expenses)			
County tax revenue	1,151,240	1,036,379	968,736
Noncapital contributions	78,533	106,149	36,010
Interest and amortization expense	(689,171)	(605,188)	(152,597)
Rental property, net of expense	8,423	9,276	-
Investment income	37,198	101,858	102,777
Build America Bond interest subsidy	80,127	85,868	-
Gain (loss) on disposal of capital assets	(73,811)	60,638	(808)
Net Nonoperating Revenues	592,539	794,980	954,118
Revenues in Excess of Expenses	1,550,016	1,193,369	1,555,178
Capital Contributions and Grants	7,815	21,456	6,905
Increase in Net Position	1,557,831	1,214,825	1,562,083
Net Position Beginning of Year	27,002,473	25,787,648	24,225,565
Net Position End of Year	$ 28,560,304	$ 27,002,473	$ 25,787,648

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 414 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 West Main Street
Manchester, IA 52057-0359

	2013	2012
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	$ 2,000,021	$ 1,862,465
Receivables		
Patient, net of estimated uncollectibles of $1,976,000 in 2013 and $1,272,000 in 2012	5,847,192	5,058,587
Succeeding year property tax	1,260,123	1,153,580
Estimated third-party payor settlements	154,000	285,000
Other	111,028	118,128
Supplies	608,775	563,852
Prepaid expense	388,091	379,914
Total current assets	10,369,230	9,421,526
Assets Limited as to Use or Restricted - Note 3		
By Board for capital improvements	5,808,971	4,708,570
Capital Assets - Note 4		
Capital assets not being depreciated	1,465,667	113,423
Depreciable capital assets, net of accumulated depreciation	25,851,758	25,845,632
Total capital assets, net	27,317,425	25,959,055
Other Assets		
Gift fund investments - Note 5	2,513,002	2,466,577
Beneficial interest in charitable trust	148,000	148,000
Debt issuance costs, net	-	80,535
Joint ventures - Note 7	91,744	125,558
Total other assets	2,752,746	2,820,670
Total assets	46,248,372	42,909,821
Deferred Outflows of Resources		
Goodwill, net of accumulated amortization - Note 6	111,333	175,000
Total assets and deferred outflows of resources	$ 46,359,705	$ 43,084,821

See Notes to Financial Statements

	2013	2012
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 9	$ 772,042	$ 466,835
Accounts payable		
Trade	635,942	731,335
Estimated health claims payable - Note 12	348,000	325,000
Accrued expenses		
Salaries and wages	558,243	452,838
Paid leave	1,656,814	1,571,782
Interest	-	121,831
Payroll taxes and other	277,407	247,349
Total current liabilities	4,248,448	3,916,970
Long-Term Debt, Less Current Maturities - Note 9	11,663,633	11,011,798
Total liabilities	15,912,081	14,928,768
Deferred Inflows of Resources		
Deferred revenue for succeeding year property tax receivable	1,260,123	1,153,580
Electronic health record incentive	627,197	-
Total deferred inflows of resources	1,887,320	1,153,580
Net Position		
Net Investment in capital assets	14,881,750	14,480,422
Restricted		
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	13,530,554	12,374,051
Total net position	28,560,304	27,002,473
Total liabilities, deferred inflows of resources, and net position	$ 46,359,705	$ 43,084,821

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $1,374,515 in 2013 and $1,174,923 in 2012) - Note 2	$ 38,134,164	$ 34,563,653
Other operating revenues	1,922,379	1,116,564
Total Operating Revenues	40,056,543	35,680,217
Operating Expenses		
Salaries and wages	19,357,496	17,110,877
Supplies and other expenses	16,443,007	15,186,044
Depreciation and amortization	3,298,563	2,984,907
Total Operating Expenses	39,099,066	35,281,828
Operating Income	957,477	398,389
Nonoperating Revenues (Expenses)		
County tax revenue	1,151,240	1,036,379
Noncapital contributions	78,533	106,149
Interest and amortization expense	(689,171)	(605,188)
Rental property, net of expenses	8,423	9,276
Investment income	37,198	101,858
Build America Bond interest subsidy	80,127	85,868
Gain (loss) on disposal of capital assets	(73,811)	60,638
Net Nonoperating Revenues	592,539	794,980
Revenues in Excess of Expenses	1,550,016	1,193,369
Capital Contributions and Grants	7,815	21,456
Increase in Net Position	1,557,831	1,214,825
Net Position Beginning of Year	27,002,473	25,787,648
Net Position End of Year	$ 28,560,304	$ 27,002,473

