

DALLAS COUNTY HOSPITAL
Perry, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2007 and 2006**

Together with Independent Auditor's Report

DALLAS COUNTY HOSPITAL

Perry, Iowa

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DALLAS COUNTY HOSPITAL
Perry, Iowa

OFFICIALS

June 30, 2007

Board of Trustees

Term Expires

Joe Emerson, Chairman	Officer	December 31, 2012
Marc Meyer, Vice-Chairman	Officer	December 31, 2010
Marsha McClintock, Secretary	Officer	December 31, 2012
Rich Jones, Treasurer	Officer	December 31, 2008
Christie Creighton	Member	December 31, 2008
Joelle Miner	Member	December 31, 2012
Harley Weyer	Member	December 31, 2010
Laurie Conner	Chief Executive Officer	Indefinite
Sandra Christensen	Chief Financial Officer	Indefinite
Donna Vandehaar	Chief Clinical Officer	Indefinite



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Dennis K. Grindle, CPA
Dennis R. Hein, CPA
Brent T. Frieauf, CPA
Barbara J. Fajen, CPA
Brian D. Green, CPA
Marty Dubas, CPA
Jerry O'Doherty, CPA

Independent Auditor's Report

To the Board of Trustees of
Dallas County Hospital
Perry, Iowa:

We have audited the accompanying basic financial statements of DALLAS COUNTY HOSPITAL (Hospital), as of and for the years ended June 30, 2007 and 2006 as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Spring Valley, Inc. (Spring Valley), a component unit of Dallas County Hospital as of or for the years ended June 30, 2007 and 2006, for which the Hospital is the guarantor of the debt of Spring Valley. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Spring Valley is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dallas County Hospital as of June 30, 2007, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2007, on our consideration of the Hospital'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 the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on page 3 through 8 and page 31 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information included in Exhibits 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Seim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
October 29, 2007.

DALLAS COUNTY HOSPITAL

Perry, Iowa

Management's Discussion and Analysis June 30, 2007 and 2006

As management of Dallas County Hospital (Hospital), we offer readers of the Hospital's financial statements this narrative overview and analysis of the financial performance of our hospital during the fiscal years ended June 30, 2007, 2006 and 2005. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report, the basic financial statements and supplementary information of the Hospital. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Hospital report information of the Hospital using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenue and expenses are accounted for in the statement of revenue, expenses, and changes in net assets. This statement measures the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL HIGHLIGHTS

- Total assets increased by \$1,448,188 to \$21,032,445 in 2007, decreased by \$371,205 to \$19,584,257 in 2006, following an increase of \$2,012,545 to \$19,955,462 in 2005.
- Total assets limited as to use decreased by \$942,581 in 2007 & \$1,799,379 in 2006 and increased by \$93,369 in 2005.
- Capital assets, net, increased by \$606,973 in 2007, \$1,874,202 in 2006 and \$1,777,780 in 2005.
- Total debt decreased by \$590,626 in 2007 and \$569,243 in 2006, compared to an increase of \$1,046,939 in 2005.
- Total net assets increased by \$1,250,476 in 2007, decreased by \$519,470 in 2006, compared to an increase of \$785,599 in 2005.
- Net patient service revenue increased by \$3,143,036 in 2007, \$534,732 in 2006, and \$627,112 in 2005, due to a combination of increased utilization, inflationary charge increases and in 2007 the addition of the surgery unit in West Des Moines.
- Expenses increased by \$2,424,867 or 22.72% in 2007, increased \$1,233,649, or 13.07% in 2006 due to the opening of a hospital addition and miscellaneous other events, compared to an increase of \$566,579 or 6.57% in 2005. Increased expenses in 2007 relates to the increase in revenue from the surgery unit in West Des Moines.
- Total margin for fiscal year 2007 was 9.88%, 2006 was (.95%), compared to 7.9% for fiscal year 2005.

DALLAS COUNTY HOSPITAL

Perry, Iowa

Management's Discussion and Analysis June 30, 2007 and 2006

FINANCIAL ANALYSIS OF THE HOSPITAL

The balance sheet and the statement of revenue, expenses, and changes in net assets report the net assets of the Hospital and the changes in them. The Hospital's net assets – the difference between assets and liabilities – are a way to measure financial health or financial position. Over time, sustained increases or decreases in net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

NET ASSETS

A summary of the Hospital's balance sheets at June 30, 2007, 2006 and 2005, are presented in Table 1 below.

Table 1 - Condensed Balance Sheets

	June 30, 2007	June 30, 2006	June 30, 2005	2007 Change
Assets:				
Current and other assets	\$ 9,630,969	8,789,754	11,035,161	9.57%
Capital assets, net	11,401,476	10,794,503	8,920,301	5.62%
Total assets	21,032,445	19,584,257	19,955,462	7.39%
Liabilities:				
Long-term debt outstanding	3,075,131	3,682,494	4,273,176	(16.49)%
Other liabilities	5,059,046	4,253,971	3,515,024	18.93%
Total liabilities	8,134,177	7,936,465	7,788,200	2.49%
Net Assets:				
Invested in capital assets, net of related debt	7,914,024	6,737,381	4,315,668	17.46%
Restricted for debt service and property and equipment	584,810	509,955	498,968	14.68%
Unrestricted	4,399,434	4,400,456	7,352,626	(.02)%
Total net assets	\$ 12,898,268	11,647,792	12,167,262	10.74%

As can be seen by Table 1, net assets increased by \$1,250,476 in 2007 while they decreased by \$519,470 to \$11,647,792 in fiscal year 2006 down from \$12,167,262 in fiscal year 2005. The change in net assets from 2005 to 2006 results primarily from the spending down of cash reserves to fund a hospital remodel project completed in March 2007. The change from 2006 to 2007 results primarily from the expansion of surgical services in February 2007.

REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

The following table presents a summary of the Hospital's historical revenue and expenses for each of the fiscal years ended June 30, 2007, 2006 and 2005:

DALLAS COUNTY HOSPITAL
Perry, Iowa

Management's Discussion and Analysis
June 30, 2007 and 2006

Table 2 - Condensed Statements of Revenue, Expenses, and Changes in Net Assets

	2007	2006	2005	2007/2006 Change
Operating Revenue:				
Net patient service revenue	\$ 12,338,956	9,195,920	8,661,188	34.18%
County tax revenue	1,680,645	1,274,332	1,275,831	31.88%
Other operating revenue	289,728	366,543	263,817	(20.96)%
Total operating revenue	14,309,329	10,836,795	10,200,836	32.04%
Operating Expenses:				
Salaries	3,674,446	3,475,768	3,164,726	5.72%
Employee benefits	945,391	659,921	698,853	43.26%
Professional fees	3,011,709	2,510,930	2,149,373	19.94%
Supplies and other	4,308,175	3,013,014	2,544,947	42.99%
Depreciation and amortization	1,159,418	1,014,639	882,724	14.27%
Total operating expenses	13,099,139	10,674,272	9,440,623	22.72%
Operating Income	1,210,190	162,523	760,213	644.63%
Nonoperating Revenue (Expenses), Net:				
Rental property, net	9,896	(9,091)	(40,660)	208.85%
Investment income	200,572	243,738	173,714	(17.71)%
Provision for bad debt, Spring Valley receivable	--	(500,000)	--	100.0%
Gain (loss) on disposal of capital assets	--	1	(91,063)	100.0%
Other nonoperating revenue and expenses, net	(6,500)	--	8,645	100.0%
Nonoperating revenue (expense), net	203,968	(265,352)	50,636	176.87%
Excess of Revenue Over (Under) Expenses Before Transfers to Foundation	1,414,158	(102,829)	810,849	1475.25%
Capital Grants and Contributions	235,673	--	--	100.0%
Transfers to Foundation and Spring Valley	(399,355)	(416,641)	(25,250)	(4.15)%
Increase (Decrease) in Net Assets	1,250,476	(519,470)	785,599	340.72%
Net Assets, beginning of year	11,647,792	12,167,262	11,381,663	(4.27)%
Net Assets, end of year	\$ 12,798,268	11,647,792	12,167,262	9.88%

