



Financial Statements  
June 30, 2016 and 2015

Regional  Medical Center

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

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June 30, 2016 and 2015

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Delaware County Medical Center  
d/b/a Regional Medical Center  
Board of Trustees and Medical Center Officials

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Bev Preussner	Chairperson	December 31, 2018
Steve Palmer	Vice Chairperson	December 31, 2020
Toni Browning	Treasurer	December 31, 2016
Joe Keith	Secretary	December 31, 2018
Diane Gatto	Member	December 31, 2018
Ruth Hoekstra	Member	December 31, 2016
Chris Tegeler	Member	December 31, 2020
<u>Medical Center Officials</u>		
Lon Butikofer, RN, Ph.D	Chief Executive Officer	
Danette Kramer	Chief Financial Officer	



## **Independent Auditor's Report**

The Board of Trustees  
Delaware County Medical Center  
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 statements of net position as of June 30, 2016 and 2015, 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.

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, 2016 and 2015, and the results of its operations, changes in net position, 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 Management's Discussion and Analysis on pages 4 through 10, the Budgetary Comparison Information on pages 39 and 40, the Schedule of the Medical Center's Proportionate Share of the Net Pension Liability, the Schedule of the Medical Center's Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 41 through 44 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 August 31, 2016, 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.



Dubuque, Iowa  
August 31, 2016

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, 2016, 2015, and 2014. 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 statements of net position, 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 statements of net position 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 statements of net position 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 Statement of Net Position 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 deferred outflows of resources and liabilities and deferred inflows of resources – 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 Statement of Net Position at June 30, 2016, indicates total assets and deferred outflows of resources of \$79,653,345, total liabilities of \$48,673,489, deferred inflows of \$5,065,516, and net position of \$25,914,340. The Statement of Net Position at June 30, 2015, indicates total assets and deferred outflows of resources of \$73,865,349, total liabilities of \$45,342,868, deferred inflows of resources of \$6,030,303, and net position of \$22,492,178.

- The Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2016, indicates total operating revenues of \$49,163,769, total operating expenses of \$46,758,290, resulting in a gain from operations of \$2,405,479, a 4.9% operating margin. A net non-operating gain of \$915,652 brings the excess of revenues over expenses to \$3,321,131. The Statements of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2015, indicates total operating revenues of \$47,871,045, total operating expenses of \$44,277,111, resulting in gain from operations of \$3,593,934, a 7.5% operating margin. A net non-operating gain of \$1,091,749 brings the excess of revenues over expenses to \$4,685,683.
- The Medical Center's current assets exceeded its current liabilities by \$10,508,406 at June 30, 2016, providing a 2.65 current ratio. The Medical Center's current assets exceeded its current liabilities by \$7,950,247 at June 30, 2015, providing a 2.03 current ratio. The Medical Center's current assets exceeded its current liabilities by \$5,638,966 at June 30, 2014, providing a 1.90 current ratio.
- The Medical Center recorded an excess of revenues over expenses for fiscal year ended June 30, 2016, amounting to \$3,321,131. The Medical Center recorded an excess of revenues over expenses for fiscal year ended June 30, 2015, amounting to \$4,685,683. The Medical Center recorded an excess of revenues over expenses for fiscal year ended June 30, 2014, amounting to \$1,706,409.
- The Medical Center's net position increased \$3.422 million from June 30, 2015 to June 30, 2016. The Medical Center's net position decreased approximately \$9.223 million from June 30, 2014 to June 30, 2015, primarily due to the implementation of GASB 68 and the restatement of beginning balance for net pension liability of \$14.246 million.
- The Medical Center's noncurrent liabilities increased \$4,715,243 from June 30, 2015 to June 30, 2016, primarily due to the increase in net pension liability of \$3,131,068.
- The Medical Center's recorded net pension expense decreased approximately \$482,000 in 2016 and \$929,000 in 2014 as a result of the implementation of GASB 68 and the deferral of current year's pension contributions.
- Unrestricted net position increased \$3,620,192 from fiscal year 2015 to fiscal year 2016. Unrestricted net position decreased \$6,425,155 from fiscal year 2014 to fiscal year 2015, primarily due to the pension liability recognized.
- Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$14,245,557 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made prior to July 1, 2014. The financial statement amounts for fiscal year 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

### Condensed Financial Statements

The following tables on pages 6 through 8 presented for the year ended June 30, 2014 have not been restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

**Condensed Financial Statements**

*Statements of Net Position*

	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>	<u>June 30,</u> <u>2014</u>
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 4,661,394	\$ 4,233,171	\$ 1,349,418
Assets limited as to use or restricted	34,808	1,214,748	328,508
Patient receivables, net of estimated uncollectibles	7,832,308	6,434,064	6,729,500
Contributions, net	149,000	237,000	176,000
Succeeding year property tax	1,556,048	1,441,829	1,335,520
Estimated third-party payor settlements	356,000	-	-
Other assets	<u>2,278,691</u>	<u>2,133,900</u>	<u>1,992,851</u>
Total current assets	<u>16,868,249</u>	<u>15,694,712</u>	<u>11,911,797</u>
Assets Limited as to Use or Restricted	<u>9,759,331</u>	<u>10,310,789</u>	<u>14,328,105</u>
Capital Assets, Net	<u>44,650,928</u>	<u>42,016,544</u>	<u>31,183,800</u>
Other Assets			
Gift fund investments	2,665,772	2,547,661	2,523,456
Contributions receivable, net	89,421	212,189	716,297
Beneficial interest in charitable trust	148,000	148,000	148,000
Joint ventures	<u>83,090</u>	<u>103,035</u>	<u>89,058</u>
Total other assets	<u>2,986,283</u>	<u>3,010,885</u>	<u>3,476,811</u>
Total assets	<u>74,264,791</u>	<u>71,032,930</u>	<u>60,900,513</u>
Deferred Outflows of Resources			
Pension related deferred outflows	3,110,834	2,776,752	-
Goodwill, net of accumulated amortization	<u>27,834</u>	<u>55,667</u>	<u>83,500</u>
Total deferred outflows of resources	<u>3,138,668</u>	<u>2,832,419</u>	<u>83,500</u>
Total assets and deferred outflows of resources	<u>\$ 77,403,459</u>	<u>\$ 73,865,349</u>	<u>\$ 60,984,013</u>

**Condensed Financial Statements**

*Statements of Net Position (continued)*

	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>	<u>June 30,</u> <u>2014</u>
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 2,058,574	\$ 1,836,538	\$ 807,188
Accounts payable	1,158,803	3,021,321	2,656,580
Accrued expenses	<u>3,142,466</u>	<u>2,886,606</u>	<u>2,809,063</u>
Total current liabilities	<u>6,359,843</u>	<u>7,744,465</u>	<u>6,272,831</u>
Noncurrent Liabilities			
Long-term debt, less current maturities	27,522,158	25,974,834	21,464,417
Net pension liability	14,685,186	11,554,118	-
Net OPEB liability	<u>106,302</u>	<u>69,451</u>	<u>32,506</u>
Total noncurrent liabilities	<u>42,313,646</u>	<u>37,598,403</u>	<u>21,496,923</u>
Total liabilities	<u>48,673,489</u>	<u>45,342,868</u>	<u>27,769,754</u>
Deferred Inflows of Resources			
Pension related deferred inflows	1,259,582	4,538,380	-
Deferred revenue for succeeding year property tax	1,556,048	1,441,829	1,335,520
Electronic health record incentive	<u>-</u>	<u>50,094</u>	<u>163,724</u>
Total deferred inflows of resources	<u>2,815,630</u>	<u>6,030,303</u>	<u>1,499,244</u>
Net Position			
Net investment in capital assets	16,159,984	16,148,190	18,502,806
Restricted	1,137,407	1,347,231	1,790,297
Unrestricted	<u>8,616,949</u>	<u>4,996,757</u>	<u>11,421,912</u>
Total net position	<u>25,914,340</u>	<u>22,492,178</u>	<u>31,715,015</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 77,403,459</u>	<u>\$ 73,865,349</u>	<u>\$ 60,984,013</u>