	2013	2012
Cash Flows from Operating Activities		
Receipts of patient service revenue	$ 37,476,559	$ 34,800,433
Payments of salaries, wages, and benefits	(19,137,001)	(17,023,172)
Payments of supplies and other expenses	(16,568,500)	(15,203,631)
Other receipts	2,556,008	1,366,272
Net Cash Provided by Operating Activities	4,327,066	3,939,902
Cash Flows from Noncapital Financing Activities		
County tax received	1,151,908	1,033,987
Noncapital contributions	78,533	106,149
Net Cash Provided by Noncapital Financing Activities	1,230,441	1,140,136
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(3,214,500)	(1,866,530)
Cash paid on capital lease obligations	(176,554)	(26,465)
Principal paid on debt	(356,404)	(374,648)
Interest paid on debt	(730,467)	(603,342)
Decrease in construction payable	-	(887,163)
Capital contributions and grants	7,815	21,456
Build America Bond interest subsidy	80,127	85,868
Proceeds from sale of capital assets	32,000	60,417
Net Cash used for Capital and Related Financing Activities	(4,357,983)	(3,590,407)
Cash Flows from Investing Activities		
Purchase of assets limited as to use or restricted	(1,695,428)	(3,474,756)
Proceeds from sale of assets limited as to use or restricted	595,027	2,646,685
Purchase of gift fund investments	(91,503)	(140,840)
Proceeds from sale of gift fund investments	45,078	54,276
Investment in joint venture	(10,000)	(10,000)
Rental income received	13,846	9,276
Investment income	81,012	70,758
Net Cash used for Investing Activities	(1,061,968)	(844,601)
Net Increase in Cash and Cash Equivalents	137,556	645,030
Cash and Cash Equivalents at Beginning of Year	1,862,465	1,217,435
Cash and Cash Equivalents at End of Year	$ 2,000,021	$ 1,862,465

	2013	2012
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 957,477	$ 398,389
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	3,298,563	2,984,907
Provision for bad debts	1,374,515	1,174,923
Changes in assets, liabilities, deferred outflows of resources, and deferred inflows of resources		
Receivables	(2,156,688)	(1,003,435)
Supplies	(44,923)	(62,740)
Prepaid expense	(8,177)	(37,969)
Accounts payable - trade	(95,393)	158,122
Estimated health claims payable	23,000	(75,000)
Estimated third-party payor settlements	131,000	315,000
Accrued expenses	220,495	87,705
Electronic health record incentive	627,197	-
Net Cash Provided by Operating Activities	$ 4,327,066	$ 3,939,902

Noncash Capital and Related Financing Activities

The Medical Center entered into capital lease obligations of $1,490,000 and $559,428 for new equipment in 2013 and 2012.

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 (GASB) 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 GASB criteria.

Basis of Presentation

The balance sheet displays the Medical Center's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, capital lease obligations, and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Medical Center.

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position which does not meet the definition of the preceding categories. Unrestricted net position often has 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.

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.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes its past history and identifies trends for each major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency in the allowance for doubtful accounts. For receivables associated with services provided to patients who have third party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances for which third-party coverage exists for part of the bill), the Medical Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Medical Center's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2012 to June 30, 2013. The Medical Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third-party payors. The Medical Center has not significantly changed its charity care or uninsured discount policies during fiscal years 2012 or 2013.

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 position 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	3-20 years

Deferred Outflows and Inflows of Resources

Deferred Outflows

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Medical Center has only one item that qualifies for reporting in this category, which is goodwill. Goodwill results when consideration provided for the acquisition of assets exceeds the net position acquired. The goodwill amount is systematically and rationally amortized in subsequent reporting periods.

Deferred Inflows

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Medical Center's two items that qualify for reporting in this category are deferred revenue related to succeeding year property tax receivable and deferred electronic medical record incentive amounts. The property tax revenue is recognized in the succeeding year when it becomes available. The electronic medical record incentive amounts are recognized as revenue ratably over the life of the qualify assets.

Financing Costs

Financing costs are expensed as incurred.

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, 2013 and 2012.

Estimated Health Claims Payable

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, cost trends, 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.

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 reported under deferred inflows on the Balance Sheet.

Operating Revenues and Expenses

The Medical Center's statement of revenues, expenses, and changes in net position 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.

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.

The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated. On the basis of historical experience, a certain portion of the Medical Center's uninsured patients will be unable or unwilling to pay for the services provided. As a result, the Medical Center records a provision for bad debts related to uninsured patients in the period the services are provided.

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. Because the Medical Center does not pursue collection of the amounts determined to qualify as charity care, they are not reported as revenue. The amounts of charges foregone for services provided under the Medical Center's charity care policy were approximately $904,798 and $555,582 for the years ended June 30, 2013 and 2012, respectively. The direct and indirect costs related to these foregone charges were $569,000 and $370,000 at June 30, 2013 and 2012, based on an average ratio of cost to gross charges.

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.

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.

Medicare

To qualify for the Medicare 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. For Medicare, 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 Medicare 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 Medicare 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 Medicare EHR incentive payment is first recognized as a deferred revenue with a ratable recognition of revenue over the life of the qualifying assets.

