

Dallas County Hospital
Perry, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2013 and 2012**

Together with Independent Auditor's Report

Dallas County Hospital

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Dallas County Hospital

Officials
June 30, 2013

<u>Board of Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Mary Laborde	Chairman	December 31, 2014
Rich Jones	Vice Chairman	December 31, 2014
Marsha McClintock	Secretary	December 31, 2018
Marc Meyer	Treasurer	December 31, 2016
Julie Connolly	Member	December 31, 2016
Joelle Miner	Member	December 31, 2018
Jeff Dvorak *	Member	December 31, 2018

Hospital Officials

Matt Wille	Chief Executive Officer	Indefinite
Sandra Christensen	Chief Financial Officer	Indefinite
Donna Vandelaar	Chief Clinical Officer	Indefinite

* Appointed by the Board of Trustees on May 23, 2013 to replace Jeff Schultz

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Dallas County Hospital (Hospital) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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, 2013 and 2012, for which the Hospital is the holder of a note receivable from 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2013 and 2012, and the respective change 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other supplementary statements (Exhibits 1 – 6) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary statements (Exhibits 1 – 6) are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary statements (Exhibits 1 – 6) are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,
October 11, 2013.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

INTRODUCTION

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, 2013 and 2012. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes 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 statement of net position 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 position. 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 \$1,611,278 in 2013 to \$38,867,144, compared to a \$1,314,525 increase to \$37,255,866 in 2012.
- Total assets limited as to use decreased by \$5,887,759 in 2013, and by \$960,467 in 2012.
- Capital assets, net, increased by \$6,646,547 in 2013, and decreased by \$326,951 in 2012.
- Total debt remains at zero in both 2013 and 2012.
- Total net position increased by \$565,274 in 2013, and by \$1,105,908 in 2012.
- Net patient service revenue decreased by \$332,744 in 2013 and by \$1,237,657 in 2012.
- Expenses increased by \$207,620 or 2% in 2013, and decreased by \$998,191 or 7% in 2012.
- Total margin for fiscal year 2013 was 4.8% and 7.9% for fiscal year 2012.

FINANCIAL ANALYSIS OF THE HOSPITAL

The statement of net position and the statement of revenue, expenses, and changes in net position report the net position of the Hospital and the changes in them. The Hospital's net position is the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in net position 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.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

During the 2011 fiscal year, a portion of the outpatient surgical services was sold to a third party that held an option to purchase. Annual gross charges from this business segment were 62.5% of total gross charges in 2010. These services were provided at a location not attached to the Hospital in Perry, Iowa. The Perry location continues to operate as a critical access hospital. Many of the variances described below between the 2012 and 2011 fiscal years are a result in the change in services provided as a result of this sale.

Also during the 2011 fiscal year, the Hospital Board adopted a new investment policy. The goals of this policy are to assure preservation of capital through prudent investment strategies; to retain liquidity to meet projected cash needs; to preserve funds for future capital needs, and to realize the best available rate of return. This policy also gives guidance for the balance of operating funds to be maintained at a range of 75-90 days cash on hand. As a result of the adoption of this new policy, assets previously classified as short term investments became board designated as assets limited as to use.

In December 2012, the Hospital acquired two buildings. The first being a leased space the hospital had previously been leasing for hospital services; the second being the medical office building which is leased by a family physician practice. The changes in total assets limited as to use, capital assets, and some of the expense line items between fiscal years 2013 and 2012 are attributed to this acquisition. Lease agreements are in place for the tenants occupying the non-hospital space and new foot notes are included in the financials to disclose these agreements.

NET ASSETS

A summary of the Hospital's statement of net position at June 30, 2013, 2012 and 2011, are presented in Table 1 below.

Table 1 - Condensed Statement of Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Assets:			
Current and other assets	\$ 17,179,518	22,280,221	23,999,540
Long-term portion of notes receivable	3,426,229	3,360,795	--
Capital assets, net	<u>18,261,397</u>	<u>11,614,850</u>	<u>11,941,801</u>
Total assets	<u><u>38,867,144</u></u>	<u><u>37,255,866</u></u>	<u><u>35,941,341</u></u>
Liabilities:			
Other liabilities	<u>5,308,772</u>	<u>4,262,768</u>	<u>4,054,151</u>
Total liabilities	<u><u>5,308,772</u></u>	<u><u>4,262,768</u></u>	<u><u>4,054,151</u></u>
Net Position:			
Net investment in capital assets	18,261,397	11,614,850	11,941,801
Restricted expendable for property and equipment	--	--	25,000
Unrestricted	<u>15,296,975</u>	<u>21,378,248</u>	<u>19,920,389</u>
Total net position	<u><u>\$ 33,558,372</u></u>	<u><u>32,993,098</u></u>	<u><u>31,887,190</u></u>