Delaware County Medical Center  
d/b/a Regional Medical Center  
Management's Discussion and Analysis  
June 30, 2016 and 2015

*Statements of Revenues, Expenses, and Changes in Net Position*

	Years Ended June 30,		
	2016	2015	2014
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	\$ 44,298,674	\$ 43,164,473	\$ 40,469,750
Other operating revenues	4,865,095	4,706,572	3,388,778
Total Operating Revenues	<u>49,163,769</u>	<u>47,871,045</u>	<u>43,858,528</u>
Operating Expenses			
Salaries and wages	22,811,808	22,211,680	20,882,706
Supplies and other expenses	20,394,464	18,882,009	18,571,309
Depreciation and amortization	3,552,018	3,183,422	3,252,328
Total Operating Expenses	<u>46,758,290</u>	<u>44,277,111</u>	<u>42,706,343</u>
Operating Income	<u>2,405,479</u>	<u>3,593,934</u>	<u>1,152,185</u>
Nonoperating Revenues (Expenses)			
County tax revenue	1,466,584	1,348,514	1,261,057
Noncapital contributions	209,130	80,489	59,439
Auxiliary activity, net of expenses	1,931	-	-
Interest and financing expense	(871,956)	(583,914)	(891,252)
Rental property, net of expense	23,381	22,811	9,654
Investment income	28,849	139,782	45,329
Build America Bond interest subsidy	67,272	72,572	75,299
Gains (loss) on disposal of capital assets	(9,539)	11,495	(5,302)
Nonoperating Revenues, Net	<u>915,652</u>	<u>1,091,749</u>	<u>554,224</u>
Revenues in Excess of Expenses	3,321,131	4,685,683	1,706,409
Transfer of Auxiliary Assets	49,789	-	-
Capital Contributions and Grants	<u>51,242</u>	<u>337,037</u>	<u>1,448,302</u>
Increase in Net Position	3,422,162	5,022,720	3,154,711
Net Position Beginning of Year	<u>22,492,178</u>	<u>31,715,015</u>	<u>28,560,304</u>
Restatement	<u>-</u>	<u>(14,245,557)</u>	<u>-</u>
Net Position Beginning of Year, as Restated	<u>22,492,178</u>	<u>17,469,458</u>	<u>28,560,304</u>
Net Position End of Year	<u>\$ 25,914,340</u>	<u>\$ 22,492,178</u>	<u>\$ 31,715,015</u>

### **Organization Highlights**

Regional Medical Center continued to make many positive enhancements over the last fiscal year, including:

- Addition of a second General Surgeon. Dr. Rick Unger, DO joined Regional Medical Center in April 2016.
- Occupation of the new 40,000 square foot River Ridge Pavilion in December 2015, which includes a new inpatient unit and specialty clinic.
- Finalized plans and completed bidding for a renovation project to include Pharmacy, Sleep Study Center, Cardiology Clinic, General Surgeon Clinic, Pain Clinic, and PACU. The renovation project is expected to be complete in April 2017.

### **Capital Assets**

Significant capital purchases included:

- Facility Expansion \$16,699,000
- Furniture for River Ridge Pavilion \$346,021
- Nurse Call System \$257,000
- Central Monitoring System \$252,000
- RRP Elevators \$192,000

### **Long-Term Debt**

At year end, Regional Medical Center had \$29,580,732 in short-term and long-term debt. The Medical Center issued \$3,656,963 in the current fiscal year to finish construction on the 40,000 square foot facility expansion. An additional \$6,343,037 and \$10,715,000 were issued in FY 2015 and FY 2014 to construct this 40,000 square foot facility expansion project. The other debt was incurred to acquire a da Vinci robotic surgery system, 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 2016 budget. Of primary consideration in the 2016 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
- Health Insurance Marketplace
- Staffing benchmarks
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Energy costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances

## **Summary**

Regional Medical Center's Governing Board of Trustees are extremely proud of the excellent patient care, dedication, commitment and support each of our 445 employees provides to every person they serve. We would also like to thank each member of the Medical Staff for their dedication and support provided.

## **Contacting the Medical Center's Finance Department**

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

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

	2016	2015
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 4,661,394	\$ 4,233,171
Assets limited as to use or restricted - Note 3	34,808	1,214,748
Receivables		
Patient, net of estimated uncollectibles of \$967,000 in 2016 and \$1,097,000 in 2015	7,832,308	6,434,064
Contributions, net - Note 4	149,000	237,000
Succeeding year property tax	1,556,048	1,441,829
Estimated third-party payor settlements	356,000	-
Other	500,163	613,209
Supplies	933,130	774,276
Prepaid expense	845,398	746,415
Total current assets	<u>16,868,249</u>	<u>15,694,712</u>
Assets Limited as to Use or Restricted - Note 3		
By board for capital improvements	7,922,868	7,622,035
Under bond indenture agreement	1,871,271	3,903,502
Less amount required to meet current obligations	<u>(34,808)</u>	<u>(1,214,748)</u>
Total assets limited as to use or restricted, excluding current portion	<u>9,759,331</u>	<u>10,310,789</u>
Capital Assets - Note 5		
Capital assets not being depreciated	970,023	14,542,285
Depreciable capital assets, net of accumulated depreciation	<u>43,680,905</u>	<u>27,474,259</u>
Total capital assets, net	<u>44,650,928</u>	<u>42,016,544</u>
Other Assets		
Gift fund investments - Note 3	2,665,772	2,547,661
Contributions receivable, net - Note 4	89,421	212,189
Beneficial interest in charitable trust	148,000	148,000
Joint ventures	<u>83,090</u>	<u>103,035</u>
Total other assets	<u>2,986,283</u>	<u>3,010,885</u>
Total assets	<u>74,264,791</u>	<u>71,032,930</u>
Deferred Outflows of Resources		
Pension related deferred outflows - Note 6	3,110,834	2,776,752
Goodwill, net of accumulated amortization	<u>27,834</u>	<u>55,667</u>
Total deferred outflows of resources	<u>3,138,668</u>	<u>2,832,419</u>
Total assets and deferred outflows of resources	<u>\$ 77,403,459</u>	<u>\$ 73,865,349</u>

See Notes to Financial Statements

Delaware County Medical Center  
d/b/a Regional Medical Center  
Statements of Net Position  
June 30, 2016 and 2015

	2016	2015
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 8	\$ 2,058,574	\$ 1,836,538
Accounts payable		
Trade	853,306	889,879
Construction	30,497	1,210,442
Estimated health claims payable - Note 10	275,000	250,000
Estimated third-party payor settlements	-	671,000
Accrued expenses		
Salaries and wages	1,062,578	795,890
Paid leave	1,882,735	1,753,517
Interest	119,744	13,052
Payroll taxes and other	77,409	324,147
Total current liabilities	6,359,843	7,744,465
Noncurrent Liabilities		
Long-term debt, less current maturities - Note 8	27,522,158	25,974,834
Net pension liability - Note 6	14,685,186	11,554,118
Net OPEB liability - Note 9	106,302	69,451
Total noncurrent liabilities	42,313,646	37,598,403
Total liabilities	48,673,489	45,342,868
Deferred Inflows of Resources		
Pension related deferred inflows - Note 6	1,259,582	4,538,380
Deferred revenue for succeeding year property tax receivable	1,556,048	1,441,829
Electronic health record incentive	-	50,094
Total deferred inflows of resources	2,815,630	6,030,303
Net Position		
Net investment in capital assets	16,159,984	16,148,190
Restricted		
Expendable for debt service and capital assets	989,407	1,199,231
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	8,616,949	4,996,757
Total net position	25,914,340	22,492,178
Total liabilities, deferred inflows of resources, and net position	\$ 77,403,459	\$ 73,865,349