DALLAS COUNTY HOSPITAL

Perry, Iowa

Management's Discussion and Analysis

June 30, 2007 and 2006

Operating and Financial Performance

- **Volume:** Acute inpatient discharges for fiscal year 2007 were 232 compared to 305 in fiscal year 2006. Acute patient days decreased dramatically in conjunction with the decrease in discharges. Acute patient days decreased from 964 in 2006 to 703 in 2007 or (27.07%). Swing bed discharges decreased by 29.55% for fiscal year 2007 to a total of 93 discharges. Outpatient visits decreased by 3.08% to 24,979 visits in fiscal year 2007. The following departments did experience increases in volumes for fiscal year 2007: Ultrasound, CT, Echocardiology, Cardiac Diagnostic and Therapy Services. Surgical services were expanded in February 2007 by opening a three suite surgical department in southern Dallas County called Dallas County Hospital Outpatient Surgery (DCHOS).
- **Net Patient Service Revenue:** Due to an average rate increase of 5% effective July 1, 2006, the addition of the surgery services at DCHOS, and the type of procedures that saw an increase in volumes as discussed above, net patient service revenue climbed by \$3,143,036, or 34.18% compared to fiscal year 2006. During the fiscal year, Dallas County Hospital's contractual allowances (the difference between billed charges and paid charges from third party payers) increased by \$1,905,361. Contractual allowances as a percentage of gross patient revenue increased to 20.87% of gross charges in 2007 compared to 13.85% in 2006. In the 2006 year, a policy change occurred in the classification of Provision for Bad Debts and Charity Care. The DCH Board of Trustees approved new charity care policies in January 2006. With this approval it is no longer assumed that 50% of the bad debts written off would have qualified for charity care had the patient completed the application process and therefore classified as such on the trial balance. The current policy only records as charity care those accounts of patients that have completed the formal application process and the remaining are classified as bad debt expense.
- **Changes in Net Assets:** In fiscal year 2007, \$399,355 was transferred to Spring Valley, Inc. (formerly Dallas County Hospital Foundation). These amounts are considered to be a transfer of equity to this related organization. The amounts recorded as transfers include support for debt service payments and capital improvements to the facility.

In fiscal year 2006, previous amounts transferred to the Foundation were deemed to be uncollectible and were considered to be a transfer to equity to this related organization. The amount recorded as a transfer to \$416,641, includes current and prior year transfers that had previously been recorded as other receivables.

The following table presents the relative percentages of gross charges for patient services by payer for the years ended June 30, 2007, 2006 and 2005:

Table 3 - Payor Mix by Percentage

	June 30		
	2007	2006	2005
Medicare	49.50%	52.60%	56.90%
Blue Cross (Wellmark)	17.10%	16.20%	14.90%
Medicaid	8.80%	7.90%	7.10%
Private Pay	2.70%	4.70%	4.70%
Other commercial insurance	21.90%	18.60%	16.40%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

DALLAS COUNTY HOSPITAL

Perry, Iowa

Management's Discussion and Analysis

June 30, 2007 and 2006

Significant changes in operations from fiscal year 2007:

- **Other Operating Revenue:** Fiscal year 2007 showed a decrease of \$76,815 in other operating revenue. A decrease in cafeteria revenue along with the loss of revenue for meals to Perry Child Dare Care and Spring Valley make up the majority of the total decrease in other revenue.
- **Salary Expense:** Salary expense increased \$198,678 or 5.72%. Salary expense constitutes 28.05% of total expenses in 2007. With this organization being in close proximity to the Des Moines Metropolitan area and the continued increase in regulatory requirements, the Hospital continues to adjust wages to retain and attract talented and qualified staff plus have adequate support staff to monitor and administer regulations to remain compliant with State and Federal guidelines.
- **Professional Fees:** Fiscal year 2007 showed an increase of \$500,779 or 19.94% increase in professional fees. A couple of primary reasons for this increase were the addition of DCHOS and the laboratory department utilizing temp staff for a few months. The addition of Per Mar security for nights/weekends also increased the professional fees in 2007.
- **Depreciation and Amortization:** Fiscal year 2007 showed an increase in depreciation due to the remodeling and the addition of new furnishings/data center.
- **Other Expenses:** Fiscal year 2007 showed an increase in other expense due to a full year of lease expense for the south addition of the hospital. Also the lease for DCHOS began in 2007.

CAPITAL ASSETS

At the end of fiscal year 2007, the Hospital has invested a total of \$1,960,630 in capital assets. Equipment, building and fixed equipment were purchased to remodel the original 1950's Perry facility.

At the end of fiscal year 2006, the Hospital has invested \$2,510,144 during the year in capital assets. Equipment, building and fixed equipment purchases were \$684,393 due the addition of new furniture and fixtures for the new south addition areas. Construction in progress additions of \$2,193,834 was used for the hospital wide remodel project that is scheduled to be completed in the 2006-07 fiscal year.

DALLAS COUNTY HOSPITAL
Perry, Iowa

Management's Discussion and Analysis
June 30, 2007 and 2006

The following table summarizes the Hospital's capital assets as of June 30, 2007, 2006 and 2005:

Table 4 - Capital Assets

	June 30, 2007	June 30, 2006	June 30, 2005	2007 Change
Land	\$ 69,523	69,523	69,523	--
Land Improvements	384,892	384,892	384,892	--
Buildings	5,861,271	5,861,271	5,861,271	--
Building service equipment	8,382,394	3,231,841	2,661,861	5,150,553
Fixed equipment	566,858	498,313	413,762	68,545
Major moveable equipment	5,894,766	5,627,149	5,329,253	267,617
Construction in progress	229,133	3,960,452	2,034,652	(3,731,319)
Subtotal	21,388,837	19,633,441	16,755,214	1,755,396
Less accumulated depreciation	9,987,361	8,838,938	7,834,913	1,148,423
Property plant and equipment, net	\$ <u>11,401,476</u>	<u>10,794,503</u>	<u>8,920,301</u>	<u>606,973</u>

DEBT ADMINISTRATION

Long-Term Debt

At year-end, the Hospital had \$3,450,000 in short- and long-term debt related to Hospital Revenue Bonds and Notes. This has decreased from \$3,895,000 in fiscal year 2006. The outstanding debt for capital leases at the end of fiscal year 2007 was \$232,522. This decreased by \$145,626 in fiscal year 2007, which was the amount of principal payments on this debt. More detailed information about the Hospital's outstanding debt is presented in the Notes to the Financial Statements. Note that total debt represents 29% of the Hospital's equity as of year-end 2007. This is a decrease from 37% in 2006.

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at Dallas County Hospital, 610 10th Street, Perry, Iowa 50220. Phone number 515-465-3547.

