

Dallas County Hospital
Perry, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2009 and 2008**

Together with Independent Auditor's Report

Dallas County Hospital

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Dallas County Hospital

Officials
June 30, 2009

Board of Trustees		Term Expires
Marc Meyer, Chairman	Officer	December 31, 2010
Jeff Schulz, Vice-Chairman	Officer	December 31, 2012
Harley Weyer, Secretary	Officer	December 31, 2010
Rich Jones, Treasurer	Officer	December 31, 2014
Marsha McClintock	Member	December 31, 2012
Joelle Miner	Member	December 31, 2012
Mary Laborde	Member	December 31, 2014
Laurie Conner	Chief Executive Officer	Indefinite
Kevin Kincaid	Chief Operating Officer	Indefinite
Sandra Christensen	Chief Financial Officer	Indefinite
Donna Vandehaar	Chief Clinical Officer	Indefinite

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, 2009 and 2008 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, 2009 and 2008, 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, 2009, 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 November 16, 2009, 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,
November 16, 2009.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

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, 2009, 2008 and 2007. 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 \$1,553,748 to \$29,961,083 in 2009, increased by \$7,374,890 to \$28,407,335 in 2008, and increased by \$1,448,188 to \$21,032,445 in 2007.
- Total assets limited as to use decreased by \$1,278,150 in 2009, increased by \$241,670 in 2008, and decreased by \$2,081,189 in 2007.
- Capital assets, net, increased by \$984,082 in 2009, decreased by \$627,575 in 2008, and increased by \$606,973 in 2007.
- Total debt decreased by \$555,131 in 2009, \$607,391 in 2008, and \$590,626 in 2007.
- Total net assets increased by \$5,160,319 in 2009, by \$3,934,691 in 2008 and \$1,250,476 in 2007.
- Net patient service revenue increased by \$2,468,536 in 2009, \$6,337,755 in 2008, and by \$3,143,036 in 2007, due to a combination of services at the West Des Moines location, increased utilization and inflationary charge increases.
- Expenses increased by \$1,626,195 or 10% in 2009, by \$3,585,354 or 27.56% in 2008, and by \$2,370,456 or 22.29% in 2007. In February 2007, surgical services were expanded at a new location in West Des Moines. The increased expenses in 2007 and 2008 relate to the increase in revenue from this expansion. The 2009 increase in expenses is from a combination of increased revenue and increased utilization of services at the Perry location plus emergency room physician contracts were renegotiated and hourly rates were adjusted to current fair market values. Also in 2009 to secure availability of anesthesia coverage, a new arrangement was negotiated.
- Total margin for fiscal year 2009 was 22.74%, compared to 18.97% in 2008 and 9.88% in 2007.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

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, 2009, 2008 and 2007, are presented in Table 1 below.

Table 1 - Condensed Balance Sheets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>2009/08 Change</u>
Assets:				
Current and other assets	\$ 18,203,100	17,633,434	9,630,969	3.23%
Capital assets, net	<u>11,757,983</u>	<u>10,773,901</u>	<u>11,401,476</u>	<u>9.13%</u>
Total assets	<u>29,961,083</u>	<u>28,407,335</u>	<u>21,032,445</u>	<u>5.47%</u>
Liabilities:				
Long-term debt outstanding	--	2,520,000	3,075,131	(100.00%)
Other liabilities	<u>7,967,805</u>	<u>9,054,376</u>	<u>5,059,046</u>	<u>(12.00%)</u>
Total liabilities	<u>7,967,805</u>	<u>11,574,376</u>	<u>8,134,177</u>	<u>(31.16%)</u>
Net Assets:				
Invested in capital assets, net of related debt	9,237,983	7,698,770	7,914,024	19.99%
Restricted for debt service and property and equipment	302,976	890,769	584,810	(65.99%)
Unrestricted	<u>12,452,319</u>	<u>8,243,420</u>	<u>4,399,434</u>	<u>51.06%</u>
Total net assets	\$ <u>21,993,278</u>	<u>16,832,959</u>	<u>12,898,268</u>	<u>30.66%</u>

As can be seen by Table 1, net assets increased by \$5,160,319 in 2009, increased by \$3,934,691 in 2008 and increased by \$1,250,476 in 2007. The annual increases are primarily due to full years of operations with the expanded surgical services at the West Des Moines location and also continued growth in outpatient service volumes at the Perry location in each of the three years. Profits and temporary overpayments in interim rates from CMS have increased the Hospital's investments (CD's). The increase in other liabilities from 2007 to 2008 was from the overpayments referred to above from CMS interim rates. CMS recouped some of the funds during 2009 therefore decreasing other liabilities from 2008 to 2009.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

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, 2009, 2008 and 2007:

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2009/2008 Change</u>
Operating Revenue:				
Net patient service revenue	\$ 21,145,247	18,676,711	12,338,956	13.22%
County tax revenue	1,932,853	1,629,063	1,680,645	18.65%
Other operating revenue	201,272	163,188	221,208	23.34%
Total operating revenue	<u>23,279,372</u>	<u>20,468,962</u>	<u>14,240,809</u>	<u>13.73%</u>
Operating Expenses:				
Salaries	4,947,724	4,269,334	3,674,446	15.89%
Employee benefits	1,119,087	860,479	945,391	30.05%
Professional fees	3,892,251	3,671,524	3,011,709	6.01%
Supplies and other	7,181,829	6,590,816	4,216,079	8.97%
Depreciation and amortization	1,077,701	1,200,244	1,159,418	(10.21)%
Total operating expenses	<u>18,218,592</u>	<u>16,592,397</u>	<u>13,007,043</u>	<u>9.80%</u>
Operating Income	<u>5,060,780</u>	<u>3,876,565</u>	<u>1,233,766</u>	<u>30.55%</u>
Nonoperating Revenue (Expenses), Net:				
Rental property, net	23,183	(102,172)	(13,680)	122.69%
Investment income	322,917	334,575	200,572	(3.48)%
Gain (loss) on disposal of capital assets	12,000	(185,287)	--	106.48%
Other nonoperating revenue and expenses, net	(57,225)	(41,027)	(6,500)	39.48%
Nonoperating revenue, net	<u>300,875</u>	<u>6,089</u>	<u>180,392</u>	<u>4,841.29%</u>
Excess of Revenue Over Expenses Before Transfers to Foundation	<u>5,361,655</u>	<u>3,882,654</u>	<u>1,414,158</u>	<u>38.09%</u>
Capital Grants and Contributions	<u>13,412</u>	<u>90,950</u>	<u>235,673</u>	<u>(85.25)%</u>
Transfers to Foundation and Spring Valley	<u>(214,748)</u>	<u>(38,913)</u>	<u>(399,355)</u>	<u>451.87%</u>
Increase in Net Assets	<u>5,160,319</u>	<u>3,934,691</u>	<u>1,250,476</u>	<u>31.15%</u>
Net Assets, beginning of year	<u>16,832,959</u>	<u>12,898,268</u>	<u>11,647,792</u>	<u>30.51%</u>
Net Assets, end of year	<u>\$ 21,993,278</u>	<u>16,832,959</u>	<u>12,898,268</u>	<u>30.66%</u>