As seen by Table 1, net position increased by \$565,274 in 2013, and by \$1,105,908 in 2012.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

REVENUE, EXPENSES, AND CHANGES IN NET POSITION

The following table presents a summary of the Hospital's historical revenue and expenses for each of the fiscal years ended June 30, 2013, 2012 and 2011:

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenue:			
Net patient service revenue	\$ 10,971,439	11,304,183	12,541,840
Other operating revenue	366,808	427,099	267,354
Total operating revenue	<u>11,338,247</u>	<u>11,731,282</u>	<u>12,809,194</u>
Operating Expenses:			
Salaries	4,271,852	4,232,967	4,417,100
Employee benefits	1,113,387	1,036,720	1,041,600
Professional fees	3,442,329	3,349,994	3,675,139
Supplies and other	2,818,711	2,999,418	3,553,339
Depreciation and amortization	1,529,052	1,348,612	1,278,724
Total operating expenses	<u>13,175,331</u>	<u>12,967,711</u>	<u>13,965,902</u>
Operating Loss	<u>(1,837,084)</u>	<u>(1,236,429)</u>	<u>(1,156,708)</u>
Nonoperating Revenue (Expenses), Net:			
County tax revenue	2,188,111	2,055,992	1,991,172
Rental property, net	58,246	26,150	27,540
Investment income	253,584	274,067	225,857
Gain on sale of outpatient surgery service	--	--	4,425,374
Loss on disposal of capital assets	--	(11,952)	(12,015)
Other nonoperating expense, net	(9,360)	(9,360)	(9,360)
Nonoperating revenue, net	<u>2,490,581</u>	<u>2,334,897</u>	<u>6,648,568</u>
Excess of Revenue Over Expenses Before Change in Net Unrealized Gains and Losses and Capital Grants and Contributions	653,497	1,098,468	5,491,860
Change in Net Unrealized Gains and Losses on Other Than Trading Securities	(84,379)	56,566	9,998
Capital Grants and Contributions	83,303	33,820	93,760
Transfers to Foundation and Spring Valley	<u>(87,147)</u>	<u>(82,946)</u>	<u>(63,783)</u>
Increase in Net Position	565,274	1,105,908	5,531,835
Net Position, beginning of year	<u>32,993,098</u>	<u>31,887,190</u>	<u>26,355,355</u>
Net Position end of year	<u>\$ 33,558,372</u>	<u>32,993,098</u>	<u>31,887,190</u>

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Management's Discussion and Analysis June 30, 2013 and 2012

Operating and Financial Performance

- **Volume:** Acute inpatient discharges for fiscal year 2013 were 201 compared to 197 in 2012; however average length of stay declined to 3.25 compared to 3.41 in 2012. Acute patient days decreased by 18 days in 2013 to 653, decreased in 2012 by 26 to 671 from 697 in 2011. The health care reform focus on the prevention of readmissions as well as the continued review of admission criteria causes management to expect very little growth in acute patient volumes from year to year in the current environment. Swing bed discharges were constant for fiscal year 2013 for a total of 90 discharges; same as 2012. It is management's opinion that advancements in technology that include less invasive orthopedic procedures are contributing to the current levels in swing bed patient volume to remain at the current levels. Outpatient visits (Perry, Iowa location only) decreased in 2013 by 1679 visits to 24,875 compared to a decrease of 753 to 26,554 visits in fiscal year 2012. Surgical volumes completed the year with 737 procedures; down from the 2012 volumes of 820. Imaging services volumes were comparable to prior year volumes with a 30% volume increase in ultrasound procedures. A change to increase ultrasound tech hours and range of competency in types of tests supported the increase of 183 procedures to 801 from 618 in 2012. The number of specialists providing services continues held constant. Specialty clinic visits decreased by 333 visits or 7% in 2013 from 2012.
- **Net Patient Service Revenue:** Gross patient service revenue increased by \$1,533,081 or 9.4% compared to fiscal year 2012. During the fiscal year, Dallas County Hospital's contractual allowances (the difference between billed charges and paid charges from third party payers) increased by \$1,894,448. Contractual allowances as a percentage of gross patient revenue increased to 34.2% of gross charges in 2013 compared to 25.8% in 2012. The change in contractual allowances is the result in a decline in payer reimbursement and also the addition of a full year of the Hospital billing for CRNA professional services effective January 1, 2012. Contractual allowances increased due to a 2% decrease in reimbursement from CMS effective April 1, 2013 due to Federal mandated sequestration and an appeal that is currently occurring in regards to the disallowance of home office expense allocations from the Hospital's management partner.
- **Point of Service Estimates:** The Hospital began the implementation of a Payment Navigation project in April 2012 which is a tool to estimate and share the patient's financial obligation prior to any test or procedure being performed. The first area of implementation occurred in the surgery department. Throughout the fiscal year 2013 other departments were brought on line so as of June 30, 2013 Surgery, Radiology, Emergency, Ambulatory care and other outpatient services are all utilizing the Payment Navigation program. Implementation in each department involves a collaborative approach between clinical and patient access staff to develop a process to capture the demographic, insurance and procedure code information prior to the patients visit. Key metrics that are tracked with this program include patient satisfaction, dollars collected at time of service, collection costs, bad debt expense, and percent of patients returned to discharge center after the ER visit. All indicators continue to improve as the program matures. Patients are sharing their appreciation of this new service to provide them information about the financial costs of their hospital care prior to or at the time of the visit. This is also allowing the patient to make an informed decision regarding which type of facility is the best to perform the test for them financially as well as clinically.
- **Changes in Net Position:** In fiscal year 2013, \$87,147 was transferred to Spring Valley, Inc. and Dallas County Hospital Foundation, Inc., compared to \$82,946 in 2012. 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, 2013, 2012 and 2011:

Table 3 - Payer Mix by Percentage

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medicare	43.5%	41.3%	43.0%
Blue Cross (Wellmark)	21.1%	21.4%	20.4%
Medicaid	11.7%	12.4%	10.5%
Private Pay	3.9%	5.7%	5.2%
Other Commercial Insurance	<u>19.8%</u>	<u>19.2%</u>	<u>20.9%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Dallas County Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

Significant changes in operations from fiscal year 2013:

- **Other Operating Revenue:** Fiscal year 2013 showed a decrease of \$60,291 in other operating revenue. The Hospital, through the Health Information Technology for Economic and Clinical Health Act, completed the criteria to meet the meaningful use designation for State I of the implementation of an electronic health record in 2012. Incentive dollars recorded as other operating revenue in 2013 and 2012 were \$47,200 and \$113,992, respectively thus causing the decrease mentioned above.
- **Salary & Benefits Expense:** Salary expense increased \$38,885 or (.9%). Salary and benefit expense constitutes 40.9% of total expenses in 2013 and 40.6% in 2012. Full time equivalents (FTE's) remained constant at 89.48 in 2013 compared to 89.56 in 2012. The Hospital management continues the effort to match staffing levels with patient volumes through low census policies and practices as well as each position at time of turnover is evaluated for the opportunity of realignment of responsibilities within current staffing levels. This Hospital, while being in close proximity to the Des Moines, Iowa metropolitan area and the continued increase in regulatory requirements, strives to be fiscally responsible with its resources and proactively adjust wages to retain and attract talented and qualified staff. At the same time the Hospital must ensure adequate support staff is available to monitor and administer regulations to remain compliant with State and Federal guidelines.
- **Professional Fees:** Fiscal year 2013 showed an increase of \$92,335 or 2.76% increase in professional fees.
- **Depreciation and Amortization:** Fiscal year 2013 showed an increase in depreciation and amortization by \$180,440.
- **Supplies and Other Expenses:** Fiscal year 2013 showed a decrease in other expenses of \$153,747.

Significant changes in operations from fiscal year 2012:

- **Other Operating Revenue:** Fiscal year 2012 showed an increase of \$159,745 in other operating revenue. The Hospital, through the Health Information Technology for Economic and Clinical Health Act, completed the criteria to meet the meaningful use designation for Phase I of the implementation of an electronic health record. Incentive dollars recorded as other operating revenue in 2012 and included in the increase above were \$113,992.
- **Salary & Benefits Expense:** Salary expense decreased \$184,133 or (4.2%). Salary and benefit expense constitutes 40.6% of total expenses in 2012 and 39.1% in 2011. Full time equivalents (FTE's) decreased from 94.39 in 2011 to 89.56 in 2012. The decrease of 4.83 FTE's was as a result of continued efforts of Hospital management to match staffing levels with patient volumes. Each position at time of turnover is evaluated for the opportunity of realignment of responsibilities within current staffing levels. This Hospital, while being in close proximity to the Des Moines, Iowa metropolitan area and the continued increase in regulatory requirements, strives to be fiscally responsible with its resources and proactively adjust wages to retain and attract talented and qualified staff. At the same time the Hospital must ensure adequate support staff is available to monitor and administer regulations to remain compliant with State and Federal guidelines.
- **Professional Fees:** Fiscal year 2012 showed a decrease of \$325,145 or (8.85)% decrease in professional fees.
- **Depreciation and Amortization:** Fiscal year 2012 showed an increase in depreciation and amortization by \$69,888.
- **Supplies and Other Expenses:** Fiscal year 2012 showed a decrease in other expenses of \$553,921.
- **Supplies:** The decrease in supply expense is in relation to the decreased revenue in both Inpatient and Outpatient services as well as the continued savings experienced from the migration to group purchasing organization contracts in fiscal year 2012.