Medicaid

The Medicaid EHR incentive payments are paid out based on state-specific legislation, and are not to exceed 50% of the entire Medicaid EHR incentive payment in any one year, and 90% of the entire Medicaid EHR incentive payment in any 2-year period. The incentives are paid over a minimum of a 3-year period and a maximum of a 6-year period. To qualify for the first Medicaid EHR incentive payment, the hospital must be in the Adopt, Implement, and Upgrade stages of the meaningful use criteria. To qualify for the second and third Medicaid EHR incentive payments, hospitals must satisfy the meaningful use criteria that are outlined within the Medicare EHR objectives. The Medicaid EHR incentive payments to hospitals for each payment year are calculated as a product of (1) an initial amount; (2) the Medicaid share; and (3) a transition factor applicable to that payment year. The Medical Center recognizes Medicaid EHR incentive payments in the year received.

EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount 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.

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.

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, 2012, 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 position.

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, 2011. 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, 2010.

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 45% and 9%, respectively, of the Medical Center's net patient service revenue for the year ended June 30, 2013, and 47% and 10%, respectively, for the year ended June 30, 2012. 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, 2013 and 2012 increased approximately $308,000 and $364,000, 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 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, 2013 and 2012, is as follows:

	2013	2012
Total Patient Service Revenue	$ 60,910,015	$ 51,964,010
Contractual Adjustments		
Medicare	(9,650,690)	(7,125,531)
Medicaid	(2,975,367)	(2,131,036)
Other	(8,775,279)	(6,968,867)
Total contractual adjustments	(21,401,336)	(16,225,434)
Net Patient Service Revenue	39,508,679	35,738,576
Provision for Bad Debts	(1,374,515)	(1,174,923)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 38,134,164	$ 34,563,653

Note 3 - Cash and Deposits

The Medical Center's deposits in banks at June 30, 2013 and 2012, 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, 2013 and 2012, the Medical Center's carrying amounts of cash and deposits are as follows:

	2013	2012
Assets Limited as to Use or Restricted		
By board for capital improvements		
Savings and money market accounts	$ 5,808,971	$ 4,708,570

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, 2013 and 2012, was as follows:

	June 30, 2012 Balance	Additions	Deductions	Transfers	June 30, 2013 Balance
Capital Assets Not Being Depreciated:					
Land	$ 75,238	$ 548,037	$ -	$ -	$ 623,275
Construction in progress	38,185	804,207	-	-	842,392
Total capital assets not being depreciated	113,423	1,352,244	-	-	1,465,667
Capital Assets Being Depreciated:					
Land improvements	1,380,208	-	-	-	1,380,208
Buildings	30,745,679	215,513	142,500	-	30,818,692
Property held for future use	-	272,905	-	-	272,905
Leasehold improvements	83,060	-	-	-	83,060
Equipment	12,623,216	2,866,068	463,461	-	15,025,823
Total capital assets being depreciated	44,832,163	3,354,486	605,961	-	47,580,688
Less Accumulated Depreciation for:					
Land improvements	827,383	67,200	-	-	894,583
Buildings	10,476,915	1,277,985	47,500	-	11,707,400
Property held for future use	-	5,423	-	-	5,423
Leasehold improvements	40,942	4,614	-	-	45,556
Equipment	7,641,291	1,885,096	450,419	-	9,075,968
Total accumulated depreciation	18,986,531	3,240,318	497,919	-	21,728,930
Total Capital Assets Being Depreciated, Net	25,845,632	114,168	108,042	-	25,851,758
Total Capital Assets, Net	$ 25,959,055	$ 1,466,412	$ 108,042	$ -	$ 27,317,425

Construction in progress at June 30, 2013, represents costs incurred for various remodel projects which will be financed from operations. Subsequent to year end, the Medical Center moved forward with plans to construct an addition to the hospital for an estimated cost of $31 million. The addition will include a new Med-Surg Unit, specialty clinic, lobby area, and a public dining area. The Medical Center plans to finance the project through debt proceeds of $21 million and fund the remaining cost with a capital campaign and operations.

	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

Note 5 - Gift Fund Investments

Gift fund investments under other assets consist of the following at June 30, 2013 and 2012:

	2013	2012
Money Market Account	$ 1,597,204	$ 1,556,056
Savings Accounts	36,785	39,872
Certificates of Deposit	542,815	536,651
Accrued Interest Receivable	4,798	5,009
Cash Surrender Value of Life Insurance	331,400	328,989
	$ 2,513,002	$ 2,466,577

Note 6 - Goodwill

During the year ended June 30, 2009, the Medical Center recognized goodwill through the acquisition of two clinics. The Medical Center recognized 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. The Medical Center amortizes goodwill. Unamortized goodwill reported as of June 30, 2013 and 2012, is $111,333 and $175,000, respectively.