Dallas County Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

Operating and Financial Performance

- **Volume:** Acute inpatient discharges for fiscal year 2009 were 318 compared to 334 in fiscal year 2008. Acute patient days decreased dramatically in conjunction with the decrease in discharges. Acute patient days decreased from 1,177 in 2008 to 1,057 in 2009 or (10.20%). Swing bed discharges increased by 1% for fiscal year 2009 to a total of 136 discharges. Outpatient visits increased by 5.36% to 29,987 visits in fiscal year 2009. The following statistical categories experiencing increases in volumes for fiscal year 2009; Diet Consults, Surgery-Perry, Ultrasounds, MRI, Mammograms, Laboratory, Transfusions, Electrocardiology, Sleep Studies, Respiratory Therapy, Physical Therapy, and Corporate Wellness. The West Des Moines location experienced increased volumes of 16%.
- **Net Patient Service Revenue:** Due to an average rate increase of 5% effective July 1, 2008 and the type of procedures that saw an increase in volumes as discussed above, net patient service revenue climbed by \$2,468,536, or 13.22% compared to fiscal year 2008. During the fiscal year, the Hospital's contractual allowances (the difference between billed charges and paid charges from third party payers) increased by \$657,135. Contractual allowances as a percentage of gross patient revenue were 33.46% of gross charges in 2009 compared to 34.94% in 2008. The contractual allowances increased in 2007 when the increased volume began from the West Des Moines location. The increased revenue and procedures volume from the West Des Moines location has lowered the cost per procedure/visit for Medicare and Medicaid reimbursement. Uncompensated care increased to \$1,526,863 in 2009; up from \$1,325,305 in 2008. The majority of the 15.21% increase was awarded in financial assistance (charity care) to uninsured patients.

Changes in Net Assets: In fiscal year 2009, \$214,748 was transferred to Spring Valley, Inc. and Dallas County Hospital Foundation, Inc., compared to \$38,913 in 2008. These amounts are considered to be a transfer of equity to these related organizations.

The following table presents the relative percentages of gross charges for patient services by payer for the years ended June 30, 2009, 2008 and 2007:

Table 3 - Payor Mix by Percentage

	<u>June 30</u>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Medicare	52.29%	50.10%	49.50%
Blue Cross (Wellmark)	19.54%	19.30%	17.10%
Medicaid	5.92%	6.10%	8.80%
Private Pay	2.52%	2.90%	2.70%
Other commercial insurance	19.73%	21.60%	21.90%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Significant changes in operations from fiscal year 2009:

- **Other Operating Revenue:** Fiscal year 2009 showed an increase of \$38,084 in other operating revenue. The increase was due to nutritional service catering engagements and grant revenue.
- **Salary Expense:** Salary expense increased \$678,390 or 15.89%. Salary expense constitutes 27.16% of total expenses in 2009. The increase is due in part to market adjustments and the addition of an officer and staffing in key service areas. Effective July 1, 2008, the manager of facilities and pharmacy transitioned from a contracted employee to employees of the Hospital. 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.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

- **Professional Fees:** Fiscal year 2009 showed an increase of \$220,727 or 6.01% increase in professional fees. The contract for emergency room physician coverage was competitively bid. During the process the hourly rates for all coverage hours were increased to fair market value rates. The contract for anesthesia services was also renegotiated to ensure adequate and reliable coverage.
- **Depreciation and Amortization:** Fiscal year 2009 showed a decrease in depreciation resulting from many of the CPSI modules becoming fully depreciated.
- **Other Expenses:** Fiscal year 2009 showed an increase in other expenses due to an increase in equipment rent at the West Des Moines location (new anesthesia equipment was added to the schedule) and credit card processing fees increased due to higher volume of transactions from patients. Credit card transaction processing fees were negotiated to a better rate in the fall of 2009.
- **Supplies:** Increase in supply expense is in relation to the increased volume in outpatient services for fiscal year 2009. Surgical procedures at the Perry location as well as a significant number of patients are electing to have specialized lens implanted during their eye surgical procedures which have a higher cost per lens.

CAPITAL ASSETS

At the end of fiscal year 2009, the Hospital has invested a total of \$2,050,023 in capital assets. Progress on the construction of the new parking lot continued, the Inpatient rooms were renovated, computers were installed in all patient rooms to facilitate in-room charting, the CPSI server was upgraded, mammography equipment was upgraded to digital technology and a new c-arm was purchased to support the increase in surgical volumes.

At the end of fiscal year 2008, the Hospital has invested a total of \$561,886 in capital assets. Equipment was purchased and the hospital remodel was completed. The Hospital demolished an unused medical office building. A loss from disposal of \$185,287 was recorded for un-depreciated value of the building and related fixed equipment.

At the end of fiscal year 2007, the Hospital has invested a total of \$1,940,183 in capital assets. Equipment, building and fixed equipment were purchased to remodel the original 1950's Perry facility.

The following table summarizes the Hospital's capital assets as of June 30, 2009, 2008 and 2007:

Table 4 - Capital Assets

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>2009 Change</u>
Land	\$ 69,523	69,523	69,523	-
Land Improvements	384,892	384,892	384,892	-
Buildings	5,860,096	5,860,096	5,861,271	-
Building service equipment	8,670,787	8,437,977	8,382,394	232,810
Fixed equipment	937,713	833,495	566,858	104,218
Major moveable equipment	6,742,351	6,311,909	5,894,766	430,442
Construction in progress	<u>1,117,428</u>	<u>50,579</u>	<u>229,133</u>	<u>1,066,849</u>
Subtotal	23,782,790	21,948,471	21,388,837	1,834,319
Less accumulated depreciation	<u>12,024,807</u>	<u>11,174,570</u>	<u>9,987,361</u>	<u>850,237</u>
Property plant and equipment, net	<u>\$ 11,757,983</u>	<u>10,773,901</u>	<u>11,401,476</u>	<u>984,082</u>

Dallas County Hospital

Management's Discussion and Analysis June 30, 2009 and 2008

DEBT ADMINISTRATION

Long-Term Debt

At year-end, the Hospital had \$2,520,000 in short- and long-term debt related to Hospital Revenue Bonds and Notes. This has decreased from \$2,995,000 in fiscal year 2008. The outstanding debt for capital equipment leases at the end of fiscal year 2009 was \$-0-. This decreased from \$80,131 in fiscal year 2008, 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 presents as 11.5% compared to the Hospital's equity as of year-end 2009. This is a decrease from 18.3% in 2008.

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. The phone number is 515-465-3547.