DALLAS COUNTY HOSPITAL
Perry, Iowa

Balance Sheets
June 30, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current assets:		
Cash and cash equivalents	\$ 746,879	96,815
Assets limited as to use - required for current liabilities	88,860	79,955
Receivables -		
Patient, net of allowance for doubtful accounts of \$334,720 in 2007 and \$265,083 in 2006	2,247,412	1,380,320
Other	83,860	136,708
Succeeding year property tax	1,653,695	1,437,611
Inventories	436,989	252,781
Prepaid expenses	<u>82,675</u>	<u>131,528</u>
Total current assets	5,340,370	3,515,718
Assets limited as to use, net of current portion		
By board for capital improvements	3,552,184	4,503,670
By trustee for debt service	430,000	430,000
Capital assets, net	11,401,476	10,794,503
Deferred financing costs, net	113,345	124,340
Rental property, net	<u>195,070</u>	<u>216,026</u>
Total assets	<u>\$ 21,032,445</u>	<u>19,584,257</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 607,391	590,654
Accounts payable -		
Trade	733,451	514,330
Construction	473,497	678,731
Salaries, wages and accrued vacation payable	405,166	374,797
Payroll taxes withheld	121,325	95,490
Accrued interest payable	14,221	15,486
Estimated third-party payor settlements - Medicare and Medicaid	881,000	170,088
Deferred revenue - previous years' property taxes	<u>169,300</u>	<u>376,784</u>
Total current liabilities	3,405,351	2,816,360
Deferred revenue for succeeding year property tax receivable	1,653,695	1,437,611
Long-term debt, net of current maturities	<u>3,075,131</u>	<u>3,682,494</u>
Total liabilities	<u>8,134,177</u>	<u>7,936,465</u>
Net assets:		
Invested in capital assets, net of related debt	7,914,024	6,737,381
Restricted -		
Debt service	518,860	509,955
Expendable for property and equipment	65,950	--
Unrestricted	<u>4,399,434</u>	<u>4,400,456</u>
Total net assets	<u>12,898,268</u>	<u>11,647,792</u>
Total liabilities and net assets	<u>\$ 21,032,445</u>	<u>19,584,257</u>

See notes to financial statements

DALLAS COUNTY HOSPITAL
Perry, Iowa

Statements of Revenue, Expenses and Changes in Net Assets
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 13,006,439	9,616,630
Provision for bad debt	<u>(667,483)</u>	<u>(420,710)</u>
Net patient service revenue	12,338,956	9,195,920
County tax revenue	1,680,645	1,274,332
Other operating revenue	<u>289,728</u>	<u>366,543</u>
Total operating revenue	<u>14,309,329</u>	<u>10,836,795</u>
OPERATING EXPENSES:		
Salaries	3,674,446	3,475,768
Employee benefits	945,391	659,921
Professional fees	3,011,709	2,510,930
Utilities	563,597	380,106
Supplies	2,065,663	1,378,011
Repairs, maintenance and small equipment	469,096	450,227
Depreciation and amortization	1,159,418	1,014,639
Insurance	175,806	134,716
Interest	194,949	199,168
Other	<u>839,064</u>	<u>470,786</u>
Total operating expenses	<u>13,099,139</u>	<u>10,674,272</u>
OPERATING INCOME	<u>1,210,190</u>	<u>162,523</u>
NONOPERATING REVENUE (EXPENSE), NET:		
Rental property, net	9,896	(9,091)
Investment income	200,572	243,738
Provision for bad debt, Spring Valley	--	(500,000)
Gain on disposal of capital assets	--	1
Other nonoperating expense, net	<u>(6,500)</u>	<u>--</u>
Nonoperating revenue (expense), net	<u>203,968</u>	<u>(265,352)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	1,414,158	(102,829)
CAPITAL GRANTS AND CONTRIBUTIONS	235,673	--
TRANSFERS TO FOUNDATION AND SPRING VALLEY	<u>(399,355)</u>	<u>(416,641)</u>
INCREASE (DECREASE) IN NET ASSETS	1,250,476	(519,470)
NET ASSETS, beginning of year	<u>11,647,792</u>	<u>12,167,262</u>
NET ASSETS, end of year	<u>\$ 12,898,268</u>	<u>11,647,792</u>

See notes to financial statements

DALLAS COUNTY HOSPITAL
Perry, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 12,182,776	8,856,079
Cash paid to employees for salaries and benefits	(4,563,633)	(4,173,822)
Cash paid to suppliers and contractors	(7,041,169)	(5,311,125)
Other receipts and payments, net	<u>337,641</u>	<u>579,132</u>
Net cash provided by (used in) operating activities	<u>915,615</u>	<u>(49,736)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County taxes received	<u>1,471,597</u>	<u>1,425,669</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(1,960,630)	(2,510,144)
Principal paid on long-term debt	(590,626)	(569,243)
Proceeds from line of credit	375,000	--
Payments on line of credit	(375,000)	--
Interest paid on long-term debt	(196,214)	(200,377)
Capital grants and contributions	<u>235,673</u>	<u>--</u>
Net cash used in capital and related financing activities	<u>(2,511,797)</u>	<u>(3,279,764)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from assets limited as to use, net	903,421	1,866,387
Investment income	239,732	176,730
Cash received from rental property, net	30,851	12,641
Transfers to Foundation and Spring Valley	<u>(399,355)</u>	<u>(416,641)</u>
Net cash provided by investing activities	<u>774,649</u>	<u>1,639,117</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	650,064	(264,714)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>96,815</u>	<u>361,529</u>
CASH AND CASH EQUIVALENTS - End of year	\$ <u><u>746,879</u></u>	<u><u>96,815</u></u>

See notes to financial statements

DALLAS COUNTY HOSPITAL
Perry, Iowa

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2007 and 2006

	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income	\$ 1,210,190	162,523
Adjustments to reconcile operating income to net cash provided by (used in) operating activities -		
County tax revenue	(1,680,645)	(1,274,332)
Other nonoperating revenue, net	(6,500)	--
Depreciation and amortization	1,159,418	1,014,639
Interest expense included in operating expenses	194,949	199,168
(Increase) decrease in current assets -		
Receivables -		
Patients	(867,092)	(518,977)
Other	54,413	212,589
Inventories	(184,208)	(10,474)
Prepaid expenses	48,853	10,862
Estimated third-party payor settlements - Medicare and Medicaid	--	9,048
Increase (decrease) in current liabilities -		
Accounts payable	219,121	13,263
Salaries, wages and accrued vacation payable	30,369	(90,235)
Accrued payroll taxes and other	25,835	52,102
Estimated third-party payor settlements - Medicare and Medicaid	710,912	170,088
Net cash provided by (used in) operating activities	\$ 915,615	(49,736)

See notes to financial statements

SPRING VALLEY, INC.
(A Component Unit of Dallas County Hospital)
Perry, Iowa

Statements of Financial Position
June 30, 2007 and 2006

	2007	2006
ASSETS		
Current assets:		
Cash	\$ 56,711	102,758
Contributions receivable	--	3,340
Interest receivable	--	10,959
Other receivables	7,082	1,283
Certificate of deposit	--	33,185
Prepaid expenses	2,496	--
Total current assets	66,289	151,525
Restricted cash:		
Bond fund	179,029	132,070
Debt service reserve fund	392,925	406,352
Repair and replacement fund	37,128	28,021
Total restricted cash	609,082	566,443
Property and equipment:		
Spring Valley Retirement Facility	4,890,904	4,762,828
Less accumulated depreciation and amortization	1,340,874	1,106,847
Total property and equipment	3,550,030	3,655,981
Other asset,		
Deferred debt issue costs, net of accumulated amortization	164,196	181,036
Total assets	\$ 4,389,597	4,554,985
LIABILITIES AND NET ASSETS (DEFICIT)		
Current liabilities:		
Current maturities of long-term debt	\$ 120,000	115,000
Accounts payable	30,830	20,043
Accounts payable, related party	--	101,543
Accrued payroll	17,112	4,925
Deposits	36,150	35,100
Accrued interest	90,746	92,893
Total current liabilities	294,838	369,504
Long-term debt, less current maturities	4,600,000	4,720,000
Net assets (deficit):		
Unrestricted	(505,241)	(548,817)
Temporarily restricted	--	14,298
Total net assets (deficit)	(505,241)	(534,519)
Total liabilities and net assets (deficit)	\$ 4,389,597	4,554,985