Note 7 - Joint Ventures

The Medical Center records its interest in investments where the Medical Center has a twenty to fifty percent interest in a corporation under the equity method of accounting. Under the equity method, original investments are recorded at cost and adjusted for the Medical Center's share of undistributed earnings or losses and distributions. These investments consist of joint ventures for the use of medical equipment and purchase of services. Investments in joint ventures as of June 30, 2013 and 2012, were $91,744 and $125,558, respectively.

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, 2013 and 2012, for all operating leases was $91,800 and $111,050, respectively. The capitalized leased assets consist of:

	2013	2012
Major Movable Equipment	$ 2,092,950	$ 602,950
Less accumulated amortization	(287,314)	(60,295)
	$ 1,805,636	$ 542,655

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

Year Ending June 30,	
2014	$ 447,344
2015	447,145
2016	447,145
2017	406,248
2018	243,141
Total Minimum Lease Payments	1,991,023
Less interest	(144,614)
Present Value of Minimum Lease Payments - Note 9	$ 1,846,409

Note 9 - Long-Term Debt

A summary of changes in the Medical Center's long-term debt for 2013 and 2012 follows:

	June 30, 2012 Balance	Additions	Payments	June 30, 2013 Balance	Amounts Due Within One Year
Hospital Revenue Bonds Series 2009 (A)	$ 7,005,322	$ -	$ 235,152	$ 6,770,170	$ 248,966
Taxable Hospital Revenue Bonds Series 2010 (B)	3,940,348	-	121,252	3,819,096	131,133
Capitalized Lease Obligations (C) - Note 8	532,963	1,490,000	176,554	1,846,409	391,943
Total Long-Term Debt	$ 11,478,633	$ 1,490,000	$ 532,958	12,435,675	$ 772,042
Less Current Maturities				(772,042)	
Long-Term Debt, Less Current Maturities				$ 11,663,633	

	June 30, 2011 Balance	Additions	Payments	June 30, 2012 Balance	Amounts Due Within One Year
Note Payable #1	$ 92,070	$ -	$ 92,070	$ -	$ -
Hospital Revenue Bonds Series 2009 (A)	7,228,248	-	222,926	7,005,322	235,153
Taxable Hospital Revenue Bonds Series 2010 (B)	4,000,000	-	59,652	3,940,348	123,778
Capitalized Lease Obligations (C)	-	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	

(A) 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.

(B) The Taxable Hospital Revenue Bonds, Series 2010, were drawn in the amount of $4,000,000 during fiscal year 2011. Payments of principal and interest at 6.125% are due 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.

(C) The Medical Center entered into a $569,650 capital lease for a CT scanner during fiscal year 2012. Payments of principal and interest at 3.64% are due monthly through December 2016. The Medical Center also entered into a $1,490,000 capital lease for a Da Vinci robotic surgical system during fiscal year 2013. Payments of principal and interest at 3.398% are due monthly through April 2018.

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

Year Ending June 30,	Principal	Interest	Total
2014	$ 772,040	$ 607,202	$ 1,379,242
2015	807,187	570,024	1,377,211
2016	838,517	535,896	1,374,413
2017	831,891	498,828	1,330,719
2018	703,650	463,962	1,167,612
2019-2023	2,718,148	1,904,202	4,622,350
2024-2028	3,526,971	1,095,379	4,622,350
2029-2033	2,237,271	168,421	2,405,692
Total	$ 12,435,675	$ 5,843,914	$ 18,279,589

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.

Note 10 - Other Postemployment Benefits (OPEB)

Plan Description – The Medical Center operates a single-employer retiree benefit plan which provides medical and prescription benefits to retired employees and their dependents. There are 351 active and 2 retired members in the Plan. Participants must be age 55 or older at retirement. The Plan does not issue a stand–alone financial report.

The medical coverage, which is a self-funded medical plan, is administered by a third party administrator, First Administrators. Retirees under age 65 pay the same premium as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Medical Center. The Medical Center currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The Medical Center's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Medical Center, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Medical Center's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the Plan and changes in the Medical Center's net OPEB obligation:

Annual Required Contribution	$ 31,272
Interest on Net OPEB Obligation	-
Adjustments to Annual Required Contribution	-
Annual OPEB cost	31,272
Contributions Made	(15,019)
Increase in net OPEB obligation	16,253
Net OPEB Obligation, Beginning of Year	-
Net OPEB Obligation, End of Year	$ 16,253

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2012. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the Medical Center contributed $15,019 to the medical plan. Plan members eligible for benefits contributed $21,279 or 100% of the premium costs.

The Medical Center's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$ 31,272	48.0%	$ 16,253

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was $192,719, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $192,719. The covered payroll (annual payroll of active employees covered by the Plan) was approximately $16,601,236 and the ratio of the UAAL to covered payroll was 1.2%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the Plan as understood by the employer and the Plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the Projected Unit Credit with linear proration to decrement cost method was used. The actuarial assumptions include a 4.5% discount rate based on the Medical Center's funding policy. The projected annual health care trend rate is 10%. The ultimate health care trend rate is 5%. The health care trend rate is reduced 1.0% each year until reaching the 5% ultimate medical trend rate. An inflation rate of 3% is assumed for the purpose of this computation.