Dallas County Hospital

Balance Sheets June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 919,596	1,157,232
Short term investments	10,890,641	7,655,560
Assets limited as to use - required for current liabilities	302,976	437,796
Receivables -		
Patient, net of allowance for doubtful accounts of \$762,280 in 2009 and \$692,866 in 2008	1,990,031	3,072,290
Other	51,444	162,803
Succeeding year property tax	1,855,666	1,658,688
Inventories	366,048	528,229
Prepaid expenses	143,410	122,458
	<u>16,519,812</u>	<u>14,795,056</u>
Total current assets	16,519,812	14,795,056
Assets limited as to use, net of current portion		
By board for capital improvements	1,592,980	2,306,310
By trustee for debt service	--	430,000
Capital assets, net	11,757,983	10,773,901
Deferred financing costs, net	90,308	102,068
	<u>29,961,083</u>	<u>28,407,335</u>
Total assets	\$ 29,961,083	28,407,335
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 2,520,000	555,131
Accounts payable -		
Trade	822,447	665,758
Construction	416,074	256,918
Salaries, wages and accrued vacation payable	515,259	495,754
Payroll taxes withheld	98,999	223,789
Accrued interest payable	11,388	12,891
Estimated third-party payor settlements - Medicare and Medicaid	1,727,972	4,950,152
Deferred revenue - previous year's property taxes	--	235,295
	<u>6,112,139</u>	<u>7,395,688</u>
Total current liabilities	6,112,139	7,395,688
Deferred revenue for succeeding year property tax receivable	1,855,666	1,658,688
Long-term debt, net of current maturities	--	2,520,000
	<u>7,967,805</u>	<u>11,574,376</u>
Total liabilities	7,967,805	11,574,376
Net assets:		
Invested in capital assets, net of related debt	9,237,983	7,698,770
Restricted -		
Debt service	302,976	867,796
Expendable for property and equipment	--	22,973
Unrestricted	12,452,319	8,243,420
	<u>21,993,278</u>	<u>16,832,959</u>
Total net assets	21,993,278	16,832,959
Total liabilities and net assets	\$ 29,961,083	28,407,335

See notes to financial statements

Dallas County Hospital

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 22,066,300	19,707,814
Provision for bad debt	<u>(921,053)</u>	<u>(1,031,103)</u>
Net patient service revenue	21,145,247	18,676,711
County tax revenue	1,932,853	1,629,063
Other operating revenue	<u>201,272</u>	<u>163,188</u>
Total operating revenue	<u>23,279,372</u>	<u>20,468,962</u>
OPERATING EXPENSES:		
Salaries	4,947,724	4,269,334
Employee benefits	1,119,087	860,479
Professional fees	3,892,251	3,671,524
Utilities	957,935	829,513
Supplies	3,864,577	3,591,592
Repairs, maintenance and small equipment	532,060	577,418
Depreciation and amortization	1,077,701	1,200,244
Insurance	199,268	198,104
Interest	155,774	182,188
Other	<u>1,472,215</u>	<u>1,212,001</u>
Total operating expenses	<u>18,218,592</u>	<u>16,592,397</u>
OPERATING INCOME	<u>5,060,780</u>	<u>3,876,565</u>
NONOPERATING REVENUE (EXPENSE), NET:		
Rental property, net	23,183	(102,172)
Investment income	322,917	334,575
Gain (loss) on disposal of capital assets	12,000	(185,287)
Other nonoperating expense, net	<u>(57,225)</u>	<u>(41,027)</u>
Nonoperating revenue, net	<u>300,875</u>	<u>6,089</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	5,361,655	3,882,654
CAPITAL GRANTS AND CONTRIBUTIONS	13,412	90,950
TRANSFERS TO FOUNDATION AND SPRING VALLEY	<u>(214,748)</u>	<u>(38,913)</u>
INCREASE IN NET ASSETS	5,160,319	3,934,691
NET ASSETS, beginning of year	<u>16,832,959</u>	<u>12,898,268</u>
NET ASSETS, end of year	<u>\$ 21,993,278</u>	<u>16,832,959</u>

See notes to financial statements

Dallas County Hospital

Statements of Cash Flows

For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 19,005,326	21,920,985
Cash paid to employees for salaries and benefits	(6,172,096)	(4,936,761)
Cash paid to suppliers and contractors	(10,550,388)	(10,278,868)
Other receipts and payments, net	<u>186,001</u>	<u>50,669</u>
Net cash provided by operating activities	<u>2,468,843</u>	<u>6,756,025</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	<u>1,696,964</u>	<u>1,687,607</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(1,878,868)	(768,188)
Principal paid on long-term debt	(555,131)	(607,391)
Interest paid on long-term debt	(157,277)	(183,518)
Capital grants and contributions	<u>13,412</u>	<u>90,950</u>
Net cash used in capital and related financing activities	<u>(2,577,864)</u>	<u>(1,468,147)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to short term investments	(3,235,081)	(6,516,952)
Withdrawals from (deposits to) assets limited as to use, net	1,248,102	(173,920)
Investment income	352,965	266,825
Cash received from (paid for) rental property, net	23,183	(102,172)
Transfers to Foundation and Spring Valley	<u>(214,748)</u>	<u>(38,913)</u>
Net cash used in investing activities	<u>(1,825,579)</u>	<u>(6,565,132)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(237,636)	410,353
CASH AND CASH EQUIVALENTS - Beginning of year	<u>1,157,232</u>	<u>746,879</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 919,596</u>	<u>1,157,232</u>

See notes to financial statements

Dallas County Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 5,060,780	3,876,565
Adjustments to reconcile operating income to net cash provided by operating activities -		
County tax revenue	(1,932,853)	(1,629,063)
Other nonoperating expense, net	(57,225)	(41,027)
Depreciation and amortization	1,077,701	1,200,244
Interest expense included in operating expenses	155,774	182,188
(Increase) decrease in current assets -		
Receivables -		
Patients	1,082,259	(824,878)
Other	111,954	(71,492)
Inventories	162,181	(91,240)
Prepaid expenses	(20,952)	(39,783)
Increase (decrease) in current liabilities -		
Accounts payable	156,689	(67,693)
Salaries, wages and accrued vacation payable	19,505	90,588
Accrued payroll taxes and other	(124,790)	102,464
Estimated third-party payor settlements - Medicare and Medicaid	(3,222,180)	4,069,152
Net cash provided by operating activities	<u>\$ 2,468,843</u>	<u>6,756,025</u>

See notes to financial statements

Spring Valley, Inc.
(A Component Unit of Dallas County Hospital)