Delaware County Medical Center  
d/b/a Regional Medical Center  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$885,689 in 2016 and \$977,896 in 2015) - Note 2	\$ 44,298,674	\$ 43,164,473
Other operating revenues	4,865,095	4,706,572
Total operating revenues	49,163,769	47,871,045
Operating Expenses		
Salaries and wages	22,811,808	22,211,680
Supplies and other expenses	20,394,464	18,882,009
Depreciation and amortization	3,552,018	3,183,422
Total operating expenses	46,758,290	44,277,111
Operating Income	2,405,479	3,593,934
Nonoperating Revenues (Expenses)		
County tax revenue	1,466,584	1,348,514
Noncapital contributions	209,130	80,489
Auxiliary activity, net of expenses	1,931	-
Interest and financing expenses	(871,956)	(583,914)
Rental property, net of expenses	23,381	22,811
Investment income	28,849	139,782
Build America Bond interest subsidy	67,272	72,572
Gain (loss) on disposal of capital assets	(9,539)	11,495
Nonoperating revenues, net	915,652	1,091,749
Revenues in Excess of Expenses	3,321,131	4,685,683
Transfer in of Auxiliary assets	49,789	-
Capital Contributions and Grants	51,242	337,037
Increase in Net Position	3,422,162	5,022,720
Net Position Beginning of Year	22,492,178	17,469,458
Net Position End of Year	\$ 25,914,340	\$ 22,492,178

Delaware County Medical Center  
d/b/a Regional Medical Center  
Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	\$ 41,873,430	\$ 43,179,909
Payments to and on behalf of employees	(22,662,640)	(22,147,189)
Payments to suppliers and contractors	(21,108,835)	(20,240,349)
Other receipts	4,924,808	4,584,111
	3,026,763	5,376,482
Net Cash from Operating Activities		
Cash Flows from Noncapital Financing Activities		
County tax received	1,469,823	1,344,271
Noncapital contributions	209,130	80,489
Auxiliary activity	51,720	-
	1,730,673	1,424,760
Net Cash from Noncapital Financing Activities		
Capital and Related Financing Activities		
Purchase of capital assets	(7,068,137)	(12,624,377)
Principal paid on capital lease obligations	(418,445)	(404,872)
Principal paid on debt	(1,469,158)	(398,398)
Interest paid on debt and capital lease obligations	(1,040,999)	(943,833)
Proceeds from debt issuance	3,656,963	6,343,037
Payment of finance costs	(4,181)	(2,250)
Capital contributions and grants	262,010	780,145
Build America Bond interest subsidy	67,272	72,572
Proceeds from sale of capital assets	-	5,000
	(6,014,675)	(7,172,976)
Net Cash used for Capital and Related Financing Activities		
Investing Activities		
Net sales of gift fund investments	138,565	1,259
Investment in joint venture	-	(7,462)
Rental income received	23,381	22,811
Investment income	48,794	133,267
	210,740	149,875
Net Cash from Investing Activities		
Net Change in Cash and Cash Equivalents	(1,046,499)	(221,859)
Cash and Cash Equivalents at Beginning of Year	17,427,841	17,649,700
Cash and Cash Equivalents at End of Year	\$ 16,381,342	\$ 17,427,841

Delaware County Medical Center  
d/b/a Regional Medical Center  
Statements of Cash Flows  
Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	\$ 4,661,394	\$ 4,233,171
Cash and cash equivalents in noncurrent designated and restricted assets	11,719,948	13,194,670
Total cash and cash equivalents	\$ 16,381,342	\$ 17,427,841
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 2,405,479	\$ 3,593,934
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	3,552,018	3,183,422
Provision for bad debts	885,689	977,896
Changes in assets, liabilities, deferred outflows of resources, and deferred inflows of resources		
Receivables	(2,174,126)	(691,291)
Supplies	(158,854)	(17,405)
Prepaid expense	(98,983)	(110,570)
Accounts payable - trade	(36,573)	(237,499)
Net pension liability	3,131,068	(4,443,937)
Deferred outflows of resources	(334,082)	(1,024,254)
Deferred inflows of resources	(3,278,798)	4,538,380
Other post employment benefits	36,851	36,945
Estimated health claims payable	25,000	(100,000)
Estimated third-party payor settlements	(1,027,000)	(280,000)
Accrued expenses	149,168	64,491
Electronic health record incentive	(50,094)	(113,630)
Net Cash from Operating Activities	\$ 3,026,763	\$ 5,376,482
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Accounts payable for construction	\$ 30,497	\$ 1,210,442

## **Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

The financial statements of Delaware County Medical Center, d/b/a Regional Medical Center (Medical Center) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Medical Center are described below.

### **Reporting Entity**

The 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.

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.

The Medical Center has no component units which meet the GASB criteria.

### **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.

### **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 accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Medical Center uses enterprise fund accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

## **Basis of Presentation**

The statement of net position displays the Medical Center's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories/components:

*Net investment in capital assets* consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

*Restricted net position:*

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

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

*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 an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Medical Center's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

## **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.

## **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. For purposes of the statement of cash flows, the Medical Center considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

### **Patient Receivables**

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest claim.

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, 2015 to June 30, 2016. 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 2016 or 2015.

### **Contributions Receivable**

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises.

### **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 considered a deferred inflow of resources – unavailable revenue and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized by the Medical Center becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2014 assessed property valuations; is for the tax accrual period July 1, 2015 through June 30, 2016, and reflects the tax asking contained in the budget certified by the County Auditor in March 2015.

### **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.

### **Investment Income**

Interest on cash and deposits is included in nonoperating revenues when earned.

### **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 capital assets are as follows:

Land Improvements	5-15 years
Buildings and Improvements	5-40 years
Equipment	3-20 years

### **Deferred Outflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of: 1) unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period and 2) consideration provided for the acquisition of assets exceeding the net position acquired recorded as goodwill. The goodwill amount is systematically and rationally amortized in subsequent reporting periods.

### **Financing Costs**

Financing costs are expensed as incurred and included in interest expense on the statements of revenues, expenses, and changes in net position.

### **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 statement of net position. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2016 and 2015.

### **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 statement of net position, 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.

### **Bond Premiums and Discounts**

Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are amortized over the life of the debt using the effective interest method. Amortization is included in interest expense.

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Deferred Inflows of Resources**

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, deferred electronic medical record incentive amounts that will be recognized as revenue ratably over the life of the qualifying assets, and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

### **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, including depreciation expense and excluding interest cost.

### **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 \$332,620 and \$449,081 for the years ended June 30, 2016 and 2015. The direct and indirect costs related to these foregone charges were \$192,000 and \$247,000 at June 30, 2016 and 2015, 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.

### **Grants and Contributions**

The Medical Center may receive grants as well as contributions from individuals and private organizations. 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 non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of (less than) expenses.

### **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 revenues are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive revenues 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.

### **Advertising Costs**

The Medical Center expenses advertising costs as incurred.

### **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 plus 1%, less 2% sequestration, 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, 2013. 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, 2011.

**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.

Concentration of gross revenues by major payor accounted for the following percentages of the Medical Center’s patient service revenue for the years ended June 30, 2016 and 2015:

	2016	2015
Medicare	43%	44%
Medicaid	14%	13%
Blue Cross	30%	29%
Other Commercial	12%	12%
Self-Pay	1%	2%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims 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.