Mortality rates are from the RP-2000 Combined Mortality Fully Generational Table.

Projected claim costs of the medical plan are $577 for single and $1,155 for family, per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 11 - 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 5.78% of their annual covered salary, and the Medical Center is required to contribute 8.67% of annual covered payroll for the year ended June 30, 2013. Plan members were required to contribute 5.38% and 4.50% of their annual covered salary, and the Medical Center was required to contribute 8.07% and 6.95% of annual covered payroll for the years ended June 30, 2012 and 2011, respectively. Contribution requirements are established by state statute. The Medical Center's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were $1,627,919, $1,331,939, and $1,054,045, respectively, equal to the required contributions for each year.

Note 12 - Contingencies

Malpractice Insurance

The Medical Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1million per claim and an annual aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

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 $348,000 and $325,000 have been recorded to recognize the estimated incurred but not reported claims outstanding at June 30, 2013 and 2012, respectively. The liability is included within accounts payable on the balance sheet. Expenses related to the self-funded employee health insurance plan were $2,107,153 and $1,969,749 for the years ended June 30, 2013 and 2012, respectively.

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 13 - 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 14 - 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, 2013 and 2012, was as follows:

	2013	2012
Medicare	33%	36%
Medicaid	7%	8%
Commerical Insurance	33%	34%
Other Third-Party Payors and Patients	27%	23%
	100%	100%

Note 15 - Electronic Health Record Incentive Payments

The Medical Center attested as a meaningful user of Electronic Health Records (EHR) during the year ended June 30, 2013. Accordingly, the Medical Center received $1,404,353 as a lump sum incentive payment related to Medicare EHR. The Medical Center is recognizing the deferred inflow ratably over the life of the related qualifying assets. As a result, the Medical Center recognized revenue of $777,156 for the year ended June 30, 2013, by recognizing the incentive payment and amortizing the deferred inflow into other operating revenue. The remaining deferred inflow of $627,197 related to EHR incentive payments will be recognized as income over the remaining life of the related assets.

The Medical Center recognized revenue of $251,400 for the years ended June 30, 2013 and 2012, related to Medicaid EHR incentive payments received. The incentive payments are included in other operating revenue in the accompanying financial statements. The total $502,800 received to date represents 80% 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.

Note 16 - Subsequent Events

The Medical Center has evaluated subsequent events through January 2, 2014, the date which the financial statements were available to be issued.

Required Supplementary Information
June 30, 2013

Regional Medical Center

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual (Cash Basis)
Required Supplementary Information
Year Ended June 30, 2013

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Adopted Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	$ 1,151,240	$ 668	$ 1,151,908	$ 1,125,484	$ 26,424
Estimated Other Revenues/Receipts	40,268,639	33,415	40,302,054	36,312,407	3,989,647
	41,419,879	34,083	41,453,962	37,437,891	4,016,071
Expenses/Disbursements	39,862,048	307,532	40,169,580	37,980,433	(2,189,147)
Net	1,557,831	(273,449)	1,284,382	(542,542)	$ 1,826,924
Balance Beginning of Year	27,002,473	(17,964,861)	9,037,612	5,016,843	
Balance End of Year	$ 28,560,304	$ (18,238,310)	$ 10,321,994	$ 4,474,301	

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, 2013.

For the year ended June 30, 2013, the Medical Center's expenditures exceeded the adopted amount budgeted.

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
2013	07/01/12	-	192,719	192,719	0.0%	16,601,236	1.2%

Supplementary Information
June 30, 2013 and 2012

Regional Medical Center

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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, 2013 and 2012, and our report thereon dated January 2, 2014, which expressed an unmodified opinion on those financial statements, appears on pages 2 and 3. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net patient service revenue, other operating revenues, operating expenses and supplies and prepaid expense 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