NOTES RECEIVABLE

During fiscal year 2012, the Hospital entered into a loan agreement with Spring Valley, Inc. for \$3,495,000. Spring Valley used the proceeds to refund outstanding revenue bonds of which the Hospital was the guarantor of the debt service payments. The loan is secured by the future net revenue of Spring Valley and a mortgage of the Spring

Dallas County Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

Valley facilities. The Hospital also entered into a line of credit with a local lending institution to assist with any short term cash flow obligations during the first years of the loan agreement with Spring Valley. As of June 30, 2013 the Hospital made no draws on the line of credit and did not renew the line of credit on its termination date of September 30, 2013.

CAPITAL ASSETS

At the end of fiscal year 2013, the Hospital has invested a total of \$8,234,008 in capital assets. \$7,956,221 is related to the purchase of two buildings; one of which the Hospital was a majority tenant and the other the physician medical office building. Other capital expenditures in 2013 included remodel of the patient registration kiosk, a PFT machine for \$31,325, a catalytic converter for the generator to meet new EPA regulations and miscellaneous other items.

At the end of fiscal year 2012, the Hospital has invested a total of \$842,609 in capital assets. \$451,562 purchased a new CAT Scan machine and contrast injector and \$95,490 was expended to remodel the department for the new equipment. Other capital investments included a new phone system, energy efficiency improvements, and miscellaneous other items. The Hospital continued the journey to meet meaningful use therefore also invested an additional \$117,044 toward the technology infrastructure to meet the Phase I requirement during fiscal year 2012.

The following table summarizes the Hospital's capital assets as of June 30, 2013, 2012 and 2011:

Table 4 - Capital Assets

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Land	\$ 69,523	69,523	69,523
Land Improvements	1,780,959	1,780,959	1,780,959
Buildings and fixed equipment	21,478,980	13,477,173	14,255,135
Major moveable equipment	5,502,087	5,448,271	5,405,802
Construction in progress	<u>1,500</u>	<u>--</u>	<u>14,652</u>
Subtotal	28,762,026	20,775,926	21,526,071
Less accumulated depreciation	<u>10,571,652</u>	<u>9,161,076</u>	<u>9,584,270</u>
Capital assets, net	<u>\$ 18,261,397</u>	<u>11,614,850</u>	<u>11,941,801</u>

DEBT ADMINISTRATION

Long-Term Debt

At June 30, 2013 and 2012, the Hospital had \$-0- in short- and long-term debt. All outstanding debt was retired in fiscal year 2010 and no new debt has been issued as of end of fiscal year 2013.

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 Administration at Dallas County Hospital, 610 10th Street, Perry, Iowa 50220. Phone number 515-465-3547.

Dallas County Hospital

Statements of Net Position June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 644,385	819,313
Short-term investments	2,859,611	1,872,611
Current portion of note receivable - Spring Valley	--	134,205
Receivables -		
Patient, net of allowance for doubtful accounts of \$376,643 in 2013 and \$452,659 in 2012	1,272,226	962,430
Other	96,887	261,306
Succeeding year property tax	2,116,181	2,186,519
Inventories	204,616	210,248
Prepaid expenses	143,201	103,419
	<u>7,337,107</u>	<u>6,550,051</u>
Assets limited as to use	9,842,411	15,730,170
Long-term portion of note receivable - Spring Valley	3,426,229	3,360,795
Capital assets, net	<u>18,261,397</u>	<u>11,614,850</u>
	<u>\$ 38,867,144</u>	<u>37,255,866</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 864,278	517,930
Salaries, wages and accrued vacation payable	470,263	450,912
Payroll taxes withheld	112,097	100,948
Estimated third-party payor settlements - Medicare and Medicaid	1,527,354	785,349
Deferred Medicare revenue	44,867	83,208
Deferred revenue for previous year property taxes	173,732	137,902
	<u>3,192,591</u>	<u>2,076,249</u>
Deferred revenue for succeeding year property tax receivable	<u>2,116,181</u>	<u>2,186,519</u>
	<u>5,308,772</u>	<u>4,262,768</u>
NET POSITION		
Net investment in capital assets	18,261,397	11,614,850
Unrestricted	<u>15,296,975</u>	<u>21,378,248</u>
	<u>33,558,372</u>	<u>32,993,098</u>
	<u>\$ 38,867,144</u>	<u>37,255,866</u>