**Note 3 - Deposits and Investments**

The Medical Center’s deposits in banks at June 30, 2016 and 2015, 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.

At June 30, 2016 and 2015, the Medical Center's carrying amounts of deposits and investments are as follows:

	2016	2015
Cash and Cash Equivalents	\$ 6,532,665	\$ 8,136,673
Savings and Money Market Accounts	9,848,677	9,291,168
Certificates of Deposit	413,717	551,937
Accrued Interest Receivable	3,048	2,968
Cash Surrender Value of Life Insurance Policies	323,198	323,623
	\$ 17,121,305	\$ 18,306,369

Deposits and investments are reported in the following statement of net position captions:

	2016	2015
Cash and Cash Equivalents	\$ 4,661,394	\$ 4,233,171
Assets Limited as to Use or Restricted	9,794,139	11,525,537
Gift Fund Investments	2,665,772	2,547,661
	\$ 17,121,305	\$ 18,306,369

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 or receipted through donor gifts. All of the above cash, cash equivalents, and investments have a maturity date of less than one year, except for the cash surrender value of life insurance, which was receipted through a donor gift.

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 - Contributions Receivable**

Contributions receivable are unconditional promises to give that the Medical Center has received from corporations and individuals in the community. Certain promises are receivable over a period of time. The following is a summary of contributions receivable:

	2016	2015
One Year or Less	\$ 149,000	\$ 237,000
One to Five Years	109,421	258,189
	258,421	495,189
Less		
Discount to net present value	(10,000)	(25,000)
Allowance for uncollectible amounts	(10,000)	(21,000)
	\$ 238,421	\$ 449,189

**Note 5 - Capital Assets**

Capital assets activity for the years ended June 30, 2016 and 2015 was as follows:

	June 30, 2015				June 30, 2016
	Balance	Additions	Deductions	Transfers	Balance
Capital Assets Not Being Depreciated:					
Land	\$ 730,460	\$ -	\$ -	\$ -	\$ 730,460
Construction in progress	13,811,825	3,610,492	-	(17,182,754)	239,563
Total capital assets not being depreciated	14,542,285	\$ 3,610,492	\$ -	\$(17,182,754)	970,023
Capital Assets Being Depreciated:					
Land improvements	2,652,115	\$ 25,505	\$ -	\$ -	2,677,620
Buildings	33,834,434	678,603	-	16,698,662	51,211,699
Property held for future use	286,290	-	-	-	286,290
Leasehold improvements	83,060	-	-	-	83,060
Equipment	18,088,762	1,837,111	403,942	484,093	20,006,024
Total capital assets being depreciated	54,944,661	\$ 2,541,219	\$ 403,942	\$ 17,182,755	74,264,693
Less Accumulated Depreciation for:					
Land improvements	1,117,973	\$ 129,557	\$ -	\$ -	1,247,530
Buildings	14,438,565	1,720,224	-	-	16,158,789
Property held for future use	24,931	9,799	-	-	34,730
Leasehold improvements	54,784	5,256	-	-	60,040
Equipment	11,834,149	1,634,106	385,556	-	13,082,699
Total accumulated depreciation	27,470,402	\$ 3,498,942	\$ 385,556	\$ -	30,583,788
Total Capital Assets Being Depreciated, Net	27,474,259				43,680,905
Total Capital Assets, Net	\$ 42,016,544				\$ 44,650,928

Delaware County Medical Center  
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Notes to Financial Statements  
June 30, 2016 and 2015

	June 30, 2014 Balance	Additions	Deductions	Transfers	June 30, 2015 Balance
<b>Capital Assets Not Being Depreciated:</b>					
Land	\$ 730,460	\$ -	\$ -	\$ -	\$ 730,460
Construction in progress	1,689,502	12,480,514	-	(358,191)	13,811,825
Total capital assets not being depreciated	2,419,962	\$ 12,480,514	\$ -	\$ (358,191)	14,542,285
<b>Capital Assets Being Depreciated:</b>					
Land improvements	2,601,806	\$ 50,309	\$ -	\$ -	2,652,115
Buildings	33,803,281	31,153	-	-	33,834,434
Property held for future use	286,290	-	-	-	286,290
Leasehold improvements	83,060	-	-	-	83,060
Equipment	16,720,428	1,439,991	(429,848)	358,191	18,088,762
Total capital assets being depreciated	53,494,865	\$ 1,521,453	\$ (429,848)	\$ 358,191	54,944,661
<b>Less Accumulated Depreciation for:</b>					
Land improvements	989,171	\$ 128,802	\$ -	\$ -	1,117,973
Buildings	13,027,805	1,410,760	-	-	14,438,565
Property held for future use	15,132	9,799	-	-	24,931
Leasehold improvements	50,170	4,614	-	-	54,784
Equipment	10,648,749	1,601,615	416,215	-	11,834,149
Total accumulated depreciation	24,731,027	\$ 3,155,590	\$ 416,215	\$ -	27,470,402
<b>Total Capital Assets Being Depreciated, Net</b>	<b>28,763,838</b>				<b>27,474,259</b>
<b>Total Capital Assets, Net</b>	<b>\$ 31,183,800</b>				<b>\$ 42,016,544</b>

Construction in progress at June 30, 2016 represents costs incurred for a renovation project which updates the Pharmacy, Sleep Study Center, Cardiology Clinic, General Surgeon Clinic, Pain Clinic, and PACU at the Medical Center. The project is expected to be completed by April 2017. The estimated total cost of the project is \$3,400,000, and is being financed through operations.

*Interest Costs*

Interest costs are recorded as follows:

	2016	2015
<b>Interest Costs</b>		
Capitalized as part of construction project	\$ 279,916	\$ 375,221
Recognized as interest expense	867,775	581,664
Total	\$ 1,147,691	\$ 956,885

## Note 6 - Pension Plan

*Plan Description* – Iowa Public Employees’ Retirement System (IPERS) membership is mandatory for employees of the Medical Center, except for those covered by another retirement system. Employees of the Medical Center are provided with pension benefits through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

*Pension Benefits* – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member’s years of service plus the member’s age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member’s first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member’s monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member’s highest five-year average salary, except for members with service before June 30, 2012, which use the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age which is generally at age 55. The formula used to calculate a protection occupation members’ monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member’s highest three-year average salary.

If a member retires before normal retirement age, the member’s monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member’s earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member’s lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

*Disability and Death Benefits* – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement.

If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

*Contributions* – Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2016 and 2015, pursuant to the required rate, regular members contributed 5.95 percent of covered payroll and the Medical Center contributed 8.93 percent of covered payroll for a total rate of 14.88 percent. In fiscal years 2016 and 2015, pursuant to the required rate, protection occupation members contributed 6.56 percent and 6.76 percent of covered payroll and the Medical Center contributed 9.84 percent and 10.14 percent of covered payroll for a total rate of 16.40 and 16.90 percent.

The Medical Center's contributions to IPERS for the years ended June 30, 2016 and 2015 were \$1,895,587 and \$1,869,224.

*Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* – At June 30, 2016 and 2015, the Medical Center reported a liability of \$14,685,186 and \$11,554,118, respectively, for its proportionate share of the net pension liability. The Medical Center's net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Medical Center's proportion of the net pension liability was based on the Medical Center's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Medical Center's collective fund proportion was 0.297242 percent, which was an increase of 0.005906 from its proportion measured as of June 30, 2014 of 0.291336 percent.