January 2, 2014
Dubuque, Iowa

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	2013	2012
Patient Service Revenue		
Routine services	$ 7,608,606	$ 5,287,312
Delivery and labor rooms	492,791	304,176
Operating and recovery rooms	7,696,366	6,834,251
Implantable devices	436,991	-
Medical supplies	989,491	1,189,994
Emergency services	5,352,770	4,529,250
Laboratory and blood bank	8,142,660	6,965,411
Electrocardiology	999,613	761,161
Cardiac rehab	107,140	81,620
Radiology	8,725,687	8,005,794
Cardiology	39,840	36,974
Pharmacy	3,310,760	3,199,117
Anesthesiology	1,423,407	1,322,986
Respiratory therapy	703,795	368,219
Physical therapy	1,171,254	1,101,035
Speech therapy	127,570	127,766
Occupational therapy	233,556	222,200
Ambulance	882,264	809,267
Regional Family Health	9,728,757	8,119,860
Other clinics	45,166	166,475
Community health	3,596,329	3,086,724
	61,814,813	52,519,592
Charity care	(904,798)	(555,582)
Total patient service revenue*	$ 60,910,015	$ 51,964,010
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	$ 14,938,427	$ 11,010,400
Outpatient revenue	46,876,386	41,509,192
Charity care	(904,798)	(555,582)
Total patient service revenue	60,910,015	51,964,010
Contractual Adjustments		
Medicare	(9,650,690)	(7,125,531)
Medicaid	(2,975,367)	(2,131,036)
Other	(8,775,279)	(6,968,867)
Total contractual adjustments	(21,401,336)	(16,225,434)
Net Patient Service Revenue	39,508,679	35,738,576
Provision for Bad Debts	(1,374,515)	(1,174,923)
Net Patient Service Revenue (Net of Provision for Bad Debts)	$ 38,134,164	$ 34,563,653

	2013	2012
Other Operating Revenues		
Electronic health record incentive	$ 1,028,556	$ 251,400
Public Health	199,802	185,468
Rent	168,672	174,624
Parents as teachers	142,027	145,228
Outside pharmacy	83,716	74,272
Other	81,321	23,752
Cafeteria	71,828	63,038
Massage therapy	68,525	65,406
Purchase discounts	43,030	75,940
Fitness center memberships	30,249	21,996
Education services	3,806	34,102
Vending machines	847	1,338
Total Other Operating Revenues	$ 1,922,379	$ 1,116,564

Delaware County Memorial Hospital
d/b/a Regional Medical Center
Schedules of Operating Expenses
Years Ended June 30, 2013 and 2012

	2013	2012
Nursing Administration		
Salaries and wages	$ 580,645	$ 423,827
Supplies and other expenses	66,235	44,363
	646,880	468,190
Routine Services		
Salaries and wages	2,055,168	1,976,197
Supplies and other expenses	174,051	145,390
	2,229,219	2,121,587
Nursery		
Salaries and wages	159,067	64,625
Supplies and other expenses	9,200	10,828
	168,267	75,453
Delivery and Labor Rooms		
Salaries and wages	-	883
Supplies and other expenses	-	75
	-	958
Operating and Recovery Rooms		
Salaries and wages	961,711	838,277
Supplies and other expenses	633,716	307,064
	1,595,427	1,145,341
Implantable Devices		
Supplies and other expenses	456,595	22,769
Medical Supplies		
Supplies and other expenses	583,230	778,251
Emergency Services		
Salaries and wages	1,658,778	942,442
Supplies and other expenses	254,048	900,675
	1,912,826	1,843,117
Laboratory and Blood Bank		
Salaries and wages	586,101	526,465
Supplies and other expenses	855,507	651,970
	1,441,608	1,178,435
Electrocardiology		
Salaries and wages	7,954	6,468
Supplies and other expenses	232,733	152,552
	240,687	159,020

	2013	2012
Cardiac Rehab		
Salaries and wages	$ 43,456	$ 42,497
Supplies and other expenses	7,566	3,660
	51,022	46,157
Radiology		
Salaries and wages	627,192	577,410
Supplies and other expenses	709,192	764,137
	1,336,384	1,341,547
Cardiology		
Salaries and wages	2,931	2,522
Pharmacy		
Salaries and wages	417,383	391,896
Supplies and other expenses	1,125,667	1,097,095
	1,543,050	1,488,991
Anesthesiology		
Supplies and other expenses	1,082,937	997,785
Respiratory Therapy		
Salaries and wages	108,330	101,576
Supplies and other expenses	18,520	19,261
	126,850	120,837
Physical Therapy		
Salaries and wages	517,107	531,171
Supplies and other expenses	66,391	51,191
	583,498	582,362
Speech Therapy		
Supplies and other expenses	86,314	89,868
Occupational Therapy		
Supplies and other expenses	106,078	99,930
Ambulance		
Salaries and wages	329,707	267,887
Supplies and other expenses	53,500	51,384
	383,207	319,271

	2013	2012
Regional Family Health		
Salaries and wages	$ 5,514,385	$ 4,815,523
Supplies and other expenses	1,227,810	1,044,909
	6,742,195	5,860,432
Outreach Clinic		
Supplies and other expenses	3,240	20,824
Other Clinics		
Salaries and wages	161,043	153,595
Supplies and other expenses	14,565	14,494
	175,608	168,089
Community Health		
Salaries and wages	1,267,491	1,240,266
Supplies and other expenses	390,890	493,540
	1,658,381	1,733,806
Public Health		
Salaries and wages	92,848	79,986
Supplies and other expenses	50,991	19,777
	143,839	99,763
Social Services		
Salaries and wages	4,360	3,497
Supplies and other expenses	47	37
	4,407	3,534
Parents as Teachers		
Salaries and wages	97,237	102,638
Supplies and other expenses	35,305	34,207
	132,542	136,845
Medical Records		
Salaries and wages	749,827	687,268
Supplies and other expenses	62,564	75,711
	812,391	762,979
Dietary		
Salaries and wages	250,003	242,576
Supplies and other expenses	101,049	90,158
	351,052	332,734
Plant Operation and Maintenance		
Salaries and wages	388,237	315,416
Supplies and other expenses	664,457	588,281
	1,052,694	903,697