Statements of Financial Position
June 30, 2009 and 2008

ASSETS	June 30	
	2009	2008
CURRENT ASSETS		
Cash	\$ 38,154	51,372
Other receivables	875	10,940
Prepaid expenses	3,882	4,102
Total current assets	42,911	66,414
RESTRICTED CASH AND INVESTMENTS		
Bond fund	129,468	121,520
Debt service reserve fund	397,509	391,266
Repair and replacement fund	53,009	45,513
Total restricted cash and investments	579,986	558,299
PROPERTY AND EQUIPMENT		
Spring Valley Retirement Facility	4,910,162	4,906,639
Less accumulated depreciation and amortization	1,768,298	1,554,193
Total property and equipment	3,141,864	3,352,446
OTHER ASSET		
Deferred debt issue costs, net of accumulated amortization	130,514	147,355
Total assets	\$ 3,895,275	4,124,514
LIABILITIES AND NET (DEFICIT)		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 130,000	125,000
Accounts payable	30,730	59,591
Accrued payroll	20,400	16,016
Deposits	34,400	37,050
Accrued interest	86,049	88,467
Unearned rent revenue	--	605
Total current liabilities	301,579	326,729
LONG-TERM DEBT , less current maturities	4,345,000	4,475,000
NET (DEFICIT)		
Unrestricted	(751,304)	(677,215)
Total liabilities and net (deficit)	\$ 3,895,275	4,124,514

See notes to financial statements

Spring Valley, Inc.
(A Component Unit of Dallas County Hospital)

Statements of Activities
For the Years Ended June 30, 2009 and 2008

	<u>June 30</u>	
	<u>2009</u>	<u>2008</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues		
Contributions and grants	\$ 541	100
Rental income		
Assisted and independent living units	1,077,889	1,008,802
Garage, guest room and other	16,630	33,946
Meal income	6,854	3,023
Catering	3,168	--
Investment return	10,891	18,913
Total unrestricted revenues	<u>1,115,973</u>	<u>1,064,784</u>
Expenses		
Program services		
Salaries	480,256	374,805
Fringe benefits and payroll taxes	61,614	69,571
Meals	60,768	52,522
Total program services	<u>602,638</u>	<u>496,898</u>
Supporting services		
Administration and general	74,253	79,724
Management fee	52,500	52,500
Property taxes	31,135	30,000
Rent expense	7,700	7,700
Operation of plant	97,274	105,511
Depreciation and amortization	230,945	230,160
Total supporting services	<u>493,807</u>	<u>505,595</u>
Interest	266,201	273,178
Total expenses	<u>1,362,646</u>	<u>1,275,671</u>
CHANGE IN NET DEFICIT BEFORE TRANSFERS	(246,673)	(210,887)
TRANSFERS FROM DALLAS COUNTY HOSPITAL	<u>172,584</u>	<u>38,913</u>
CHANGE IN NET (DEFICIT)	<u>(74,089)</u>	<u>(171,974)</u>
NET (DEFICIT)		
Beginning	<u>(677,215)</u>	<u>(505,241)</u>
Ending	<u>\$ (751,304)</u>	<u>(677,215)</u>

See notes to financial statements

Spring Valley, Inc.
(A Component Unit of Dallas County Hospital)

Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008

	<u>June 30</u>	
	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net (deficit)	\$ (74,089)	(171,974)
Adjustments to reconcile change in net (deficit) to net cash provided by operating activities		
Depreciation and amortization	230,945	230,160
Unrealized loss on investments	1,837	--
Change in assets and liabilities		
(Increase) decrease in prepaid expenses	220	(1,606)
(Increase) decrease in other receivable	10,065	(3,858)
Increase (decrease) in accounts payable, net of amounts for property and equipment	(30,470)	21,241
Increase (decrease) in accrued payroll	4,384	(1,096)
Increase (decrease) in deposits	(2,650)	900
(Decrease) in accrued interest payable	(2,418)	(2,279)
Increase (decrease) in unearned rent revenue	(605)	605
Net cash provided by operating activities	<u>137,219</u>	<u>72,093</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Liquidation (funding) of bond fund	(7,948)	57,509
Liquidation (funding) of debt service reserve fund	(8,080)	1,659
(Funding) of repair and replacement fund	(7,496)	(8,385)
Purchase of property and equipment	(1,913)	(8,215)
Net cash provided by (used in) investing activities	<u>(25,437)</u>	<u>42,568</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term borrowings	<u>(125,000)</u>	<u>(120,000)</u>
NET (DECREASE) IN CASH	(13,218)	(5,339)
CASH		
Beginning	<u>51,372</u>	<u>56,711</u>
Ending	\$ <u><u>38,154</u></u>	\$ <u><u>51,372</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u><u>268,619</u></u>	<u><u>275,457</u></u>

See notes to financial statements

Dallas County Hospital

Notes to Financial Statements June 30, 2009 and 2008

(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 years ended June 30, 2009 and 2008, 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 consist of capital assets, net of accumulated depreciation and amortization and are 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 assets 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 preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

Dallas County Hospital

Notes to Financial Statements June 30, 2009 and 2008

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

Dallas County Hospital

Notes to Financial Statements June 30, 2009 and 2008

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 used 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 using the effective interest method. Amortization expense of \$11,760 and \$11,277 for 2009 and 2008, 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

All investments in debt securities, including debt securities held through external investment pools, are measured at fair value in the balance sheets. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in the excess of revenue over 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.

Dallas County Hospital

Notes to Financial Statements June 30, 2009 and 2008

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. 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.

S. Management

The Hospital is a provider of healthcare services as a Critical Access Hospital. During the year, the Hospital had an agreement for management services with Mercy Medical Center-Des Moines.

T. Subsequent Events

The Hospital considered events occurring through the date of the report for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

U. Reclassification

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 reporting format.

(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 administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2008.

Dallas County Hospital

Notes to Financial Statements June 30, 2009 and 2008

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 52% and 6%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2009, and 50% and 6%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2008. Laws and regulations governing the Medicare and Medicaid 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.

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue:		
Inpatient	\$ 1,660,304	1,672,924
Outpatient	31,210,539	27,783,536
Swingbed	<u>1,201,249</u>	<u>1,288,403</u>
Total gross patient service revenue	<u>34,072,092</u>	<u>30,744,863</u>
Contractual adjustments:		
Medicare	(8,893,082)	(8,369,462)
Medicaid	(881,367)	(566,609)
Other	(1,625,533)	(1,806,776)
Charity care services	<u>(605,810)</u>	<u>(294,202)</u>
Total contractual adjustments	<u>(12,005,792)</u>	<u>(11,037,049)</u>
Net patient and resident service revenue before provision for bad debt	\$ <u>22,066,300</u>	<u>19,707,814</u>

(3) Cash and Investments

The Hospital's deposits in banks at June 30, 2009 and 2008 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, 2009 and 2008, the Hospital's investments, including assets limited as to use, consisted of the following:

Dallas County Hospital

Notes to Financial Statements June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash and money market funds	\$ 3,409,648	2,917,716
Certificates of deposit	9,252,940	7,765,023
Iowa Public Agency Investment Trust	7,130	--
Accrued interest receivable	<u>116,879</u>	<u>146,927</u>
	<u>\$ 12,786,597</u>	<u>10,829,666</u>

In connection with the issuance of Dallas County Hospital, Hospital Revenue Bonds/Notes, Series 2002 and 2004, 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 2002 and 2004 Bonds/Notes.