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Notes to Financial Statements  
June 30, 2016 and 2015

For the years ended June 30, 2016 and 2015, the Medical Center recognized pension expense of \$1,408,623 and \$940,295. At June 30, 2016 and 2015, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 222,654	\$ 9,908	\$ 126,556	\$ -
Changes of Assumptions	405,743	152	513,908	195
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	1,249,522	-	4,538,185
Changes in Proportion and Differences Between Medical Center's Contributions and Proportionate Share of Contributions	586,850	-	267,064	-
Medical Center Contributions Subsequent to the Measurement Date	<u>1,895,587</u>	<u>-</u>	<u>1,869,224</u>	<u>-</u>
Total	<u>\$ 3,110,834</u>	<u>\$ 1,259,582</u>	<u>\$ 2,776,752</u>	<u>\$ 4,538,380</u>

The \$1,895,587 in 2016 and \$1,869,224 in 2015 reported as deferred outflows of resources related to pensions resulting from the Medical Center's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	2016	2015
2016	\$ -	\$ (922,420)
2017	(271,728)	(922,420)
2018	(271,728)	(922,420)
2019	(271,728)	(922,420)
2020	740,249	58,828
2021	<u>30,600</u>	<u>-</u>
	<u>\$ (44,335)</u>	<u>\$ (3,630,852)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum
Salary Increases (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-Term Investment Rate of Return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan, investment expense, including inflation
Wage Growth (effective June 30, 1996)	4.00 percent per annum, based on 3.00 percent inflation and 1.00 percent real wage inflation

The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-Plus Fixed Income	28%	2.04%
Domestic Equity	24%	6.29%
International Equity	16%	6.75%
Private Equity/Debt	11%	11.32%
Real Estate	8%	3.48%
Credit Opportunities	5%	3.63%
U.S. TIPS	5%	1.91%
Other Real Assets	2%	6.24%
Cash	1%	(0.71%)
	<u>100%</u>	

*Discount Rate* – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Medical Center will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Medical Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* – The following presents the Medical Center's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Medical Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Medical Center's Proportionate Share of the Net Pension Liability at June 30, 2015	\$ 25,950,631	\$ 14,685,186	\$ 5,176,647
Medical Center's Proportionate Share of the Net Pension Liability at June 30, 2014	\$ 22,097,909	\$ 11,554,118	\$ 2,654,338

*Pension Plan Fiduciary Net Position* – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

*Payables to the Pension Plan* – At June 30, 2016 and 2015, the Medical Center reported payables to the defined benefit pension plan of \$94,481 and \$74,916 for legally required employer contributions and \$52,377 and \$49,916 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**Note 7 - 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 for the years ended June 30, 2016 and 2015 for all operating leases was \$24,000. The capitalized leased assets consist of:

	2016	2015
Major Movable Equipment	\$ 2,092,950	\$ 2,092,950
Less accumulated amortization	(1,287,655)	(954,208)
	\$ 805,295	\$ 1,138,742

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

<u>Years Ending June 30,</u>	
2017	\$ 406,249
2018	243,341
	<hr/>
Total Minimum Lease Payments	649,590
Less interest	(18,240)
	<hr/>
Present Value of Minimum Lease Payments - Note 8	<u>\$ 631,350</u>

**Note 8 - Long-Term Debt**

A summary of changes in the Medical Center's long-term debt for 2016 and 2015 follows:

	<u>June 30, 2015 Balance</u>	<u>Additions</u>	<u>Payments (Amortization)</u>	<u>June 30, 2016 Balance</u>	<u>Amounts Due Within One Year</u>
Hospital Revenue Bonds					
Series 2009 (A)	\$ 6,264,538	\$ -	\$ 278,970	\$ 5,985,568	\$ 286,300
Taxable Hospital Revenue					
Bonds Series 2010 (B)	3,546,152	-	70,420	3,475,732	235,855
Hospital Revenue Bonds					
Series 2014A (C)	7,615,000	-	-	7,615,000	-
Taxable Hospital Revenue					
Series 2014B (D)	3,100,000	-	765,000	2,335,000	485,000
Hospital Revenue Bonds					
Series 2015 (E)	6,343,037	3,656,963	380,000	9,620,000	660,000
Capitalized Lease					
Obligations (F) - Note 7	1,049,795	-	418,445	631,350	391,419
	<hr/> 27,918,522	<hr/> 3,656,963	<hr/> 1,912,835	<hr/> 29,662,650	<hr/> 2,058,574
Less Bond Discount	(107,150)	-	(25,232)	(81,918)	-
Total Long-Term Debt	<u>\$ 27,811,372</u>	<u>\$ 3,656,963</u>	<u>\$ 1,887,603</u>	<u>29,580,732</u>	<u>\$ 2,058,574</u>
Less Current Maturities				<u>(2,058,574)</u>	
Long-Term Debt, Less Current Maturities				<u>\$ 27,522,158</u>	

Delaware County Medical Center  
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Notes to Financial Statements  
June 30, 2016 and 2015

	2014 Balance	Additions	Payments	June 30, 2015 Balance	Amounts Due Within One Year
Hospital Revenue Bonds					
Series 2009 (A)	\$ 6,523,648	\$ -	\$ 259,110	\$ 6,264,538	\$ 275,796
Taxable Hospital Revenue Bonds Series 2010 (B)	3,685,440	-	139,288	3,546,152	144,277
Hospital Revenue Bonds Series 2014A (C)	7,615,000	-	-	7,615,000	-
Taxable Hospital Revenue Series 2014B (D)	3,100,000	-	-	3,100,000	765,000
Hospital Revenue Bonds Series 2015 (E)	-	6,343,037	-	6,343,037	233,021
Capitalized Lease Obligations (F) - Note 7	1,454,667	-	404,872	1,049,795	418,444
	<u>22,378,755</u>	<u>6,343,037</u>	<u>803,270</u>	<u>27,918,522</u>	<u>1,836,538</u>
Less Bond Discount	(107,150)		-	(107,150)	-
Total Long-Term Debt	<u>\$ 22,271,605</u>	<u>\$ 6,343,037</u>	<u>\$ 803,270</u>	<u>27,811,372</u>	<u>\$ 1,836,538</u>
Less Current Maturities				<u>(1,836,538)</u>	
Long-Term Debt, Less Current Maturities				<u>\$ 25,974,834</u>	

- (A) The Hospital Revenue Bonds, Series 2009, were drawn in the amount of \$7,300,000 during fiscal years 2010 and 2011. Payments of principal and interest are due 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 (current rate is 4.75%). 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 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 (currently 5.69%); provided however, that the rate shall never be below 5.50% per annum. These bonds are Build America Bonds and therefore the Medical Center receives a subsidy from the federal government for 35% of the interest payments. The bonds are collateralized by a pledge of the Medical Center's net revenues.
- (C) The Hospital Revenue Bonds, Series 2014A, were issued in the amount of \$7,615,000 on June 30, 2014. Payments of interest at rates from 2.40% to 4.50% are payable semi-annually on June 1 and December 1, and principal payments are due annually starting on December 1, 2020. The bonds are collateralized by a pledge of the Medical Center's net revenues.
- (D) The Hospital Taxable Revenue Bonds, Series 2014B, were issued in the amount of \$3,100,000 on June 30, 2014. Payments of interest at rates from 1.00% to 3.55% are payable semi-annually on June 1 and December 1, and principal payments are due annually on December 1 through 2020 starting in 2016. The bonds are collateralized by a pledge of the Medical Center's net revenues.

- (E) The Hospital Revenue Bonds, Series 2015, were fully drawn in the amount of \$10,000,000 during fiscal year 2016. The bonds carry interest rates from 2.75% to 3.00%, with monthly principal and interest payments starting on December 1, 2015 through December 1, 2028. The bonds are collateralized by a pledge of the Medical Center's net revenues.
- (F) 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.

The terms of the revenue bonds places limits on the incurrence of additional borrowings and the Medical Center is required to satisfy certain measures of financial performance. The Medical Center is also subject to certain covenants under the Series 2014A and 2014B bond agreements regarding the funding of debt service reserve and sinking fund accounts.