See notes to financial statements

SPRING VALLEY, INC.
(A Component Unit of Dallas County Hospital)
Perry, Iowa

Statements of Activities
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES:		
Contributions and grants	\$ 3,077	10,123
Rental income -		
Assisted and independent living units	1,002,661	938,715
Garage, guest room and other	21,387	11,141
Meal income	1,775	3,506
Investment return	26,059	24,454
Other, golf outing	--	1,071
Total unrestricted revenues	<u>1,054,959</u>	<u>989,010</u>
Net assets released from restrictions	--	2,050
Total unrestricted revenues and other support	<u>1,054,959</u>	<u>991,060</u>
EXPENSES:		
Program services		
Salaries	401,326	437,606
Fringe benefits and payroll taxes	70,848	116,761
Meals	66,210	97,221
Total program services	<u>538,384</u>	<u>651,588</u>
Supporting services		
Administration and general	84,704	64,938
Management fee	52,500	52,500
Property taxes	30,000	30,000
Rent expense	7,700	7,350
Operation of plant	113,626	105,400
Depreciation and amortization	250,867	271,035
Total supporting services	<u>539,397</u>	<u>531,223</u>
Interest	276,533	281,296
Total expenses	<u>1,354,314</u>	<u>1,464,107</u>
	<u>(299,355)</u>	<u>(473,047)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	--	13,389
Net assets released from restriction	--	(2,050)
Net assets transfers - Dallas County Hospital Foundation, Inc.	(14,298)	--
Increase (decrease) in temporarily restricted net assets	<u>(14,298)</u>	<u>11,339</u>
(DECREASE) IN NET ASSETS BEFORE FORGIVENESS OF DEBT AND NET ASSET TRANSFERS	(313,653)	(461,708)
FORGIVENESS OF DEBT - DALLAS COUNTY HOSPITAL	393,269	437,160
NET ASSET TRANSFERS - DALLAS COUNTY HOSPITAL FOUNDATION, INC.	<u>(50,338)</u>	<u>--</u>
INCREASE (DECREASE) IN NET ASSETS	29,278	(24,548)
NET ASSETS (DEFICIT)		
Beginning	<u>(534,519)</u>	<u>(509,971)</u>
Ending	<u>\$ (505,241)</u>	<u>(534,519)</u>

See notes to financial statements

SPRING VALLEY, INC.
(A Component Unit of Dallas County Hospital)
Perry, Iowa

Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 29,278	(24,548)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	250,867	271,035
Transfer of net assets, net of changes in assets and liabilities	33,185	--
Change in assets and liabilities, net of transfer of assets -		
(Increase) decrease in contributions receivable	3,340	(3,340)
(Increase) in prepaid expenses	(2,496)	--
(Increase) decrease in interest receivable	10,959	(8,911)
(Increase) in other receivable	(5,799)	(1,283)
Decrease in grant receivable	--	120,000
Increase in accounts payable, net of amounts for property and equipment	10,787	19,758
(Decrease) in accounts payable, related party	(101,543)	(212,617)
Increase in accrued payroll	12,187	4,925
Increase (decrease) in deposits	1,050	(650)
(Decrease) in accrued interest payable	(2,147)	(3,159)
Net cash provided by operating activities	239,668	161,210
CASH FLOWS FROM INVESTING ACTIVITIES:		
Liquidation (funding) of bond fund	(46,959)	401
Liquidation (funding) of debt service reserve fund	13,427	(7,109)
(Funding) of repair and replacement fund	(9,107)	(7,345)
Purchase of property and equipment	(128,076)	(33,489)
Additions to certificate of deposit	--	(3,185)
Net cash used in investing activities	(170,715)	(50,727)
CASH FLOWS FROM FINANCING ACTIVITIES,		
Payments on long-term borrowings	(115,000)	(105,000)
NET INCREASE (DECREASE) IN CASH	(46,047)	5,483
CASH		
Beginning	102,758	97,275
Ending	\$ 56,711	102,758
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 278,680	284,455

See notes to financial statements

DALLAS COUNTY HOSPITAL
Perry, Iowa

Notes to Financial Statements
June 30, 2007 and 2006

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following describes the reporting entity and is a summary of significant accounting policies of Dallas County Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a county public hospital organized under Chapter 347, of the Code of Iowa, and governed by a seven member Board of Trustees elected for terms of six years.

A. Reporting Entity

For financial reporting purposes, Dallas County Hospital has included all the funds, organizations, agencies, boards, commissions and authorities. The Hospital 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 Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal year ended June 30, 2007, the Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Spring Valley, Inc. (Spring Valley). Spring Valley's financial statements are separately presented on pages 13 – 15.

These financial statements present the Hospital and Spring Valley (its component unit). Certain disclosures about Spring Valley are not included because Spring Valley has been audited separately and a report has been issued under separate cover.

B. Industry Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The Balance Sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in three categories:

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

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two precede categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. *Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenue 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 basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by bond indenture agreements.

G. Patient Receivables

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

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of the year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

I. *Assets Limited as to Use*

By Board of Trustees – Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

By Trustee for Debt Service – These funds are used for the payment of principal and interest on the bonds and notes and to provide funds to finance a facility expansion and improvement project to the existing Hospital facilities.

J. *Capital Assets*

The Hospital's capital assets are recorded at historical cost. Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line half-year method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	5 – 20 years
Buildings and fixed equipment	5 – 40 years
Major moveable equipment	3 – 25 years

K. *Deferred Financing Costs*

Deferred financing costs related to the issuance of the Hospital Revenue Bonds and Notes Series 2002 and 2004 are being amortized over the life of the related debt on a straight-line basis. Amortization expense of \$10,995 and \$10,614 for 2007 and 2006, respectively, is included in the accompanying statements of revenue, expenses and changes in net assets.

L. *Compensated Absences*

Employees of the Hospital earn annual Paid Time Off (PTO) at various specific rates during their period of employment. PTO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent they are paid during the year and the vested amount is recorded as a current liability.

M. *Deferred Revenue*

Deferred revenue consists of property taxes received but not spent.

N. *Investments and Investment Income*

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in the excess of revenue over (under) expenses unless the income is restricted by donor or law.

O. *Statements of Revenue, Expenses and Changes in Net Assets*

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses.

P. *Net Patient Service Revenue*

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.

Q. *Grants and Contributions*

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

R. *Group Health Insurance Costs*

The Hospital is self-insured under its employee group health program, up to certain limits. Included in the accompanying statements of revenue, expenses and changes in net assets is a provision for premiums for excess coverage and payments for claims, including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year end.

S. *Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of these amounts. The resulting adjustments are recorded as adjustments to patient service revenue, depending on the timing of the charity determination.

T. *Management*

The Hospital is a provider of healthcare services as a Critical Access Hospital. The Hospital has an agreement for management services with Central Iowa Hospital Corporation in Des Moines, Iowa. The Hospital has had this agreement with Central Iowa Hospital Corporation since 1999.

(2) **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2004.

Medicaid – Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

(3) **Cash and Investments**

The Hospital's deposits in banks at June 30, 2007 and 2006 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 Hospital 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.

The Hospital's investments are carried at fair value. As of June 30, 2007 and 2006, the Hospital's investments, including assets limited as to use, consisted of the following:

	<u>2007</u>	<u>2006</u>
Cash and money market funds	\$ 2,593,668	119,723
Certificates of deposit	1,298,761	4,289,608
US government securities	99,438	392,438
Marketable equity securities	--	93,519
Accrued interest receivable	<u>79,177</u>	<u>118,337</u>
	<u>\$ 4,071,044</u>	<u>5,013,625</u>

The carrying value of investments, including assets limited as to use, shown above are included in the accompanying balance sheets as follows:

By Board for Capital Improvements:

	<u>2007</u>	<u>2006</u>
Cash and money market funds	\$ 2,504,808	39,768
Certificates of deposit	868,761	3,859,608
US government securities	99,438	392,438
Marketable equity securities	--	93,519
Accrued interest receivable	<u>79,177</u>	<u>118,337</u>
	<u>\$ 3,552,184</u>	<u>4,503,670</u>

By Trustee for Debt Service:

	<u>2007</u>	<u>2006</u>
Cash and money market funds	\$ 88,860	79,955
Certificates of deposit	<u>430,000</u>	<u>430,000</u>
	518,860	509,955
Less amounts required for current obligations	<u>(88,860)</u>	<u>(79,955)</u>
	<u>\$ 430,000</u>	<u>430,000</u>

In connection with the issuance of Dallas County Hospital, Hospital Revenue Bonds/Notes, Series 2004 and 2002, the Hospital is required to maintain the following funds:

Sinking Fund – Established for the monthly deposit by the Hospital of 1/12th of the next annual principal payment and 1/6th of the next semi-annual interest payment.