Credit Risk: The Hospital has invested in a public agency investment trust funded in part by US treasury and government agency securities. The value of this investment 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, 2009 and 2008 were as follows:

	<u>June 30, 2008</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2009</u>
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	<u>50,579</u>	<u>1,370,003</u>	<u>(303,154)</u>	<u>1,117,428</u>
Total capital assets, not being depreciated	<u>120,102</u>	<u>1,370,003</u>	<u>(303,154)</u>	<u>1,186,951</u>
Capital assets, being depreciated:				
Land Improvements	384,892	--	--	384,892
Buildings and fixed equipment	15,131,568	262,478	74,550	15,468,596
Major moveable equipment	<u>6,311,909</u>	<u>417,542</u>	<u>12,900</u>	<u>6,742,351</u>
Total capital assets, being depreciated	<u>21,828,369</u>	<u>680,020</u>	<u>87,450</u>	<u>22,595,839</u>
Less accumulated depreciation:				
Land Improvements	(367,298)	(2,276)	--	(369,574)
Buildings and fixed equipment	(5,675,954)	(626,989)	--	(6,302,943)
Major moveable equipment	<u>(5,131,318)</u>	<u>(436,676)</u>	<u>215,704</u>	<u>(5,352,290)</u>
Total accumulated depreciation	<u>(11,174,570)</u>	<u>(1,065,941)</u>	<u>215,704</u>	<u>(12,024,807)</u>
Total capital assets, being depreciated, net	<u>10,653,799</u>	<u>(385,921)</u>	<u>303,154</u>	<u>10,571,032</u>
Total capital assets, net	<u>\$ 10,773,901</u>	<u>984,082</u>	<u>--</u>	<u>11,757,983</u>

Dallas County Hospital

Notes to Financial Statements June 30, 2009 and 2008

	June 30, 2007	Additions	Transfers and Disposals	June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	229,133	140,618	(319,172)	50,579
Total capital assets, not being depreciated	<u>298,656</u>	<u>140,618</u>	<u>(319,172)</u>	<u>120,102</u>
Capital assets, being depreciated:				
Land Improvements	384,892	--	--	384,892
Buildings and fixed equipment	14,810,523	156,153	164,892	15,131,568
Major moveable equipment	5,894,766	265,115	152,028	6,311,909
Total capital assets, being depreciated	<u>21,090,181</u>	<u>421,268</u>	<u>316,920</u>	<u>21,828,369</u>
Less accumulated depreciation:				
Land Improvements	(364,804)	(2,494)	--	(367,298)
Buildings and fixed equipment	(5,074,904)	(602,808)	1,758	(5,675,954)
Major moveable equipment	(4,547,653)	(583,665)	--	(5,131,318)
Total accumulated depreciation	<u>(9,987,361)</u>	<u>(1,188,967)</u>	<u>1,758</u>	<u>(11,174,570)</u>
Total capital assets, being depreciated, net	<u>11,102,820</u>	<u>(767,699)</u>	<u>318,678</u>	<u>10,653,799</u>
Total capital assets, net	<u>\$ 11,401,476</u>	<u>(627,081)</u>	<u>(494)</u>	<u>10,773,901</u>

Depreciation expense of \$1,065,941 and \$1,188,967 in 2009 and 2008, respectively, is included in the accompanying statements of revenue, expenses and change in net assets.

(5) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2009 and 2008 consisted of the following:

	June 30, 2008	Borrowings	Payments	June 30, 2009	Due Within One Year
Bonds payable, Series 2002 (A)	\$ 2,655,000	--	135,000	2,520,000	2,520,000
Notes payable, Series 2004 (B)	340,000	--	340,000	--	--
Capital lease obligation	80,131	--	80,131	--	--
	<u>\$ 3,075,131</u>	<u>--</u>	<u>555,131</u>	<u>2,520,000</u>	<u>2,520,000</u>
	June 30, 2007	Borrowings	Payments	June 30, 2008	Due Within One Year
Bonds payable, Series 2002 (A)	\$ 2,785,000	--	130,000	2,655,000	135,000
Notes payable, Series 2004 (B)	665,000	--	325,000	340,000	340,000
Capital lease obligation	232,522	--	152,391	80,131	80,131
	<u>\$ 4,273,148</u>	<u>375,000</u>	<u>607,391</u>	<u>3,075,131</u>	<u>555,131</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 \$140,000 to \$265,000 through June 2022 with interest payable semiannually at 4.70% to 5.90%. The Bonds 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

Dallas County Hospital

Notes to Financial Statements June 30, 2009 and 2008

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. In 2009, the Bonds were called for redemption and were to be redeemed subsequent to year end. The remaining balance of the Bonds has been classified as due within one year.

- (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 were extinguished in their entirety by the Hospital in 2009.

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

Year	Revenue Bonds		
	Principal	Interest	Totals
2010	\$ 2,520,000	23,914	2,543,914

Under the terms of the Hospital Revenue Bonds, 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.

(6) 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 \$5,000,000 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. The Hospital could have exposure on possible incidents that have occurred for which claims will be made in the future, should professional liability insurance not be obtained or should coverage be limited and/or not available.

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.

(7) 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 4.10% of their annual salary and the Hospital is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009, and plan members were required to contribute 3.90% of their annual salary and the Hospital was required to contribute 6.05% for the year ended June 30, 2008. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2009 and 2008 were \$311,759 and \$247,259, respectively, equal to the required contributions for each year.

(8) 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.

Dallas County Hospital

Notes to Financial Statements June 30, 2009 and 2008

(9) Operating Leases

South Building Addition

The Hospital leases 23,734 rentable square feet (74.99%) 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 \$29,468 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 \$353,616 and \$310,463 for the years ended June 30, 2009 and 2008, respectively.

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 \$353,260 and \$347,738 for the years ended June 30, 2009 and 2008, respectively.

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 \$228,628 and \$188,099 for the years ended June 30, 2009 and 2008, respectively.

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 \$300,000 for the years ended June 30, 2009 and 2008.

The following is a schedule by year of future minimum lease payments (including associated management agreement) under operating leases as of June 30, 2009:

2010	\$ 1,410,819
2011	1,395,795
2012	1,080,926
2013	353,616
2014	353,616
2015 – 2019	1,768,080
2020	<u>117,872</u>
Total	\$ <u>6,480,724</u>

Dallas County Hospital

Notes to Financial Statements June 30, 2009 and 2008

(10) 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>2009</u>	<u>2008</u>
Medicare	35%	35%
Medicaid	8	13
Blue Cross	16	16
Other commercial insurance	20	18
Private pay	21	18
	<u>100%</u>	<u>100%</u>

(11) 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, 2009 and 2008 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 \$172,584 and \$38,913 for the years ended June 30, 2009 and 2008, 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.

(12) 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 \$47,803 and \$28,032 at June 30, 2009 and 2008, respectively. The Foundation transferred \$13,412 and \$31,786 as of June 30, 2009 and 2008, respectively, for the purchase of building construction, property and equipment.