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

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,058,574	\$ 1,110,651	\$ 3,169,225
2018	1,882,526	1,047,948	2,930,474
2019	1,707,394	988,125	2,695,519
2020	1,757,950	924,171	2,682,121
2021	1,825,932	853,230	2,679,162
2022-2026	10,087,775	3,179,547	13,267,322
2027-2031	10,342,499	940,789	11,283,288
Total	<u>\$ 29,662,650</u>	<u>\$ 9,044,461</u>	<u>\$ 38,707,111</u>

**Note 9 - 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.

*Funding Policy* – The Medical Center does not contribute to the cost of premiums for eligible retired plan members and their spouses. Because the actual cost for retirees is higher than the average per person premium for the entire group, the difference gives rise to an implicit rate subsidy. The Medical Center pays the difference between the actual and apparent cost. Qualified employees may choose to participate in the Medical Center’s insurance plan after retirement, with no contribution from the Medical Center. 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 that is actuarially determined. 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 years ended June 30, 2016 and 2015, the amount actually contributed to the Plan and changes in the Medical Center’s net OPEB obligation:

	2016	2015
Annual Required Contribution	\$ 36,200	\$ 36,200
Interest on Net OPEB Obligation	-	1,500
Adjustments to Annual Required Contribution	600	(2,000)
Annual OPEB cost	36,800	35,700
Net Contributions Made	-	1,200
Increase in net OPEB obligation	36,800	36,900
Net OPEB Obligation, Beginning of Year	69,500	32,600
Net OPEB Obligation, End of Year	\$ 106,300	\$ 69,500

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2014. 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 years ended June 30, 2016 and 2015.

For the years ended June 30, 2016 and 2015, the Medical Center contributed \$16,949 and \$8,400, each year to the medical plan. Plan members eligible for benefits contributed \$23,807 in 2016 and \$9,568 in 2015 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, 2016 and 2015 are summarized as follows:

<u>Years Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 36,800	22%	\$ 106,300
2015	\$ 35,700	23%	\$ 69,500
2014	\$ 31,300	48%	\$ 32,600

*Funded Status and Funding Progress* – As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$206,289, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$206,289. The covered payroll (annual payroll of active employees covered by the Plan) was approximately \$18,818,908 and the ratio of the UAAL to covered payroll was 1.1%. As of June 30, 2016 and 2015, 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, 2014 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 8%. 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-2014 Combined Mortality Fully Generational Table.

Projected claim costs of the medical plan are \$797 for single and \$1,555 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 10 - 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 \$1 million 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 \$65,000. Liabilities of \$275,000 and \$250,000 have been recorded to recognize the estimated incurred but not reported claims outstanding at June 30, 2016 and 2015. The amounts have been estimated based on historical trends. The liability is included within accounts payable on the statement of net position. Changes in the balance of claims liabilities during the past two years are as follows:

<u>Year Ended June 30,</u>	<u>Beginning Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
2016	\$ 250,000	\$ 2,136,005	\$ (2,111,005)	\$ 275,000
2015	350,000	1,737,221	(1,837,221)	250,000

**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 11 - 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 12 - 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, 2016 and 2015 was as follows:

	2016	2015
Medicare	39%	31%
Medicaid	14%	12%
Blue Cross	23%	26%
Other Commercial Insurance	12%	13%
Patients	12%	18%
	100%	100%

**Note 13 - Electronic Health Record Incentive Payments**

The Medical Center attested as a meaningful user of Electronic Health Records (EHR). Accordingly, the Medical Center received \$1,404,353 as a lump sum incentive payment related to Medicare EHR. The Medical Center recognized the deferred inflow ratably over the life of the related qualifying assets. As a result, the Medical Center recognized revenue of \$0 and \$113,629 for the years ended June 30, 2016 and 2015, by recognizing the incentive payment and amortizing the deferred inflow into other operating revenue.



Required Supplementary Information  
June 30, 2016

Regional  Medical Center

Delaware County Medical Center  
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Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position –  
Budget and Actual (Cash Basis)  
Required Supplementary Information  
Year Ended June 30, 2016

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	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Adopted Budget	Variance Favorable (Unfavorable)
Amount to be Raised by Taxation	\$ 1,466,584	\$ 3,239	\$ 1,469,823	\$ 1,441,829	\$ 27,994
Other Revenues/Receipts	49,585,824	1,531,684	51,117,508	53,626,627	(2,509,119)
	51,052,408	1,534,923	52,587,331	55,068,456	(2,481,125)
Expenses/Disbursements	47,630,246	6,142,149	53,772,395	59,996,106	6,223,711
Net	3,422,162	(4,607,226)	(1,185,064)	(4,927,650)	\$ 3,742,586
Balance Beginning of Year	22,492,178	(4,185,809)	18,306,369	9,597,171	
Balance End of Year	<u>\$ 25,914,340</u>	<u>\$ (8,793,035)</u>	<u>\$ 17,121,305</u>	<u>\$ 4,669,521</u>	

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

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

For the year ended June 30, 2016, the Medical Center's expenditures did not exceed the adopted budgeted amount.

Delaware County Medical Center  
d/b/a Regional Medical Center  
Schedule of the Medical Center's Proportionate Share of the Net Pension Liability  
Required Supplementary Information  
Year Ended June 30, 2016

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	2016	2015
Medical Center's Cumulative Proportion of the Net Pension Liability	0.297242%	0.291336%
Medical Center's Cumulative Proportionate Share of the Net Pension Liability	\$ 14,685,186	\$ 11,554,118
Medical Center's Covered-Employee Payroll	\$ 20,931,960	\$ 19,870,426
Medical Center's Cumulative Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	70.16%	58.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.19%	87.61%

The amounts reported are measured as of June 30, 2015 and 2014 (measurement dates).

Note: GASB Statement No. 68 requires ten years of information to be presented in this schedule. However, until a full 10-year trend is compiled, the Medical Center will present information for only those years for which information is available.

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	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Contribution	\$ 1,895,587	\$ 1,869,224	\$ 1,774,429	\$ 1,627,919
Contributions in Relation to the Statutorily Required Contribution	<u>(1,895,587)</u>	<u>(1,869,224)</u>	<u>(1,774,429)</u>	<u>(1,627,919)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Medical Center's Covered-Employee Payroll	\$ 21,227,178	\$20,931,960	\$19,870,426	\$18,776,459
Contributions as a Percentage of Covered - Employee Payroll	8.93%	8.93%	8.93%	8.67%

See accompanying independent auditor's report

Delaware County Medical Center  
d/b/a Regional Medical Center  
Schedule of the Medical Center's Contributions – Last 10 Fiscal Years  
Required Supplementary Information  
Year Ended June 30, 2016

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<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 1,331,939	\$ 1,054,045	\$ 979,453	\$ 711,753	\$ 581,494	\$ 514,515
<u>(1,331,939)</u>	<u>(1,054,045)</u>	<u>(979,453)</u>	<u>(711,753)</u>	<u>(581,494)</u>	<u>(514,515)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 16,504,820	\$ 15,166,115	\$ 14,728,617	\$ 11,208,709	\$ 9,611,471	\$ 8,948,087
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

*Changes of Benefit Terms* - Legislation passed in 2010 modified benefit terms for current regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

*Changes of Assumptions* - The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the Unfunded Actuarial Liability (UAL) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered the disability rates for sheriffs and deputies and protection occupation members.

Delaware County Medical Center  
d/b/a Regional Medical Center  
Schedule of Funding Progress for the Retiree Health Plan  
Years ended June 30, 2016, 2015, and 2014  
Required Supplementary Information

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)
2016	07/01/14	-	\$ 206,289	\$ 206,289	0.0%	\$ 16,208,377	1.3%
2015	07/01/14	-	206,289	206,289	0.0%	18,818,908	1.1%
2014	07/01/12	-	192,719	192,719	0.0%	14,134,200	1.4%

**Other Postemployment Benefits (OPEB)**

See Note 9 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.