	2013	2012
Housekeeping		
Salaries and wages	$ 299,614	$ 310,464
Supplies and other expenses	51,475	47,005
	351,089	357,469
Laundry		
Salaries and wages	5,489	7,249
Supplies and other expenses	96,279	85,578
	101,768	92,827
Administrative Services		
Salaries and wages	2,471,432	2,458,256
Supplies and other expenses	1,667,528	1,504,180
	4,138,960	3,962,436
Unassigned Expenses		
Depreciation and amortization	3,298,563	2,984,907
Insurance	212,681	217,139
Employee benefits	5,342,646	4,761,956
	8,853,890	7,964,002
Total Operating Expenses	$ 39,099,066	$ 35,281,828

Analysis of Aging

	2013		2012	
Days Since Discharge	Amount	Percent to Total	Amount	Percent to Total
30 Days or Less	$ 5,210,301	46.45%	$ 4,639,239	49.91%
31 to 60 Days	1,918,462	17.10%	1,949,721	20.98%
61 to 90 Days	968,438	8.63%	808,977	8.70%
91 to 180 Days	1,286,144	11.47%	909,695	9.79%
181 Days and over	1,833,181	16.34%	987,372	10.62%
	11,216,526	100.00%	9,295,004	100.00%
Less: Allowance for Doubtful Accounts	1,976,432		1,272,000	
Allowance for Contractual Adjustments	3,392,902		2,964,417	
Net	$ 5,847,192		$ 5,058,587	

Allowance for Doubtful Accounts

	Years Ended June 30, 2013	2012
Balance, Beginning of Year	$ 1,272,000	$ 489,965
Add: Provision for Bad Debts	1,374,515	1,174,923
Recoveries of Accounts Written Off	405,096	294,182
Less: Accounts Written Off	(1,075,179)	(687,070)
Balance, End of Year	$ 1,976,432	$ 1,272,000

Collection Statistics

	2013	2012
Net Accounts Receivable - Patients	$ 5,847,192	$ 5,058,587
Number of Days Charges Outstanding (1)	55	52
Uncollectible Accounts (2)	$ 2,373,433	$ 1,799,461
Percentage of Uncollectible Accounts to Total Charges	3.84%	3.43%

(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.

	2013	2012
Supplies		
Storeroom	$ 189,041	$ 167,928
Pharmacy	176,034	154,253
Operating room	153,442	143,470
Clinics	33,661	32,644
Laboratory	29,917	37,020
Emergency room	7,611	9,080
Radiology	7,258	9,896
Physical therapy	6,754	3,658
Dietary	5,057	5,903
Total	$ 608,775	$ 563,852
Prepaid Expense		
Maintenance agreements	$ 283,082	$ 277,522
Insurance	105,009	102,392
Total	$ 388,091	$ 379,914

	2013	2012
Patient Days		
Acute	2,347	2,267
Swing-bed	775	850
Newborn	420	295
Number of Beds	25	25
Percentage of Occupancy (Excluding Newborn)	34%	34%
Discharges		
Acute	850	782
Swing-bed	132	108
Average Length of Stay		
Acute (excluding newborn)	2.76	2.90
Swing-bed	5.87	7.87
Year End Routine Service Rates		
Acute ((ICU)	$ 2,600	$ 2,100
Acute (Fled Monitored)	2,400	1,900
Acute (Semi-Private)	2,000	1,500
Acute (Obstetrics)	1,650	1,300
Swing Bed	1,500	1,025
Nursery	1,000	800
Outpatient Visits	53,146	50,107
Clinic Visits	55,039	51,828

CPAs & BUSINESS ADVISORS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, 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, the financial statements of Delaware County Memorial Hospital, d/b/a Regional Medical Center (Medical Center), as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated January 2, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses, that we consider to be significant deficiencies. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items I-A-13 and I-B-13 to be significant deficiencies.

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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 a certain immaterial instance of non-compliance which is 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, 2013, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Medical Center and are reported in Part II of the accompanying Schedule of Findings and Responses. 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.

Medical Center's Response to Findings

The Medical Center's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Medical Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

January 2, 2014
Dubuque, Iowa

Part I: Findings Related to the Financial Statements:

Significant Deficiencies:

I-A-13 Segregation of Duties

Criteria – An effective system of internal control depends on an adequate segregation of duties with respect to the execution and recording of transactions, as well as the custody of an organization's assets. Accordingly, an effective system of internal control will be designed such that these functions are performed by different employees, so that no one individual handles a transaction from its inception to its completion.