Dallas County Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets Budget and Actual (Cash Basis) Required Supplementary Information June 30, 2009 and 2008

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

	Actual	Accrual	Actual	Budgeted Amounts		Variance
	Accrual Basis	Accrual Adjustments	Cash Basis	Original	Amended	Favorable (Unfavorable)
Amount to be raised by taxation	\$ 1,932,853	(235,889)	1,696,964	1,658,688	1,658,688	38,276
Estimated other revenues / receipts	21,446,058	(1,865,171)	19,580,887	20,930,017	20,930,017	(1,349,130)
Total	23,308,911	(2,101,060)	21,277,851	22,588,705	22,588,705	(1,310,854)
Expenses / disbursements	18,218,592	1,309,916	19,528,508	19,926,886	19,926,886	398,378
Net	5,160,319	(3,410,976)	1,749,343	2,661,819	2,661,819	\$ (912,476)
Balance beginning of year	16,832,959	(4,992,988)	11,839,971	10,933,181	10,933,181	
Balance end of year	\$ 21,993,278	(8,403,964)	13,589,314	13,595,000	13,595,000	

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.

**Patient Service Revenue
For the Years Ended June 30, 2009 and 2008**

	2009				2008			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Medical/surgical	\$ 741,060	75,885	--	816,945	767,205	66,475	--	833,680
Swing bed	--	--	643,040	643,040	--	--	732,640	732,640
	<u>741,060</u>	<u>75,885</u>	<u>643,040</u>	<u>1,459,985</u>	<u>767,205</u>	<u>66,475</u>	<u>732,640</u>	<u>1,566,320</u>
OTHER PROFESSIONAL SERVICES:								
DCH outpatient surgery	--	19,170,049	--	19,170,049	--	15,751,136	--	15,751,136
Operating room	34,736	2,048,020	4,629	2,087,385	37,481	1,871,967	--	1,909,448
Laboratory	147,133	1,586,112	32,589	1,765,834	136,406	1,274,244	33,317	1,443,967
Emergency department	46,196	1,656,006	--	1,702,202	30,782	1,575,939	--	1,606,721
Pharmacy	309,688	953,710	209,844	1,473,242	310,234	1,586,608	194,686	2,091,528
CT scans	86,881	1,254,631	4,515	1,346,027	95,737	1,312,814	13,058	1,421,609
Physical therapy	18,339	1,003,243	129,643	1,151,225	9,499	931,427	140,943	1,081,869
Radiology	14,182	869,130	6,077	889,389	13,205	861,788	5,922	880,915
Emergency physicians	14,862	746,276	--	761,138	12,283	675,731	--	688,014
Mobile MRI	12,402	461,849	8,385	482,636	9,057	390,547	--	399,604
Ultrasounds	19,896	416,785	2,052	438,733	12,080	343,899	2,535	358,514
Cardiopulmonary	99,994	162,284	85,441	347,719	139,518	162,943	65,306	367,767
Sleep studies	--	192,573	--	192,573	--	152,972	--	152,972
Occupational therapy	6,403	90,137	55,196	151,736	3,139	130,264	67,346	200,749
Electrocardiology	11,687	117,503	1,874	131,064	8,920	102,776	1,417	113,113
Echocardiology	17,691	104,499	2,917	125,107	13,614	142,791	5,050	161,455
Intravenous therapy	55,947	41,028	13,093	110,068	47,420	154,292	16,269	217,981
Anesthesia	2,000	100,500	1,800	104,300	7,000	174,100	800	181,900
Nuclear medicine	1,307	37,217	--	38,524	--	34,164	1,726	35,890
Transfusion services	9,000	27,900	500	37,400	7,500	13,750	1,000	22,250
Speech therapy	6,770	19,132	3,784	29,686	5,364	16,919	12,868	35,151
Corp wellness	--	24,875	--	24,875	--	20,678	--	20,678
Speciality clinic	--	20,051	--	20,051	--	--	--	--
Bone density	--	14,945	--	14,945	--	19,478	--	19,478
Treadmills	--	10,584	--	10,584	--	12,600	--	12,600
Dietician	--	5,615	--	5,615	--	3,234	--	3,234
	<u>915,114</u>	<u>31,134,654</u>	<u>562,339</u>	<u>32,612,107</u>	<u>899,239</u>	<u>27,717,061</u>	<u>562,243</u>	<u>29,178,543</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>1,656,174</u>	<u>31,210,539</u>	<u>1,205,379</u>	<u>34,072,092</u>	<u>1,666,444</u>	<u>27,783,536</u>	<u>1,294,883</u>	<u>30,744,863</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(11,399,982)				(10,742,847)
Charity care services and other discounts, based on charges forgone				(605,810)				(294,202)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				22,066,300				19,707,814
PROVISION FOR BAD DEBT				(921,053)				(1,031,103)
NET PATIENT SERVICE REVENUE				\$ <u>21,145,247</u>				<u>18,676,711</u>

Other Operating Revenue
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Nutritional service	\$ 61,576	48,196
South addition maintenance	51,347	59,077
Grant revenue	31,827	9,562
Vendor discounts/rebates	20,992	19,346
Medical records transcripts	7,498	9,253
Dietary instruction	2,103	1,350
Other	<u>25,929</u>	<u>25,929</u>
	<u>\$ 201,272</u>	<u>163,188</u>