See notes to financial statements

Dallas County Hospital

Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 11,793,814	12,155,181
Provision for bad debt	<u>(822,375)</u>	<u>(850,998)</u>
Net patient service revenue	10,971,439	11,304,183
Other operating revenue	<u>366,808</u>	<u>427,099</u>
Total operating revenue	<u>11,338,247</u>	<u>11,731,282</u>
OPERATING EXPENSES:		
Salaries	4,271,852	4,232,967
Employee benefits	1,113,387	1,036,720
Professional fees	3,442,329	3,349,994
Supplies and other	2,682,008	2,835,755
Depreciation and amortization	1,529,052	1,348,612
Insurance	<u>136,703</u>	<u>163,663</u>
Total operating expenses	<u>13,175,331</u>	<u>12,967,711</u>
OPERATING LOSS	<u>(1,837,084)</u>	<u>(1,236,429)</u>
NONOPERATING REVENUE, NET:		
County tax revenue	2,188,111	2,055,992
Rental property, net -		
Including depreciation of \$59,909 in 2013 and \$0 in 2012	58,246	26,150
Investment income	253,584	274,067
Loss on disposal of capital assets	--	(11,952)
Other nonoperating expense, net	<u>(9,360)</u>	<u>(9,360)</u>
Nonoperating revenue, net	<u>2,490,581</u>	<u>2,334,897</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CHANGE IN NET UNREALIZED GAINS AND LOSSES AND CAPITAL GRANTS AND CONTRIBUTIONS	653,497	1,098,468
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	(84,379)	56,566
CAPITAL GRANTS AND CONTRIBUTIONS	83,303	33,820
TRANSFERS TO FOUNDATION AND SPRING VALLEY	<u>(87,147)</u>	<u>(82,946)</u>
INCREASE IN NET POSTION	565,274	1,105,908
NET POSITION, Beginning of year	<u>32,993,098</u>	<u>31,887,190</u>
NET POSITION, End of year	<u>\$ 33,558,372</u>	<u>32,993,098</u>

See notes to financial statements

Dallas County Hospital

Statements of Cash Flows For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 11,365,307	11,451,061
Cash paid to employees for salaries and benefits	(5,354,738)	(5,224,708)
Cash paid to suppliers and contractors	(5,955,769)	(6,417,118)
Other receipts and payments, net	<u>522,437</u>	<u>221,148</u>
Net cash provided by operating activities	<u>577,237</u>	<u>30,383</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County taxes received	<u>2,230,297</u>	<u>2,134,693</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(8,235,507)	(1,040,191)
Capital grants and contributions	<u>83,303</u>	<u>33,820</u>
Net cash used in capital and related financing activities	<u>(8,152,204)</u>	<u>(1,006,371)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from (deposits to) short term investments, net	(987,000)	1,559,156
Withdrawals from assets limited as to use, net	5,769,090	1,054,990
Investment income	287,873	242,688
Cash received from rental property	118,155	26,150
Payments received from Spring Valley for note receivable	68,771	--
Note receivable provided to Spring Valley	--	(3,495,000)
Transfers to Foundation and Spring Valley	<u>(87,147)</u>	<u>(82,946)</u>
Net cash provided by (used in) investing activities	<u>5,169,742</u>	<u>(694,962)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(174,928)	463,743
CASH AND CASH EQUIVALENTS, Beginning of year	<u>819,313</u>	<u>355,570</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 644,385</u>	<u>819,313</u>

See notes to financial statements

Dallas County Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,837,084)	(1,236,429)
Adjustments to reconcile operating loss to net cash provided by operating activities -		
Other nonoperating expense, net	(9,360)	(9,360)
Depreciation and amortization	1,529,052	1,348,612
(Increase) decrease in current assets -		
Receivables -		
Patients	(309,796)	2,300
Other	158,063	(196,591)
Inventories	5,632	7,990
Prepaid expenses	(39,782)	76,883
Increase (decrease) in current liabilities -		
Accounts payable	346,348	(152,579)
Salaries, wages and accrued vacation payable	19,351	25,814
Payroll taxes withheld	11,149	19,165
Estimated third-party payor settlements - Medicare and Medicaid	742,005	61,370
Deferred Medicare revenue	<u>(38,341)</u>	<u>83,208</u>
 Net cash provided by operating activities	 <u>\$ 577,237</u>	 <u>30,383</u>

See notes to financial statements

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

Statements of Financial Position
June 30, 2013 and 2012

ASSETS	2013	2012
CURRENT ASSETS		
Cash	\$ 124,027	45,725
Accounts receivables	3,528	3,022
Prepaid expenses	3,414	5,579
Total current assets	<u>130,969</u>	<u>54,326</u>
RESTRICTED CASH AND INVESTMENTS		
Debt service fund	389	76,764
Debt reserve fund	148,277	234,649
Repair and replacement fund	84,108	74,647
Total restricted cash and investments	<u>232,774</u>	<u>386,060</u>
PROPERTY AND EQUIPMENT		
Spring Valley Retirement Facility	4,964,652	4,961,472
Less accumulated depreciation and amortization	<u>2,580,761</u>	<u>2,375,241</u>
Total property and equipment	<u>2,383,891</u>	<u>2,586,231</u>
OTHER ASSET		
Deferred debt issue costs, net of accumulated amortization	<u>18,145</u>	<u>20,200</u>
Total assets	<u>\$ 2,765,779</u>	<u>3,046,817</u>
LIABILITIES AND NET (DEFICIT)		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ --	134,205
Accounts payable	51,415	24,485
Accrued payroll	13,302	9,668
Deposits	53,750	36,700
Accrued interest	25,206	21,321
Deferred rent revenue	3,019	2,990
Total current liabilities	<u>146,692</u>	<u>229,369</u>
LONG-TERM DEBT , less current maturities	<u>3,926,229</u>	<u>3,860,795</u>
NET (DEFICIT)		
Unrestricted	<u>(1,307,142)</u>	<u>(1,043,347)</u>
Total liabilities and net (deficit)	<u>\$ 2,765,779</u>	<u>3,046,817</u>

See notes to financial statements.