Debt Service Reserve Fund – Established for the deposit of the amount of the Debt Service Reserve Fund requirement on the date of issuance of the Series 2004 and 2002 Bonds/Notes.

Credit Risk: The Hospital has invested in government obligations. The value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

Interest Rate Risk: The primary objectives of the Hospital's investment policy is to assure preservation of capital through investments in government insured vehicles, to retain liquidity to meet projected cash needs, and to realize the best available to rate of return.

(4) Capital Assets

Capital assets activity for the years ended June 30, 2007 and 2006 were as follows:

	June 30, 2006	Additions	Transfers and Disposals	June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	3,960,452	1,642,225	(5,373,544)	229,133
Total capital assets, not being depreciated	<u>4,029,975</u>	<u>1,642,225</u>	<u>(5,373,544)</u>	<u>298,656</u>
Capital assets, being depreciated:				
Land Improvements	384,892	--	--	384,892
Buildings and fixed equipment	9,591,425	49,333	5,169,765	14,810,523
Major moveable equipment	5,627,149	248,625	18,992	5,894,766
Total capital assets, being depreciated	<u>15,603,466</u>	<u>297,958</u>	<u>5,188,757</u>	<u>21,090,181</u>
Less accumulated depreciation:				
Land Improvements	(360,465)	(4,339)	--	(364,804)
Buildings and fixed equipment	(4,612,024)	(462,880)	--	(5,074,904)
Major moveable equipment	(3,866,449)	(681,204)	--	(4,547,653)
Total accumulated depreciation	<u>(8,838,938)</u>	<u>(1,148,423)</u>	<u>--</u>	<u>(9,987,361)</u>
Total capital assets, being depreciated, net	<u>6,764,528</u>	<u>(850,465)</u>	<u>5,188,757</u>	<u>11,102,820</u>
Total capital assets, net	<u>\$ 10,794,503</u>	<u>791,760</u>	<u>(184,787)</u>	<u>11,401,476</u>

	June 30, 2005	Additions	Transfers and Disposals	June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	2,034,652	2,193,834	(268,034)	3,960,452
Total capital assets, not being depreciated	<u>2,104,175</u>	<u>2,193,834</u>	<u>(268,034)</u>	<u>4,029,975</u>
Capital assets, being depreciated:				
Land Improvements	384,892	--	--	384,892
Buildings and fixed equipment	8,936,894	478,714	175,817	9,591,425
Major moveable equipment	5,329,253	205,679	92,217	5,627,149
Total capital assets, being depreciated	<u>14,651,039</u>	<u>684,393</u>	<u>268,034</u>	<u>15,603,466</u>
Less accumulated depreciation:				
Land Improvements	(354,348)	(6,117)	--	(360,465)
Buildings and fixed equipment	(4,308,672)	(303,352)	--	(4,612,024)
Major moveable equipment	(3,171,893)	(694,556)	--	(3,866,449)
Total accumulated depreciation	<u>(7,834,913)</u>	<u>(1,004,025)</u>	<u>--</u>	<u>(8,838,938)</u>
Total capital assets, being depreciated, net	<u>6,816,126</u>	<u>(319,632)</u>	<u>268,034</u>	<u>6,764,528</u>
Total capital assets, net	<u>\$ 8,920,301</u>	<u>1,874,202</u>	<u>--</u>	<u>10,794,503</u>

Depreciation expense of \$1,148,423 and \$1,004,025 in 2007 and 2006, respectively, is included in the accompanying statements of revenue, expenses and change in net assets.

Outstanding commitments under purchase agreements amount to approximately \$260,000 at June 30, 2007.

(5) Rental Property

The Hospital owns a doctor's clinic located in Perry, Iowa. The clinic is valued at the Hospital's cost net of accumulated depreciation.

	2007	2006
Land and land improvements	\$ 844	844
Buildings and fixed equipment	<u>1,084,894</u>	<u>1,084,894</u>
	1,085,738	1,085,738
Less accumulated depreciation	<u>890,668</u>	<u>869,712</u>
Rental property, net	<u>\$ 195,070</u>	<u>216,026</u>

Rental income related to the clinic building above and specialty clinic space of the Hospital are reported net of related expense under nonoperating revenue, net in the statements of revenue, expenses and changes in net assets.

(6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2007 and 2006 consisted of the following:

	June 30, 2006	Borrowings	Payments	June 30, 2007	Due Within One Year
Bonds payable, Series 2002 (A)	\$ 2,910,000	--	125,000	2,785,000	130,000
Notes payable, Series 2004 (B)	985,000	--	320,000	665,000	325,000
Capital lease obligation (C)	378,148	--	145,626	232,522	152,391
Line of credit (D)	--	375,000	375,000	--	--
	<u>\$ 4,273,148</u>	<u>375,000</u>	<u>965,626</u>	<u>3,682,522</u>	<u>607,391</u>

	June 30, 2005	Borrowings	Payments	June 30, 2006	Due Within One Year
Bonds payable, Series 2002 (A)	\$ 3,030,000	--	120,000	2,910,000	125,000
Notes payable, Series 2004 (B)	1,295,000	--	310,000	985,000	320,000
Capital lease obligation (C)	517,391	--	139,243	378,148	145,654
	<u>\$ 4,842,391</u>	<u>--</u>	<u>569,243</u>	<u>4,273,148</u>	<u>590,654</u>

- (A) The Board of Trustees adopted a resolution to issue a \$3,360,000 Hospital Revenue Bonds Series 2002 dated July 1, 2002, to finance a facility expansion and improvement project. The bonds are payable in annual installments ranging from \$130,000 to \$265,000 through June 2022 with interest payable semiannually at 4.35% to 5.90%. The Bond resolution requires, among other things, the establishment of a "Debt Service Reserve Fund" (the Reserve Fund) to be held by the issuer for the purpose of paying principal and interest on the Bonds when sufficient moneys are unavailable in the "Principal and Interest Sinking Fund" (the Sinking Fund) into which the loan repayments are deposited in order to pay the principal and interest on the Bonds. A balance of \$280,000 must be maintained in the Reserve Fund.
- (B) The Board of Trustees adopted a resolution to issue a \$1,500,000 Hospital Revenue Notes Series 2004 dated October 14, 2004, to finance a facility expansion and improvement project and a Health Information System. The Notes are payable in annual installments ranging from \$325,000 to \$340,000 through June 2009, with interest payable semiannually at 3.40% to 3.65%. The Notes resolution requires, among other things the establishment of a "Debt Service Reserve Fund" (the Reserve Fund) to be held by the issuer for the purpose of paying principal and interest on the Notes when sufficient monies are unavailable in the "Principal and Interest Sinking Fund" (the Sinking Fund) into which the loan repayments are deposited in order to pay the principal and interest on the Notes. A balance of \$150,000 must be maintained in the Reserve Fund.
- (C) The Hospital has entered into two agreements to acquire medical equipment under capital leases. The obligation under the first lease calls for monthly installments of \$8,421 through November 2008, including interest at a rate of 4.53%. The obligation under the second lease calls for monthly installments of \$4,894 through February 2009, including interest at 4.51%. The total amount capitalized under the leases is \$716,400 with related accumulated amortization of \$501,480 at June 30, 2007.