**Departmental Expenses
For the Years Ended June 30, 2009 and 2008**

	2009				2008			
	Salaries and Wages	Professional Fees	Supplies and Other	Total	Salaries and Wages	Professional Fees	Supplies and Other	Total
NURSING SERVICES:								
Medical/surgical	\$ 737,488	96,443	88,374	922,305	750,800	--	88,691	839,491
Nursing administration	566,649	--	2,449	569,098	149,493	--	2,300	151,793
	<u>1,304,137</u>	<u>96,443</u>	<u>90,823</u>	<u>1,491,403</u>	<u>900,293</u>	<u>--</u>	<u>90,991</u>	<u>991,284</u>
OTHER PROFESSIONAL SERVICES:								
DCH outpatient surgery	583,515	514,689	3,362,472	4,460,676	507,218	616,246	2,982,700	4,106,164
Emergency department	298,893	994,469	82,195	1,375,557	595,127	649,996	53,292	1,298,415
Pharmacy	178,381	22,252	460,189	660,822	23,904	200,713	643,272	867,889
Laboratory	233,614	3,594	411,727	648,935	207,074	5,299	359,059	571,432
Radiology	1,084	416,652	64,780	482,516	10,591	377,059	80,435	468,085
Physical therapy	--	460,565	6,331	466,896	--	432,955	7,867	440,822
Operating room	162,681	5,590	233,369	401,640	161,616	8,385	190,139	360,140
Cardiopulmonary	164,962	7,860	30,280	203,102	162,151	6,000	33,720	201,871
Anesthesia	--	110,834	--	110,834	--	100,210	5,626	105,836
CT scans	--	--	91,479	91,479	--	--	103,464	103,464
Mobile MRI	--	74,100	--	74,100	--	66,300	--	66,300
Occupational therapy	--	60,694	372	61,066	--	80,299	345	80,644
Echocardiology	--	58,352	--	58,352	--	77,921	--	77,921
Sleep studies	--	47,925	--	47,925	--	46,575	--	46,575
Specialty clinic - south addition	6,195	20,076	2,662	28,933	27,166	--	4,136	31,302
Education	15,697	--	8,109	23,806	21,538	--	5,880	27,418
Nuclear medicine	--	18,128	--	18,128	--	15,447	--	15,447
Speech therapy	--	11,874	--	11,874	--	14,060	--	14,060
Electrocardiology	--	8,280	723	9,003	--	5,575	656	6,231
Ultrasounds	--	824	6,915	7,739	--	5,640	11,448	17,088
Cardiac rehabilitation	--	--	7,399	7,399	--	--	4,084	4,084
Volunteer coordinator	--	--	235	235	--	--	--	--
Auxiliary/Foundation coordinator	--	--	163	163	--	--	109	109
Social services	--	--	--	--	--	--	54	54
	<u>1,645,022</u>	<u>2,836,758</u>	<u>4,769,400</u>	<u>9,251,180</u>	<u>1,716,385</u>	<u>2,708,680</u>	<u>4,486,286</u>	<u>8,911,351</u>
GENERAL SERVICES:								
Facility	305,573	2,599	918,529	1,226,701	175,236	131,588	738,886	1,045,710
Nutritional services/dietician	193,101	841	115,582	309,524	163,155	3,571	102,591	269,317
Environmental services	111,920	85,087	16,275	213,282	123,264	78,632	24,445	226,341
	<u>610,594</u>	<u>88,527</u>	<u>1,050,386</u>	<u>1,749,507</u>	<u>461,655</u>	<u>213,791</u>	<u>865,922</u>	<u>1,541,368</u>
ADMINISTRATIVE SERVICES	1,387,971	870,523	974,761	3,233,255	1,191,001	749,053	800,495	2,740,549
NONDEPARTMENTAL:								
Depreciation and amortization	--	--	1,077,701	1,077,701	--	--	1,077,701	1,200,244
Employee benefits	--	--	1,119,087	1,060,504	--	--	1,119,087	827,309
Insurance	--	--	199,268	199,268	--	--	199,268	198,104
Interest	--	--	155,774	155,774	--	--	155,774	182,188
	<u>--</u>	<u>--</u>	<u>2,551,830</u>	<u>2,493,247</u>	<u>--</u>	<u>--</u>	<u>2,551,830</u>	<u>2,407,845</u>
TOTAL EXPENSES	\$ 4,947,724	3,892,251	9,437,200	18,218,592	4,269,334	3,671,524	8,795,524	16,592,397

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2009 and 2008**

ANALYSIS OF AGING:

Days Since Discharge	2009		2008	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,449,569	56.18 %	2,143,401	46.79
31 - 60	813,391	18.72	912,497	19.14
61 - 90	304,005	6.97	412,025	8.64
91 - 120	236,219	5.42	211,495	4.44
> 120	555,988	12.71	1,087,408	20.99
	<u>4,359,172</u>	100.00 %	<u>4,766,826</u>	100.00
Less:				
Allowance for doubtful accounts	(762,280)		(692,866)	
Allowance for contractual adjustments	<u>(1,606,861)</u>		<u>(1,001,670)</u>	
	<u>\$ 1,990,031</u>		<u>3,072,290</u>	

	2009	2008
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	33.33 days	56.90 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 692,866	334,720
Provision of uncollectible accounts	921,053	1,031,103
Recoveries of accounts previously written off	244,770	183,314
Accounts written off	<u>(1,096,409)</u>	<u>(856,271)</u>
Balance, end of year	<u>\$ 762,280</u>	<u>692,866</u>

**Inventory/Prepaid Expenses
For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
INVENTORY:		
DCH outpatient surgery	\$ 139,277	266,414
Departmental	113,491	127,029
Pharmacy	71,276	86,615
General stores/central supply	33,705	39,214
Dietary	8,299	8,957
	<u>\$ 366,048</u>	<u>528,229</u>
PREPAID EXPENSES:		
Insurance	\$ 53,672	53,054
Other	89,738	69,404
	<u>\$ 143,410</u>	<u>122,458</u>

**Insurance Coverage
For the Years Ended June 30, 2009 and 2008**

Company	Property Covered	Amount of Coverage	Expiration Date
PIC Wisconsin	General Liability		5/1/2010
	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)		5/1/2010
	Per Professional Health Care Incident	1,000,000	
	Aggregate	3,000,000	
	Legal Expense (not Defense Costs)	10,000	
PIC Wisconsin	Commercial Umbrella		5/1/2010
	Each Occurrence	4,000,000	
	Aggregate	4,000,000	
PIC Wisconsin	Products and Completed Operations	4,000,000	5/1/2010
	Excess Professional Liability (claims made basis)		
	Per Professional Health Care Incident	5,000,000	
PIC Wisconsin	Aggregate	5,000,000	5/1/2010
Great Northern Insurance Company	Commercial Property		5/1/2010
	Buildings & Personal Property	19,929,436	
	Business Income with Extra Expense	8,113,000	
	Data Processing	635,000	
	Crime		
	Employee Theft	100,000	
	Forgery	7,500	
Various Other Property Coverage	6,500		
Federal Insurance Company	Auto Bodily Injury & Property Damage Liability	1,000,000	5/1/2010
	Medical Payments	10,000	
	Un/Underinsured Motorist	1,000,000	
Executive Risk Indemnity	Directors & Officers Liability	5,000,000	5/1/2010
	Employment Practices Liability	3,000,000	
Farm Bureau Mutual Insurance	Worker's Compensation Liability		4/1/2010
	Each Accident	500,000	
	Disease Policy Limit	500,000	
	Disease Each Employee	500,000	

**Financial and Statistical Highlights
For the Years Ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Patient days:		
Acute	1,057	1,177
Swingbed	1,064	1,260
Respite	<u>27</u>	<u>23</u>
Total	<u><u>2,148</u></u>	<u><u>2,460</u></u>
Patient discharges:		
Acute	318	334
Swingbed	136	135
Respite	<u>7</u>	<u>8</u>
Total	<u><u>461</u></u>	<u><u>477</u></u>
Average length of stay:		
Acute	3.32 days	3.52 days
Swingbed	7.82 days	9.33 days
Respite	3.86 days	2.88 days
Emergency room visits	6,268	6,405
Specialty clinic visits	3,993	3,791
DCH outpatient surgery visits	4,312	3,786
Other outpatient visits	19,407	18,271
Number of hospital employees - full-time equivalents	106.23	97.34

**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, 2009, and have issued our report thereon dated November 16, 2009. 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 or significant deficiencies, 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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2009, 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.