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

Statements of Activities
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues		
Contributions and grants	\$ 1,602	406
Rental income		
Assisted and independent living units	906,281	1,048,668
Garage, guest room and other	22,668	23,072
Meal income	1,406	1,526
Catering	4,750	5,009
Investment return	982	1,052
Total unrestricted revenues	<u>937,689</u>	<u>1,079,733</u>
Net asset released from restriction	--	49,018
Total unrestricted revenues and other support	<u>937,689</u>	<u>1,128,751</u>
Expenses		
Program services		
Salaries	526,633	482,346
Fringe benefits and payroll taxes	92,007	86,359
Meals	63,427	70,966
Total program services	<u>682,067</u>	<u>639,671</u>
Supporting services		
Administration and general	94,653	96,504
Management fee	52,500	52,500
Rent expense	8,470	8,470
Operation of plant	102,884	101,455
Depreciation and amortization	207,575	311,208
Total supporting services	<u>466,082</u>	<u>570,137</u>
Interest	<u>103,335</u>	<u>211,824</u>
Total expenses	<u>1,251,484</u>	<u>1,421,632</u>
(Decrease) in unrestricted net assets before transfers	(313,795)	(292,881)
Transfers from Dallas County Hospital	<u>50,000</u>	<u>--</u>
(Decrease) in unrestricted net assets	<u>(263,795)</u>	<u>(292,881)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions from Dallas County Hospital	--	46,400
Net assets released from restriction	--	(49,018)
(Decrease) in temporarily restricted net assets	<u>--</u>	<u>(2,618)</u>
CHANGE IN NET (DEFICIT)	(263,795)	(295,499)
NET (DEFICIT)		
Beginning	<u>(1,043,347)</u>	<u>(747,848)</u>
Ending	<u>\$ (1,307,142)</u>	<u>(1,043,347)</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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net (deficit)	\$ (263,795)	(295,499)
Adjustments to reconcile change in net (deficit) to net cash (used in) operating activities		
Depreciation and amortization	207,575	311,208
Unrealized and realized loss on investments	1,158	5,959
Change in assets and liabilities		
Decrease in prepaid expenses	2,165	4,997
(Increase) decrease in accounts receivables	(506)	7,366
Increase (decrease) in accounts payable, net of amounts for property and equipment	26,930	(6,788)
Increase (decrease) in accrued payroll	3,634	(16,373)
Increase (decrease) in deposits	17,050	(12,750)
Increase (decrease) in accrued interest	3,885	(59,372)
Increase in deferred rent revenue	29	2,990
Net cash (used in) operating activities	<u>(1,875)</u>	<u>(58,262)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Liquidation of debt service fund	76,375	55,749
Liquidation of debt reserve fund	85,214	150,543
(Funding) of repair and replacement fund	(9,461)	(7,208)
Purchase of property and equipment	<u>(3,180)</u>	<u>(2,649)</u>
Net cash provided by investing activities	<u>148,948</u>	<u>196,435</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	--	3,495,000
Payments on long-term borrowings	(68,771)	(3,705,000)
Payment of debt issuance costs	<u>--</u>	<u>(20,542)</u>
Net cash (used in) financing activities	<u>(68,771)</u>	<u>(230,542)</u>
NET INCREASE (DECREASE) IN CASH	78,302	(92,369)
CASH		
Beginning	<u>45,725</u>	<u>138,094</u>
Ending	<u>\$ 124,027</u>	<u>45,725</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 99,450</u>	<u>271,196</u>

See notes to financial statements.

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

(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.

A. *Reporting Entity*

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.

For financial reporting purposes, the 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, 2013 and 2012, 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 14 – 16.

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.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for the Hospital. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential health care services through limited service hospitals and rural health networks. A Critical Access Hospital (CAH) is an acute care facility that provides emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis. The Hospital's application to become certified as a CAH was approved by the Iowa Department of Public Health and the certification was effective July 1, 2001.

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.

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

C. *Basis of Presentation*

The statements of net position display the Hospital's assets and liabilities, with the differences reported as net position. Net position is reported in two categories:

Net investments in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Unrestricted – This component of net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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 financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

Pursuant to Section 1600 of the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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.