- (D) The Hospital entered into an agreement for a line of credit with Liberty Bank in an amount not to exceed \$532,000 at any one time through May 2007. All amounts drawn during the fiscal year have been repaid as of June 30, 2007. The Hospital has no lines of credit available as of June 30, 2007.

Annual debt service requirements related to the long-term debt is as follows:

<u>Year</u>	<u>Capital Lease Obligations</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 152,391	7,393	159,784
2009	80,131	1,128	81,259
	<u>\$ 232,522</u>	<u>8,521</u>	<u>241,043</u>

<u>Year</u>	<u>Revenue Bonds/Notes Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 455,000	171,840	626,840
2009	475,000	155,135	630,135
2010	140,000	136,650	276,650
2011	145,000	130,070	275,070
2012	155,000	123,038	278,038
2013 - 2017	900,000	488,467	1,388,467
2018 - 2022	<u>1,180,000</u>	<u>213,728</u>	<u>1,393,728</u>
	<u>\$ 3,450,000</u>	<u>1,418,928</u>	<u>4,868,928</u>

Under the terms of the Hospital Revenue Bonds/Notes, the Hospital is required to maintain certain funds which are included in the assets limited as to use or restricted in the accompanying financial statements.

A summary of interest expense on borrowed funds during the years ended June 30, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>
Interest cost:		
Capitalized	\$ 12,517	20,597
Expensed	<u>194,949</u>	<u>199,168</u>
	<u>\$ 207,466</u>	<u>219,765</u>

(7) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$4,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

The Hospital is not aware of any known claims or incidents that may be asserted from services to patients. The Hospital has also evaluated its paid claims history and has determined that no reserve for losses on both asserted or unasserted claims is needed.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$208,576, \$203,730, and \$164,041, respectively, equal to the required contributions for each year.

(9) Risk Management

The Hospital 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 Hospital 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.

(10) Operating Leases

South Building Addition

The Hospital leases 19,587 rentable square feet (61.88%) of an attached building on the Hospital's campus under a 164 month non-cancelable operating lease. The monthly lease payments for the operating lease are minimum monthly payments of \$25,545 through the first five years, and then adjusted for each succeeding five year period by a CPI adjustment as defined in the lease, not to exceed a 5% increase. Rental expense for the operating lease was \$306,540 for the year ended June 30, 2007 and \$102,180 for the year ended June 30, 2006.

Dallas County Hospital Outpatient Surgery

During 2006, the Hospital entered into a lease agreement (Lease Agreement) with Clinic Investments, Inc. (Lessor), commencing in February 2007, for a Medical Office Building (Unit) located in West Des Moines, Iowa, for the purpose of operating a provider-based outpatient surgical services facility in West Des Moines, Dallas County, Iowa (DCH outpatient surgery). Lease payments are established in accordance with the lease document of the Unit and shall be fixed for the initial five-year term of the lease. Upon attainment of the second anniversary of the lease commencement date, Lessor has the right to terminate the lease agreement without cause by giving 90 days of proper notice. At such time the lease agreement is terminated, the Hospital will no longer be obligated as Lessee of the Unit. Rental expense for the operating lease was \$127,557 for the year ended June 30, 2007.

In conjunction with the Lease Agreement, the Hospital has also entered into equipment leases for equipment needed to provide services at the Unit. Commencement of the equipment leases are simultaneous with the terms of the Lease Agreement. Lease payments are established in accordance with the lease document and shall be fixed for the initial five-year term of the lease. However, the lessor has the right to terminate these equipment leases simultaneously with the Lease Agreement disclosed in the previous paragraph. Rental expense for the operating lease was \$72,355 for the year ended June 30, 2007.

In addition, the Hospital has also entered into a management agreement for the purposes of rendering management and administrative services needed for the operations of the Unit. Commencement of the management agreement is simultaneous with the terms of the Lease Agreement. The Hospital is required to pay an annual fixed management fee of \$300,000 adjusted every two years as defined in the lease. Fee expense for the management agreement was \$108,929 for the year ended June 30, 2007.

The following is a schedule by year of future minimum lease payments (including associated management agreement) under operating leases as of June 30, 2007:

2008	\$	1,152,082
2009		1,043,153
2010		843,543
2011		828,519
2012		637,146
2013 – 2017		1,532,700
2018 – 2020		<u>715,260</u>
Total	\$	<u><u>6,752,403</u></u>

(11) Concentration of Credit Risk

The Hospital grants credits without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2007</u>	<u>2006</u>
Medicare	33%	36%
Medicaid	5	4
Blue Cross	21	28
Other commercial insurance	25	23
Private pay	<u>16</u>	<u>9</u>
	<u>100%</u>	<u>100%</u>

(12) Spring Valley, Inc.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that Spring Valley is a component unit of the Hospital. Spring Valley is considered to be a component unit of the Hospital based upon the significance of the related financial obligations with the Hospital. Spring Valley's audited statement of financial position, statement of activities and statement of cash flows of and for the years ended June 30, 2007 and 2006 are included on pages 13 - 15.

Spring Valley constructed a senior housing facility on the campus of the Hospital (the Spring Valley Project (Project)). Included in the Project is a limited guarantee agreement by the Hospital with Bankers Trust Company, N.A. (the Trustee). The agreement provides that the Hospital would replenish Spring Valley's Debt Service Reserve Fund (Fund) up to its required amount (approximately \$389,000) if funds from the Project are insufficient to maintain the Fund at the required amount. The obligations of the Hospital under the agreement will remain in effect until the date on which the entire principal and interest on the bonds is provided for.

The Hospital has included transfers to Spring Valley of \$392,007 and \$416,641 for the years ended June 30, 2007 and 2006, respectively, in the statements of revenue, expenses and changes in net assets. These amounts are related to capital advances and unreimbursed services provided by the Hospital to Spring Valley.

In addition, the Hospital provided a \$500,000 loan to Spring Valley which will be repaid as funds become available. This amount is included in long-term debt of Spring Valley found on page 13. During 2006, the Hospital established an allowance for uncollectible amounts of \$500,000 related to the receivable above due to the continued financial losses of Spring Valley.

(13) Foundation

On July 1, 2006, Dallas County Hospital Foundation, Inc. (Foundation) was established to raise funds to support Dallas County Hospital, Perry, Iowa (Hospital). The Foundation is governed by a Board of Directors independent of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore, the Foundation is not reported with the Hospital under GASB Statement 39. The Foundation's unaudited net assets were approximately \$95,394 at June 30, 2007. The Foundation transferred \$235,673 as of June 30, 2007 for the purchase of building construction, property and equipment.

The Hospital has included transfers to the Foundation of \$7,348 for the year ended June 30, 2007 in the statement of revenue, expenses and changes in net assets. This amount is related to capital advances and unreimbursed services provided by the Hospital to the Foundation.

DALLAS COUNTY HOSPITAL
Perry, Iowa

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets
Budget and Actual (Cash Basis)

Required Supplementary Information

June 30, 2007 and 2006

The following is a reconciliation between reported amounts and cash disbursements to budget:

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts		Variance Favorable (Unfavorable)
				Original	Amended	
Amount to be raised by taxation	\$ 1,680,645	(209,048)	1,471,597	1,437,611	1,437,611	33,986
Estimated other revenues / receipts	<u>12,668,970</u>	<u>732,703</u>	<u>13,401,673</u>	<u>14,083,567</u>	<u>14,083,567</u>	<u>(681,894)</u>
Total	<u>14,349,615</u>	<u>523,655</u>	<u>14,873,270</u>	<u>15,521,178</u>	<u>15,521,178</u>	<u>(647,908)</u>
Expenses / Disbursements	<u>13,099,139</u>	<u>2,027,488</u>	<u>15,126,627</u>	<u>17,680,885</u>	<u>17,680,885</u>	<u>2,554,258</u>
Net	1,250,476	(1,503,833)	(253,357)	(2,159,707)	(2,159,707)	<u>\$ 1,906,350</u>
Balance beginning of year	<u>11,647,792</u>	<u>(6,655,689)</u>	<u>4,992,103</u>	<u>4,751,207</u>	<u>4,751,207</u>	
Balance end of year	<u>\$ 12,898,268</u>	<u>(8,159,522)</u>	<u>4,738,746</u>	<u>2,591,500</u>	<u>2,591,500</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 prospective differences resulting from the Hospital 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 Hospital 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.