Supplementary Information  
June 30, 2016 and 2015

Regional  Medical Center



## Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of Delaware County Medical Center, d/b/a Regional Medical Center (Medical Center), as of and for the years ended June 30, 2016 and 2015, and our report thereon dated August 31, 2016, 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, supplies, and prepaid expense, and condensed statements of net position and statements of revenues and expenses 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 identified above 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, and collection statistics; and utilization, 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa  
August 31, 2016

Delaware County Medical Center  
d/b/a Regional Medical Center  
Schedules of Net Patient Service Revenue  
Years Ended June 30, 2016 and 2015

	2016	2015
Patient Service Revenue		
Routine services	\$ 8,942,932	\$ 9,820,548
Delivery and labor rooms	548,811	592,410
Operating and recovery rooms	10,641,706	9,947,597
Implantable devices	678,431	685,734
Medical supplies	852,681	963,356
Emergency services	5,561,759	5,085,546
Laboratory and blood bank	9,582,964	9,064,617
Electrocardiology	1,577,591	1,486,570
Cardiac rehab	136,510	127,190
Radiology	11,184,426	10,421,962
Cardiology	105,052	88,088
Pharmacy	3,625,248	3,958,965
Anesthesiology	1,419,558	1,744,471
Respiratory therapy	865,304	947,906
Physical therapy	2,135,590	1,935,485
Speech therapy	74,787	106,160
Occupational therapy	295,703	298,184
Ambulance	964,485	877,469
Regional Family Health Clinic	11,145,134	10,940,074
Other clinics	117,524	52,313
Community health	3,584,397	4,096,266
	74,040,593	73,240,911
Charity care	(332,620)	(449,081)
Total patient service revenue*	\$ 73,707,973	\$ 72,791,830
*Total Patient Service Revenue - Reclassified		
Inpatient revenue	\$ 16,995,180	\$ 18,108,172
Outpatient revenue	57,045,413	55,132,739
Charity care	(332,620)	(449,081)
Total patient service revenue	73,707,973	72,791,830
Contractual Adjustments	(28,523,610)	(28,649,461)
Net Patient Service Revenue	45,184,363	44,142,369
Provision for Bad Debts	(885,689)	(977,896)
Net Patient Service Revenue (Net of Provision for Bad Debts)	\$ 44,298,674	\$ 43,164,473

Delaware County Medical Center  
d/b/a Regional Medical Center  
Schedules of Other Operating Revenues  
Years Ended June 30, 2016 and 2015

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	2016	2015
Other Operating Revenues		
Pharmacy 340b program	\$ 3,809,992	\$ 3,584,591
Rent	220,119	219,770
Public Health	194,181	181,981
Parents as teachers	149,693	155,309
Cafeteria	98,227	78,260
Outside pharmacy	94,893	103,226
Massage therapy	81,094	83,421
Purchase discounts	58,116	14,799
Fitness center memberships	27,975	28,140
Electronic health record incentive	-	113,629
Other	130,805	143,446
 Total Other Operating Revenues	 \$ 4,865,095	 \$ 4,706,572

Delaware County Medical Center  
d/b/a Regional Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2016 and 2015

	2016	2015
Nursing Administration		
Salaries and wages	\$ 671,019	\$ 694,912
Supplies and other expenses	45,076	60,521
	<u>716,095</u>	<u>755,433</u>
Routine Services		
Salaries and wages	2,683,234	2,637,729
Supplies and other expenses	289,677	303,109
	<u>2,972,911</u>	<u>2,940,838</u>
Nursery		
Salaries and wages	127,570	152,652
Supplies and other expenses	9,495	11,093
	<u>137,065</u>	<u>163,745</u>
Operating and Recovery Rooms		
Salaries and wages	1,077,487	1,085,682
Supplies and other expenses	1,105,509	818,895
	<u>2,182,996</u>	<u>1,904,577</u>
Implantable Devices		
Supplies and other expenses	<u>604,690</u>	<u>665,264</u>
Medical Supplies		
Supplies and other expenses	<u>578,076</u>	<u>578,548</u>
Emergency Services		
Salaries and wages	1,923,294	1,855,274
Supplies and other expenses	278,251	236,978
	<u>2,201,545</u>	<u>2,092,252</u>
Laboratory and Blood Bank		
Salaries and wages	642,183	601,416
Supplies and other expenses	969,589	945,156
	<u>1,611,772</u>	<u>1,546,572</u>
Electrocardiology		
Salaries and wages	17,076	11,688
Supplies and other expenses	375,553	384,073
	<u>392,629</u>	<u>395,761</u>
Cardiac Rehab		
Salaries and wages	53,169	47,329
Supplies and other expenses	19,581	19,102
	<u>72,750</u>	<u>66,431</u>

Delaware County Medical Center  
d/b/a Regional Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2016 and 2015

	2016	2015
Radiology		
Salaries and wages	\$ 685,530	\$ 677,179
Supplies and other expenses	862,233	855,457
	<u>1,547,763</u>	<u>1,532,636</u>
Cardiology		
Salaries and wages	<u>3,395</u>	<u>4,077</u>
Pharmacy		
Salaries and wages	513,925	437,355
Supplies and other expenses	2,869,732	2,948,597
	<u>3,383,657</u>	<u>3,385,952</u>
Anesthesiology		
Supplies and other expenses	<u>1,244,656</u>	<u>1,338,939</u>
Respiratory Therapy		
Salaries and wages	125,352	117,931
Supplies and other expenses	20,566	17,970
	<u>145,918</u>	<u>135,901</u>
Physical Therapy		
Salaries and wages	632,253	593,113
Supplies and other expenses	86,348	54,559
	<u>718,601</u>	<u>647,672</u>
Speech Therapy		
Supplies and other expenses	<u>60,094</u>	<u>75,893</u>
Occupational Therapy		
Salaries and wages	53,827	46,048
Supplies and other expenses	31,412	57,332
	<u>85,239</u>	<u>103,380</u>
Ambulance		
Salaries and wages	433,887	389,732
Supplies and other expenses	64,626	60,135
	<u>498,513</u>	<u>449,867</u>
Regional Family Health Clinic		
Salaries and wages	6,381,577	6,342,961
Supplies and other expenses	1,405,365	1,251,012
	<u>7,786,942</u>	<u>7,593,973</u>
Outreach Clinic		
Supplies and other expenses	<u>14,081</u>	<u>14,943</u>

Delaware County Medical Center  
d/b/a Regional Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2016 and 2015

	2016	2015
Other Clinics		
Salaries and wages	\$ 170,868	\$ 202,366
Supplies and other expenses	57,015	22,866
	<u>227,883</u>	<u>225,232</u>
Community Health		
Salaries and wages	1,406,639	1,389,597
Supplies and other expenses	424,632	506,532
	<u>1,831,271</u>	<u>1,896,129</u>
Public Health		
Salaries and wages	106,466	102,608
Supplies and other expenses	39,724	40,037
	<u>146,190</u>	<u>142,645</u>
Social Services		
Salaries and wages	1,447	3,044
Supplies and other expenses	15	55
	<u>1,462</u>	<u>3,099</u>
Parents as Teachers		
Salaries and wages	94,869	105,105
Supplies and other expenses	19,116	24,210
	<u>113,985</u>	<u>129,315</u>
Medical Records		
Salaries and wages	685,260	662,918
Supplies and other expenses	155,246	186,388
	<u>840,506</u>	<u>849,306</u>
Dietary		
Salaries and wages	308,033	262,277
Supplies and other expenses	157,503	114,325
	<u>465,536</u>	<u>376,602</u>
Plant Operation and Maintenance		
Salaries and wages	394,825	384,952
Supplies and other expenses	758,440	698,496
	<u>1,153,265</u>	<u>1,083,448</u>
Housekeeping		
Salaries and wages	349,251	357,882
Supplies and other expenses	74,332	58,275
	<u>423,583</u>	<u>416,157</u>