G. *Patient Receivable, Net*

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.

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

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. *Inventories*

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

I. *Property Tax Receivable*

For the years ended June 30, 2013 and 2012, the Hospital received approximately 16% and 15%, respectively, of its financial support from property tax revenue, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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 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 that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

J. *Assets Limited as to Use*

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.

K. *Fair Value of Financial Instruments*

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use, accounts receivable, and accounts payable approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

L. *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

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

The Hospital's capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of capital assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of expenses over revenue, unless explicit donor stipulations specify how the donated assets must be used. Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as restricted support. Absent explicit donor stipulations about how long those capital assets must be maintained, expirations of donor restrictions are reported when the donated or acquired capital assets are placed into service.

M. 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.

N. Deferred Revenue for Previous Year Property Taxes

Deferred revenue consists of property taxes received but not spent.

O. Investments in Debt and Equity Securities

Investments in debt and equity securities, including securities held through external investment pools, are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Interest, dividends, and realized gains and losses on investments in debt and equity securities are included in nonoperating revenue unless restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses unless the investment are trading securities.

P. Statements of Revenue, Expenses and Changes in Net Position

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.

Q. 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. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. 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. 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.

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

R. *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.

S. *Charity Care*

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

T. *Management*

The Hospital is a provider of healthcare services as a Critical Access Hospital. During the year, the Hospital had an agreement for management services with Mercy Health Network, Inc. Administration and support services fees of \$401,093 and \$411,844 were incurred for the years ended June 30, 2013 and 2012, respectively.

U. *Risk Management*

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

V. *Income Taxes*

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business tax able income.

Spring Valley is exempt from income taxes under Section 510 of the Internal Revenue Code and a similar provision of state law. However, Spring Valley is subject to federal income tax on any unrelated business taxable income.

W. *Reclassification*

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 reporting format.

X. *Change in Accounting Principle*

During 2013, the Hospital has adopted the provisions of GASB Statement No. 63. GASB Statements No. 63 required additional changes such as now referring to "Net Assets" as "Net Position" on the statements of net position.

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

Y. Subsequent Events

The Hospital considered events occurring through October 11, 2013 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Deposits and Investments

The Hospital's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The 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 manages the following risks in accordance with their investment policy:

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 rate of return.

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013, the Hospital's investments in government agency securities are guaranteed by the U.S. Government.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Hospital's investments at June 30, 2013, are held by the third-party custodians in the Hospital's name.

Concentration of Credit Risk: The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2013, the Hospital's investments in government agency securities constituted 100% of its total investments.

The Hospital's investments are carried at fair value. As of June 30, 2013 and 2012, the Hospital's investments, including assets limited as to use, consisted of the following:

	<u>2013</u>	<u>2012</u>
Cash and money market funds	\$ 775,544	6,045,149
Certificates of deposit	7,665,743	6,468,554
Government Agency Securities	4,125,185	4,919,238
Accrued interest receivable	<u>135,550</u>	<u>169,840</u>
	<u>\$ 12,702,022</u>	<u>17,602,781</u>

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

(3) 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, 2011.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. The "American Taxpayer Relief Act of 2012" postponed sequestration for two months. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, will incur a two percent reduction in Medicare payment.

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.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue:		
Inpatient	\$ 1,288,969	1,190,107
Outpatient	15,817,829	14,311,326
Swingbed	<u>811,573</u>	<u>883,857</u>
Total gross patient service revenue	<u>17,918,371</u>	<u>16,385,290</u>
Contractual adjustments:		
Medicare	(2,613,835)	(1,282,040)
Medicaid	(918,560)	(1,025,202)
Other	(1,959,724)	(1,340,197)
Charity care services	<u>(632,438)</u>	<u>(582,670)</u>
Total contractual adjustments	<u>(6,124,557)</u>	<u>(4,230,109)</u>
Net patient service revenue before provision for bad debt	<u>\$ 11,793,814</u>	<u>12,155,181</u>

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 44% and 12%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2013 compared to 41% for Medicare and 13% for Medicaid in 2012. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. 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. The 2013 and 2012 net patient service revenue increased (decreased) approximately (\$125,000) and \$224,000, respectively, due to additional allowances necessary or removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews and investigations.