DALLAS COUNTY HOSPITAL
Perry, Iowa

Patient Service Revenue
For the Years Ended June 30, 2007 and 2006

	2007				2006			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Medical/surgical	438,620	60,175	--	498,795	506,918	57,113	--	564,031
Swing bed	--	--	475,043	475,043	--	--	638,314	671,771
	<u>438,620</u>	<u>60,175</u>	<u>475,043</u>	<u>973,838</u>	<u>506,918</u>	<u>57,113</u>	<u>638,314</u>	<u>1,235,802</u>
OTHER PROFESSIONAL SERVICES:								
DCH outpatient surgery	--	4,616,576	--	4,616,576	--	--	--	--
Operating room	35,845	1,686,364	--	1,722,209	53,795	1,312,033	3,445	1,369,273
Pharmacy	153,073	1,354,788	136,662	1,644,523	177,698	1,033,162	227,603	1,438,463
Emergency department	27,368	1,459,744	--	1,487,112	25,929	1,286,716	290	1,312,935
CT scans	30,615	1,077,416	9,340	1,117,371	67,098	949,487	27,564	1,044,149
Laboratory	80,914	869,308	21,927	972,149	114,836	1,086,992	34,335	1,236,163
Physical therapy	4,314	830,823	83,889	919,026	8,472	714,200	110,622	833,294
Radiology	9,347	728,096	3,152	740,595	8,228	594,506	7,071	609,805
Emergency physicians	7,905	616,133	--	624,038	9,082	450,632	181	459,895
Mobile MRI	11,257	395,777	--	407,034	1,391	359,442	3,121	363,954
Ultrasonds	6,670	278,682	--	287,048	7,328	202,530	2,214	212,072
Anesthesia	10,650	193,300	1,696	204,150	11,400	192,200	1,850	205,450
Occupational therapy	833	135,590	41,736	178,159	2,372	80,649	57,830	140,851
Cardiopulmonary	56,140	144,237	33,829	234,206	184,560	103,011	164,741	452,312
Sleep studies	--	141,625	--	141,625	--	145,844	--	145,844
Echocardiology	8,338	110,571	1,191	120,100	9,422	68,566	3,181	81,169
Intravenous therapy	28,959	67,377	6,571	102,907	34,479	48,424	19,865	102,768
Electrocardiology	5,900	82,458	600	88,958	8,202	72,399	668	81,269
Nuclear medicine	--	50,019	--	50,019	761	35,223	604	36,588
Corp wellness	--	24,263	--	24,263	--	23,879	--	23,879
Speech therapy	1,934	14,384	5,779	22,097	6,827	5,561	6,740	19,128
Bone density	--	21,175	--	21,175	--	8,933	--	8,933
Treadmills	--	15,840	--	15,840	462	11,307	--	11,769
Transfusion services	1,250	6,175	--	7,425	7,738	13,062	989	21,789
Dietician	--	2,692	--	2,692	--	3,120	--	3,120
	<u>481,312</u>	<u>14,923,413</u>	<u>346,572</u>	<u>15,751,297</u>	<u>740,080</u>	<u>8,801,878</u>	<u>672,914</u>	<u>10,214,872</u>
GROSS PATIENT SERVICE REVENUE	<u>919,932</u>	<u>14,983,588</u>	<u>821,615</u>	<u>16,725,135</u>	<u>1,246,998</u>	<u>8,858,991</u>	<u>1,311,228</u>	<u>11,450,674</u>

LESS:

Contractual allowances and other deductions, primarily Medicare and Medicaid	\$	(3,490,928)	(1,585,567)
Charity care services and other discounts, based on charges forgone		(227,768)	(248,477)

NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT

PROVISION FOR BAD DEBT

NET PATIENT SERVICE REVENUE

DALLAS COUNTY HOSPITAL
Perry, Iowa

Other Operating Revenue
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
South addition maintenance	\$ 96,400	42,533
Nutritional service	78,507	185,958
Grant revenue	48,063	72,356
Other	43,730	38,678
Vendor discounts/rebates	14,075	13,425
Medical records transcripts	8,434	11,411
Dietary instruction	519	2,182
	<u>\$ 289,728</u>	<u>366,543</u>

DALLAS COUNTY HOSPITAL
Perry, Iowa
Departmental Expenses
For the Years Ended June 30, 2007 and 2006

	2007			2006				
	Salaries and Wages	Professional Fees	Supplies and Other	Total	Salaries and Wages	Professional Fees	Supplies and Other	Total
NURSING SERVICES:								
Medical/surgical	755,106	197	52,739	808,042	739,112	30,504	95,107	864,723
Nursing administration	91,496	--	2,155	93,651	79,659	--	1,386	81,045
	<u>846,602</u>	<u>197</u>	<u>54,894</u>	<u>901,693</u>	<u>818,771</u>	<u>30,504</u>	<u>96,493</u>	<u>945,768</u>
OTHER PROFESSIONAL SERVICES:								
DCH outpatient surgery	181,085	290,127	1,070,691	1,541,903	--	--	--	--
Emergency department	465,525	629,525	53,270	1,148,320	457,892	620,053	59,500	1,137,445
Pharmacy	20,494	188,722	509,475	718,691	18,993	161,657	534,062	714,712
Laboratory	153,998	172,597	326,848	653,443	182,922	33,373	346,355	562,650
Physical therapy	--	367,640	13,873	381,513	--	334,006	6,804	340,810
Operating room	155,096	--	198,255	353,351	192,748	--	182,817	375,565
Radiology	197,960	76,068	46,633	320,661	257,905	150	81,268	339,323
Cardiopulmonary	158,872	3,020	26,356	188,248	179,968	--	44,083	224,051
Anesthesia	--	112,283	--	112,283	--	112,998	12	113,010
CT scans	--	--	110,658	110,658	--	--	96,829	96,829
Education	56,866	395	24,289	81,550	--	150	4,428	4,578
Occupational therapy	--	71,264	179	71,443	--	56,740	298	57,038
Mobile MRI	--	67,600	--	67,600	--	76,925	--	76,925
Echocardiology	--	55,377	--	55,377	--	39,123	--	39,123
Sleep studies	--	42,525	--	42,525	--	52,725	--	52,725
Ultrasounds	--	18,990	--	18,990	--	16,152	--	16,152
Specialty clinic - South addition	22,177	--	8,773	27,205	--	--	5,520	21,672
Nuclear medicine	--	21,743	5,028	27,205	--	--	9,125	9,125
Auxiliary/Foundation coordinator	10,334	--	--	10,710	--	17,693	--	17,693
Speech therapy	--	8,839	--	8,839	--	7,651	--	7,651
Social services	7,539	--	55	7,594	30,225	--	830	31,055
Volunteer coordinator	7,235	--	15	7,250	6,434	--	--	6,434
Electrocardiology	--	5,865	922	6,787	--	10,310	--	10,833
	<u>1,437,181</u>	<u>2,132,580</u>	<u>2,395,696</u>	<u>5,965,457</u>	<u>1,327,087</u>	<u>1,539,706</u>	<u>1,372,550</u>	<u>4,239,343</u>
GENERAL SERVICES:								
Facility	136,348	113,865	812,211	1,062,424	108,649	81,772	581,107	771,528
Nutritional services/dietician	141,291	896	108,673	250,860	237,559	2,572	176,066	416,197
Environmental services	121,392	61,749	22,525	205,666	136,161	56,453	25,002	217,616
	<u>399,031</u>	<u>176,510</u>	<u>943,409</u>	<u>1,518,950</u>	<u>482,369</u>	<u>140,797</u>	<u>782,175</u>	<u>1,405,341</u>
ADMINISTRATIVE SERVICES								
	991,632	702,422	543,421	2,237,475	847,541	799,923	427,912	2,075,376
NONDEPARTMENTAL:								
Depreciation and amortization	--	--	1,159,418	1,159,418	--	--	1,014,639	1,014,639
Employee benefits	--	--	945,391	945,391	--	--	659,921	659,921
Interest	--	--	194,949	194,949	--	--	199,168	199,168
Insurance	--	--	175,806	175,806	--	--	134,716	134,716
	<u>--</u>	<u>--</u>	<u>2,475,564</u>	<u>2,475,564</u>	<u>--</u>	<u>--</u>	<u>2,008,444</u>	<u>2,008,444</u>
TOTAL EXPENSES	<u>\$ 3,674,446</u>	<u>3,011,709</u>	<u>6,412,984</u>	<u>13,099,139</u>	<u>3,475,768</u>	<u>2,510,930</u>	<u>4,687,574</u>	<u>10,674,272</u>