Delaware County Medical Center  
d/b/a Regional Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2016 and 2015

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	2016	2015
Laundry		
Salaries and wages	\$ 3,977	\$ 4,521
Supplies and other expenses	110,884	131,932
	114,861	136,453
Administrative Services		
Salaries and wages	3,265,395	3,041,332
Supplies and other expenses	1,947,384	1,828,454
	5,212,779	4,869,786
Unassigned Expenses		
Depreciation and amortization	3,552,018	3,183,422
Insurance	241,083	215,302
Employee benefits	5,474,480	4,357,561
	9,267,581	7,756,285
 Total Operating Expenses	 \$ 46,758,290	 \$ 44,277,111

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

Schedules of Patient Receivables, Allowance for Doubtful Accounts, and Collection Statistics (Unaudited)  
June 30, 2016 and 2015

**Analysis of Aging**

<u>Days Since Discharge</u>	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
30 Days or Less	\$ 8,052,131	55.42%	\$ 6,418,941	55.64%
31 to 60 Days	3,298,038	22.70%	2,637,697	22.86%
61 to 90 Days	1,451,586	9.99%	659,505	5.72%
91 to 180 Days	899,384	6.19%	919,757	7.97%
181 Days and over	827,568	5.70%	900,518	7.81%
	<u>14,528,707</u>	<u>100.00%</u>	<u>11,536,418</u>	<u>100.00%</u>
Less: Allowance for Doubtful Accounts	967,004		1,096,660	
Allowance for Contractual Adjustments	<u>5,729,395</u>		<u>4,005,694</u>	
Net	<u>\$ 7,832,308</u>		<u>\$ 6,434,064</u>	

**Allowance for Doubtful Accounts**

	<u>Years Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Balance, Beginning of Year	\$ 1,096,660	\$ 1,233,888
Add: Provision for Bad Debts	885,689	977,896
Recoveries of Accounts Written Off	501,482	397,822
Less: Accounts Written Off	<u>(1,516,827)</u>	<u>(1,512,946)</u>
Balance, End of Year	<u>\$ 967,004</u>	<u>\$ 1,096,660</u>

**Collection Statistics**

	<u>2016</u>	<u>2015</u>
Net Accounts Receivable - Patients	\$ 7,832,308	\$ 6,434,064
Number of Days Charges Outstanding (1)	67	54
Uncollectible Accounts (2)	\$ 1,398,601	\$ 1,635,356
Percentage of Uncollectible Accounts to Total Charges	1.89%	2.23%

(1) Based on average daily net patient service revenue for April, May, and June.

(2) Includes provision for bad debts, charity care, and collection fees.

Delaware County Medical Center  
d/b/a Regional Medical Center  
Schedules of Supplies and Prepaid Expense  
June 30, 2016 and 2015

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	2016	2015
Supplies		
Operating room	\$ 281,250	\$ 171,374
Storeroom	275,171	241,564
Pharmacy	247,776	252,623
Laboratory	46,923	44,681
Clinics	39,463	37,428
Gift Shop	13,116	-
Emergency room	10,096	10,148
Dietary	9,024	7,208
Radiology	5,770	5,104
Physical therapy	4,541	4,146
Total	\$ 933,130	\$ 774,276
Prepaid Expense		
Maintenance agreements	\$ 621,905	\$ 538,118
Insurance	198,796	176,623
Other	24,697	31,674
Total	\$ 845,398	\$ 746,415

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

Condensed Statements of Net Position and Statements of Revenue and Expenses  
Years Ended June 30, 2016 and 2015

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**Statements of Net Position  
June 30,**

	2016	2015
Current Assets	\$ 16,868,249	\$ 15,694,712
Assets Limited as to Use or Restricted	9,759,331	10,310,789
Net Capital Assets	44,650,928	42,016,544
Other Assets	2,986,283	3,010,885
Total assets	74,264,791	71,032,930
Deferred Outflows of Resources	3,138,668	2,832,419
Total assets and deferred outflows of resources	\$ 77,403,459	\$ 73,865,349
Current Liabilities	\$ 6,359,843	\$ 7,744,465
Noncurrent Liabilities	42,313,646	37,598,403
Total liabilities	48,673,489	45,342,868
Deferred Inflows of Resources	2,815,630	6,030,303
Net Position	25,914,340	22,492,178
Total liabilities, deferred inflows of resources, and net position	\$ 77,403,459	\$ 73,865,349

**Statements of Revenues and Expenses  
Fiscal Year Ended June 30,**

	2016	2015
Total Operating Revenues	\$ 49,163,769	\$ 47,871,045
Total Operating Expenses	46,758,290	44,277,111
Operating Income	2,405,479	3,593,934
Tax Apportionments	1,466,584	1,348,514
Other Non-Operating Revenues	(550,932)	(256,765)
Total Non-Operating Revenues	915,652	1,091,749
Excess of Revenues over Expenses	3,321,131	4,685,683
Transfer in of Auxiliary Assets	49,789	-
Capital Grants and Contributions	51,242	337,037
Increase in Net Position	\$ 3,422,162	\$ 5,022,720

Delaware County Medical Center  
d/b/a Regional Medical Center  
Schedule of Utilization (Unaudited)  
Years Ended June 30, 2016 and 2015

	Utilization				
	2016	2015	2014	2013	2012
Staffed Beds	25	25	25	25	25
Admissions					
Acute	967	1,048	1,058	1,025	1,008
Skilled	102	116	161	132	131
Total	<u>1,069</u>	<u>1,164</u>	<u>1,219</u>	<u>1,157</u>	<u>1,139</u>
Patient Days					
Acute	2,187	2,353	2,677	2,347	2,267
Newborn	413	488	407	420	295
Skilled	721	800	117	775	784
Total	<u>3,321</u>	<u>3,641</u>	<u>3,201</u>	<u>3,542</u>	<u>3,346</u>
Observation Patients	467	632	567	667	692
Total Operating Room Visits	1,627	1,681	1,580	1,589	1,487
Emergency Room Visits	6,151	5,861	5,565	5,981	5,956
Total Outpatient Visits	109,229	113,191	108,267	126,430	120,381
Physician Clinic Visits	59,381	58,861	53,650	50,633	47,937



**Independent Auditor’s 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 Medical Center  
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 Medical Center, d/b/a Regional Medical Center (Medical Center), as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated August 31, 2016.

**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 (2016-A and 2016-B).

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Medical Center's operations for the year ended June 30, 2016, 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.



Dubuque, Iowa  
August 31, 2016

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

**Significant Deficiencies:**

**2016-A 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.

**Views of Responsible Officials** – Management agrees with the finding and has reviewed the operating procedures of Delaware County Medical Center, 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)**

**2016-B 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 Medical Center, 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.

**Views of Responsible Officials** – 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:**

**2016-IA-A Certified Budget** – The Medical Center’s disbursements during the year ended June 30, 2016 did not exceed the adopted budgeted amount.

**2016-IA-B 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.

**2016-IA-C Travel Expense** – No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

**2016-IA-D Business Transactions** – The Medical Center had transactions with a business owned by a board member. The Medical Center paid rent expense and received rent to/from physicians who are employed by the Medical Center. Total expenses were:

Supplies expense	\$	23,253
Rent expense	\$	24,000

**2016-IA-E Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.

**2016-IA-F 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.

**2016-IA-G 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.