Condition – Certain employees perform duties that are incompatible.

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

Effect – The lack of segregation of duties increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both. 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. It is the responsibility of management and those charged with governance to determine whether to accept the degree of risk associated with the condition because of cost or other considerations.

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.

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

I-B-13 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).

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. In conjunction with completion of our audit, we were requested to draft the financial statements and accompanying notes to the financial statements.

Cause – The outsourcing of these services is not unusual in an organization of your size.
We realize that obtaining the expertise necessary to prepare the financial statements in accordance with GAAP, including all necessary disclosures, 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.

Recommendation – 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. 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.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 **Certified Budget** – The Medical Center's disbursements during the year ended June 30, 2013, exceeded the amount budgeted by $2,189,147.

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.

II-B-13 **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-13 **Travel Expense** – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

II-D-13 **Business Transactions** – The Medical Center had transactions with a business partially owned by a spouse of an employee and a business owned by a board member. The Medical Center paid rent expense to physicians who are employed by the Medical Center. Total expenses were:

Supplies expense	$	7,371
Rent expense	$	33,600

II-E-13 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-13 **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-13 **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.

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January 2, 2014

The Board of Trustees and Management
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, 2013, and have issued our report thereon dated January 2, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 13, 2013. 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 the Medical Center are described in Note 1 to the financial statements. No new significant accounting policies were adopted and application of existing policies was not changed during 2013. 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 were:

Collectability of Patient Receivables – Management's estimate of the allowance for contractual adjustments and doubtful accounts on patient receivables is based on historical loss levels and an analysis of the estimated collections of individual accounts.

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 in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the long-term debt in Note 9 to the financial statements discloses that the revenue bonds held by the Medical Center places limits on the occurrence of additional borrowing and requires the Medical Center to satisfy certain measures of financial performance which could present risks to the Medical Center if the covenants are not met.

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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following misstatements were detected as a result of our audit procedures and have been corrected by management.

	Increase (Decrease) to Net Position
To adjust estimated third party settlements	$ (591,000)
To adjust estimate related to incurred but not reported health insurance claims liability	127,000
Other	(16,000)

The net effect of these adjustments was to decrease net position by $(480,000).

In addition, the following is an uncorrected misstatement of the financial statements for which management has determined that its effect is immaterial to the financial statements taken as a whole.

Overstatement of financing costs expense	$ 80,000

Disagreements with Management

For purposes of this letter, a disagreement with management is 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 January 2, 2014.

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

Supplementary Information

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 U.S. generally accepted accounting principles, 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.

New Accounting Pronouncements

During the year ended June 30, 2013, the Medical Center implemented the following new accounting standards. Adoption of these standards did not have a material impact on the financial statements.

> Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity:* Changes under Statement No. 61 include an increased emphasis on financial relationships between primary governments and other organizations, clarification of the requirements to blend component units, and clarification of reporting equity interests in legally separate organizations.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements:* Statement No. 62 supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position:* Statement No. 63 amends Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities:* Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The Medical Center elected to implement this statement early for the year ended June 30, 2013. As a result of the standard, financing costs of approximately $80,000 were charged to expense for the year ended June 30, 2013. Under previous guidance, the amounts would have been recorded as assets and amortized to expense over of the term of the related financing arrangement. In addition, deferred EMR incentive income and deferred succeeding property tax support have been classified as deferred inflows of resources on the Balance Sheet for the years ended June 30, 2013 and 2012.

Due to immateriality, the standard was implemented in fiscal year 2013 rather than retroactively applied to all periods presented. The effect of this uncorrected misstatement is an understatement of increase in net position of approximately $80,000 in fiscal year 2013.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations:* This Statement provides new accounting and financial reporting standards for government mergers and acquisitions and for government operations that have been transferred or sold. The Statement also creates additional deferred inflows and outflows through “government combinations and disposal of government operations.” Included in this standard is the GASB’s interpretation of goodwill as a deferred outflow of resources.

The Medical Center has elected to implement this Statement early for the year ended June 30, 2013. The implementation of the Standard did not have a material impact on the financial statements. The Medical Center has classified goodwill as a deferred outflow of resources on the Balance Sheet for the years ended June 30, 2013 and 2012, as a result of adoption of the Standard.

Upcoming Accounting Pronouncements

We recommend the Medical Center review the following upcoming statements and evaluate the potential impact of these statements on the financial statements when implemented.

GASB Statement No. 67, *Financial Reporting for Pension Plans:* Statement No. 67 revises existing guidance for the financial reports of most pension plans and Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other provisions, Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. This Statement calls for immediate recognition of more pension expense than is currently required. The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

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

Dubuque, Iowa

xc: Mr. Lon Butikofer, RN, Ph D