We noted certain matters that we reported to management of the Hospital in a separate letter dated November 16, 2009.

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, including federal awarding agencies and pass-through entities. 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.

Sprim, Johnson, Sestak & Quist, LLP

Omaha, Nebraska,
November 16, 2009.

Dallas County Hospital

Schedule of Findings and Questioned Costs June 30, 2009

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) 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.

INSTANCES OF DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

No significant deficiencies or material weaknesses were identified.

Part III: Other Findings Related to Required Statutory Reporting

- III-A-08 Certified Budget: Hospital disbursements during the year ended June 30, 2009 did not exceed the amount budgeted.
- III-C-08 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-08 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-08 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-08 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-08 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 Hospital's investment policy were noted.
- III-H-08 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 newspapers 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

Audit Staff
June 30, 2009

This audit was performed by:

- Roger E. Thompson, FHFMA, CPA, Partner
- Jess D. Paisley, In-charge
- Chase S. Manstedt, Staff Auditor
- Andrew J. DeLashmutt, Staff Auditor



SEIM JOHNSON

November 16, 2009

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

In planning and performing our audit of the financial statements of Dallas County Hospital (Hospital), as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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 financial statement misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective is not always met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the entity's ability to authorize, initiate, 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

The following is a description of an identified control deficiency that we determined did not constitute a significant deficiency or material weakness:

Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimations that affect the reported amounts of assets and liabilities as of the date of the financial statements. As part of the audit, we reviewed the following significant estimates made by management:

- Allowance for third-party payor adjustments
- Estimated third-party payor settlements

Management performed an analysis of the allowance for third-party payor adjustments by applying a reserve percentage based on historical collection rates against those receivables identified as third-party payor receivables. However, in reviewing management's estimation process, we noted the reserve percentage used was not reflective of current collection rates. As part of our audit procedures, additional tests were performed of the allowance for third-party payor adjustments which resulted in an audit adjustment. We recommend management continue to monitor and improve its current estimation process to compute an appropriate allowance for third-party payor adjustments.

The following are offered as constructive suggestions to be considered part of the ongoing process of modifying and improving the Hospital's policies and procedures:

New Medicare Administrative Contractor (WPS)

As required by section 911 of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA), Centers for Medicare & Medicaid Services (CMS) is replacing its current claims payment contractors - fiscal intermediaries and carriers - with new contract entities called Medicare Administrative Contractors (MACs). CMS plans to award a total of 19 MAC contracts through three procurement cycles. Fifteen of these contracts will be with entities that will cover the majority of Part A and Part B services. Iowa hospitals are included in Jurisdiction 5 (J5) which also includes providers in Nebraska, Kansas and Missouri.

In May 2008, Wisconsin Physicians Service (WPS) officially became the Hospital's new MAC. The Medicare program is administered by countless rules and regulations developed by CMS. Each fiscal intermediary and MAC interprets the Medicare regulations differently to some extent. During the transition to WPS, many Iowa providers have encountered frustrations in working with WPS. The problems seem to be far reaching and systemic and are resulting in slower cash flow to Iowa hospitals. Generally speaking the concerns center around customer service, provider support, lack of detailed knowledge of the Medicare program, lack of self-awareness and a silo operational affect due to WPS' numerous office locations. Iowa hospitals work with staff in Illinois, Iowa, Missouri and Wisconsin to process Medicare claims and send medical documentation as part of the auditing and recoupment function

Recovery Audit Contracts (RAC)

The Medicare Recovery Audit Contractor (RAC) program was established by the *Medicare Modernization Act of 2003*. The program was established as a three year demonstration project in three states as a means to identify Medicare overpayments and underpayments to providers. The *Tax Relief and Health Care Act of 2006* made the RAC program permanent and required the Centers for Medicare & Medicaid Services (CMS) to expand the program nationwide by 2010. RAC program audits are scheduled to begin in August 2009 for the State of Iowa.

RAC audits are not performed directly by CMS, but rather by private contractors that are awarded contracts in one of the four CMS designated regions of the United States. Health Data Insights (HDI) is the contractor for the Midwest Region D, which includes Iowa. These private contracts are paid on a contingency fee basis by receiving a percentage of the improper overpayments and underpayments they collect from providers. RAC audits can be automated (claims selection solely based on data from CMS without human review of the medical record) or complex (human review of medical record required to identify discrepancies between the medical record and claim). RAC audits are focused on overpayments to the provider for the following: (1) incorrect payment amounts; (2) non-covered services; (3) incorrectly coded services; and (4) duplicate services. RAC audits are limited in the type of items they are contracted to review, RAC audits cannot review (1) services provided outside of Medicare fee-for-service; (2) cost report settlements; and (3) claims paid dates before October 1, 2007.

We recommend management prepare for potential RAC audits of their facility by becoming familiar with the RAC program and its procedures. Steps that management can take to address potential upcoming audits include, but are not limited to:

- **Establish correspondence and record keeping procedures**

Management should identify one individual within the facility to be the single point of contact with the RAC auditors. All incoming mail and requests should be forwarded and processed by this employee. All coordination of medical records and other requested documentation should be reviewed, archived, and submitted by this employee. This employee will help to ensure that deadlines and requests are monitored and met.

- **Education**

Management should begin to educate their staff, physicians and themselves about the potential impact the RAC program could have on the facility. Physician understanding and assistance is critical as all claims including SNF, home health, hospital, DME, and practitioner claims are subject to review.

- **Appeals Process**

Understanding the appeals deadlines, requirement and processes is important for management to properly appeal initial overpayment judgments. The appeal levels are as follows:

- Redetermination – Redetermination with the Medicare Administrative Contractor must be filed within 120 days of the date of the demand letter.
- Reconsideration – Reconsideration with Qualified Independent Consultant must be filed with 180 days.
- Administrative Law Judge
- Medicare Appeals Council
- Federal District Court

GASB Statement No. 39

Statement No. 39 of the Governmental Accounting Standards Board establishes financial reporting requirements for state and local governments that have qualifying fundraising foundations. The standard sets forth criteria on which a government is required to provide a discrete presentation that publishes financial information about its own activities as well as those of the affiliated organization. Organizations that meet all of the criteria should be presented discretely as component units. The criteria are:

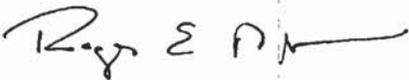
- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Management's assessment of Dallas County Hospital Foundation (Foundation) is that it is not significant to the ongoing operations of the Hospital. Therefore it was not included with the financial statements of the Hospital. We recommend management continue to evaluate the Hospital's relationship with the Foundation on a regular basis based on the above criteria in order to ensure proper financial reporting.

The recommendations outlined above are for management's use only and are not intended to be part of a formal report, which would customarily be delivered to outside lenders, third-party payors, etc. We would be pleased to answer any questions you may have regarding the comments and suggestions contained in the preceding paragraphs.

Sincerely,

SEIM, JOHNSON, SESTAK & QUIST, LLP



Roger E. Thompson