DALLAS COUNTY HOSPITAL
Perry, Iowa

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2007 and 2006

ANALYSIS OF AGING:

Days Since Discharge	2007		2006	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,100,378	60.45 %	812,401	44.76
31 - 60	627,689	18.07	318,018	17.52
61 - 90	287,835	8.28	139,140	7.67
91 - 120	172,134	4.96	133,898	7.38
> 120	286,271	8.24	411,513	22.67
	<u>3,474,307</u>	100.00 %	<u>1,814,970</u>	100.00
Less:				
Allowance for doubtful accounts	(334,720)		(265,083)	
Allowance for contractual adjustments	<u>(892,175)</u>		<u>(169,567)</u>	
	<u>\$ 2,247,412</u>		<u>1,380,320</u>	

	2007	2006
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	63.07 days	52.39 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 265,083	208,158
Provision of uncollectible accounts	667,483	420,710
Recoveries of accounts previously written off	175,101	152,212
Accounts written off	<u>(772,947)</u>	<u>(515,997)</u>
Balance, end of year	<u>\$ 334,720</u>	<u>265,083</u>

DALLAS COUNTY HOSPITAL
Perry, Iowa

Inventory/Prepaid Expenses
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
INVENTORY:		
DCH outpatient surgery	\$ 174,006	--
Departmental	127,147	128,301
Pharmacy	91,978	80,996
General stores/central supply	33,962	33,609
Dietary	<u>9,896</u>	<u>9,875</u>
	<u>\$ 436,989</u>	<u>252,781</u>
PREPAID EXPENSES:		
Insurance	\$ 53,336	49,409
Other	<u>29,339</u>	<u>82,119</u>
	<u>\$ 82,675</u>	<u>131,528</u>

DALLAS COUNTY HOSPITAL
Perry, Iowa

Insurance Coverage
For the Years Ended June 30, 2007 and 2006

Company	Property Covered	Amount of Coverage	Expiration Date
PIC Wisconsin	General Liability		5/1/2008
	Each Occurrence - Bodily Injury and Property Damage	1,000,000	
	Aggregate	3,000,000	
	Products and Completed Operations	1,000,000	
	Personal and Advertising Injury	1,000,000	
	Employee Benefits Liability Limit	1,000,000	
	Damage to Premises Rent to You Limited	1,000,000	
	Medical Expense	10,000	
	Pollution Liability Limit	250,000	
PIC Wisconsin	Hospital Professional Liability (claims made basis)		5/1/2008
	Per Professional Health Care Incident	1,000,000	
	Aggregate	3,000,000	
	Legal Expense (not Defense Costs)	5,000	
PIC Wisconsin	Commercial Umbrella		5/1/2008
	Each Occurrence	4,000,000	
	Aggregate	4,000,000	
	Products and Completed Operations	4,000,000	
PIC Wisconsin	Excess Professional Liability (claims made basis)		5/1/2008
	Per Professional Health Care Incident	4,000,000	
	Aggregate	4,000,000	
Great Northern Insurance Company	Commercial Property		5/1/2008
	Buildings & Personal Property	19,929,436	
	Business Income with Extra Expense	8,113,000	
	Data Processing	627,500	
	Crime	107,500	
	Various Other Property Coverage	6,500	
Federal Insurance Company	Auto Bodily Injury & Property Damage Liability	1,000,000	5/1/2008
	Medical Payments	10,000	
	Un/Underinsured Motorist	1,000,000	
Executive Risk Indemnity	Directors & Officers Liability	3,000,000	5/1/2008
Farm Bureau Mutual Insurance	Worker's Compensation Liability		4/1/2008
	Each Accident	500,000	
	Disease Policy Limit	500,000	
	Disease Each Employee	500,000	

DALLAS COUNTY HOSPITAL
Perry, Iowa

Financial and Statistical Highlights
For the Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Patient days:		
Acute	703	964
Swingbed	871	1,470
Respite	<u>16</u>	<u>11</u>
Total	<u><u>1,590</u></u>	<u><u>2,445</u></u>
Patient discharges:		
Acute	232	305
Swingbed	93	132
Respite	<u>4</u>	<u>3</u>
Total	<u><u>329</u></u>	<u><u>440</u></u>
Average length of stay:		
Acute	3.03 days	3.16 days
Swingbed	9.37 days	11.14 days
Respite	4.00 days	3.67 days
Emergency room visits	5,849	5,925
Specialty clinic visits	3,115	3,080
Other outpatient visits	16,015	16,769
Number of hospital employees - full-time equivalents	91.04	92.17



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**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**

To the Board of Trustees of
Dallas County Hospital
Perry, Iowa:

We have audited the basic financial statements of DALLAS COUNTY HOSPITAL (Hospital), as of and for the year ended June 30, 2007, and have issued our report thereon dated October 29, 2007. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than remote likelihood that a misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the Hospital in a separate letter dated October 29, 2007.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Dallas County Hospital, and other parties to whom Dallas County Hospital may report. This report is not intended to and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Srin, Johnson, Srshek & Quist, LLP

Omaha, Nebraska,
October 29, 2007.

DALLAS COUNTY HOSPITAL
Perry, Iowa

Schedule of Findings and Questioned Costs
June 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCY:

No significant deficiencies were identified.

Part III: Other Findings Related to Required Statutory Reporting

III-A-07 Certified Budget: Hospital disbursements during the year ended June 30, 2007 did not exceed budgeted amounts.

III-B-07 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2007.

Recommendation: We recommend that the Board monitor the amounts of monies on deposit at each institution named in the resolution and make funding changes or resolution updates as necessary.

Response: We will ensure that the amount of funds on deposit at each institution does not exceed the maximum amounts named in the resolution naming official depositories and will update the resolution to increase the deposit amounts.

Conclusion: Response accepted.

III-C-07 Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-07 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

DALLAS COUNTY HOSPITAL

Perry, Iowa

Schedule of Findings and Questioned Costs

June 30, 2007

- III-E-07 Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to \$1,500 without publicly invited and opened written competitive bids.
- III-F-07 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-07 Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.
- III-H-07 Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "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 newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor.

DALLAS COUNTY HOSPITAL
Perry, Iowa

Audit Staff
For the Year Ended June 30, 2007

This audit was performed by:

Roger E. Thompson, FHFMA, CPA, Partner

Marty J. Dubas, FHFMA, CPA, Partner

Robin A. Matthes, Senior Auditor

Jess D. Paisley, Staff Auditor