(4) Other Operating Revenue

Other operating revenue for the years ended June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Atrium rental	\$ 93,233	--
Nutritional service	86,642	79,521
Other	55,480	37,987
Electronic health record incentive payments	47,200	113,992
South addition maintenance	44,861	59,225
Vendor discounts/rebates	21,352	64,664
Grant revenue	9,782	63,968
Medical records transcripts	<u>8,258</u>	<u>7,742</u>
	<u>\$ 366,808</u>	<u>427,099</u>

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2012, the Hospital qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2015. The incentive amount is computed using several elements, one of which includes using the value of un-depreciated assets required to implement the EHR system. The Hospital elected to record \$-0- and \$76,900 in 2013 and 2012, respectively, of the incentive payment as other operating revenue in the period earned, and defer remaining amounts related to future Medicare reimbursement. In addition, the Iowa Department of Health and Human Services (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2014. The Hospital has recognized \$47,200 and \$37,092 in 2013 and 2012, respectively, as other revenue. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

(5) Notes Receivable – Spring Valley

On April 16, 2012 the Hospital entered into a loan agreement (Loan) with Spring Valley for \$3,495,000. Spring Valley used the proceeds to refund the outstanding Independent and Assisted Living Facility Revenue Bonds (Spring Valley Project), Series 2001. The Loan is evidenced by a promissory note (Note) to the Hospital from Spring Valley. The interest rate on the outstanding principal balance of the Note is 3% per annum through April 1, 2017, at which time the interest rate will increase to 4% per annum. The Note is secured by future net revenue of Spring Valley and a mortgage on Spring Valley's facilities. On April 16, 2022, a balloon payment of \$2,045,743 is due. A summary of future principal and interest receipts as of June 30, 2013 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ --	102,787	102,787
2015	--	102,787	102,787
2016	65,434	102,787	168,221
2017	133,827	99,828	233,655
2018	122,686	127,864	250,550
2019 - 2023	3,104,282	464,059	3,568,341
	\$ <u>3,426,229</u>	<u>1,000,112</u>	<u>4,426,341</u>

See Note 17 for subsequent event relating to Spring Valley.

(6) Assets Limited as to Use

By Board

Cash deposits, certificates of deposit, and government agency securities designated by the Board for future capital improvements as of June 30, 2013 and 2012, are summarized as follows:

	<u>2013</u>	<u>2012</u>
Capital Improvements -		
Cash and money market funds	\$ 522,933	4,992,538
Certificates of deposit	5,058,743	5,648,554
Government Agency Securities	4,125,185	4,919,238
Accrued interest receivable	135,550	169,840
	\$ <u>9,842,411</u>	<u>15,730,170</u>

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

(7) Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012 were as follows:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	--	94,173	(92,673)	1,500
Total capital assets, not being depreciated	<u>69,523</u>	<u>94,173</u>	<u>(92,673)</u>	<u>71,023</u>
Capital assets, being depreciated:				
Land Improvements	1,780,959	--	--	1,780,959
Buildings and fixed equipment	13,477,173	8,004,084	(2,277)	21,478,980
Major moveable equipment	5,448,271	229,924	(176,108)	5,502,087
Total capital assets, being depreciated	<u>20,706,403</u>	<u>8,234,008</u>	<u>(178,385)</u>	<u>28,762,026</u>
Less accumulated depreciation:				
Land Improvements	(311,075)	(126,108)	--	(437,183)
Buildings and fixed equipment	(5,359,673)	(900,111)	2,275	(6,257,509)
Major moveable equipment	(3,490,328)	(562,742)	176,110	(3,876,960)
Total accumulated depreciation	<u>(9,161,076)</u>	<u>(1,588,961)</u>	<u>178,385</u>	<u>(10,571,652)</u>
Total capital assets, being depreciated, net	<u>11,545,327</u>	<u>6,645,047</u>	<u>--</u>	<u>18,190,374</u>
Total capital assets, net	<u>\$ 11,614,850</u>	<u>6,739,220</u>	<u>(92,673)</u>	<u>18,261,397</u>
	<u>June 30, 2011</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	14,652	197,882	(212,534)	--
Total capital assets, not being depreciated	<u>84,175</u>	<u>197,882</u>	<u>(212,534)</u>	<u>69,523</u>
Capital assets, being depreciated:				
Land Improvements	1,780,959	--	--	1,780,959
Buildings and fixed equipment	14,255,135	64,063	(842,025)	13,477,173
Major moveable equipment	5,405,802	778,546	(736,077)	5,448,271
Total capital assets, being depreciated	<u>21,441,896</u>	<u>842,609</u>	<u>(1,578,102)</u>	<u>20,706,403</u>
Less accumulated depreciation:				
Land Improvements	(184,967)	(126,108)	--	(311,075)
Buildings and fixed equipment	(5,600,309)	(686,219)	926,855	(5,359,673)
Major moveable equipment	(3,798,994)	(536,285)	844,951	(3,490,328)
Total accumulated depreciation	<u>(9,584,270)</u>	<u>(1,348,612)</u>	<u>1,771,806</u>	<u>(9,161,076)</u>
Total capital assets, being depreciated, net	<u>11,857,626</u>	<u>(506,003)</u>	<u>193,704</u>	<u>11,545,327</u>
Total capital assets, net	<u>\$ 11,941,801</u>	<u>(308,121)</u>	<u>(18,830)</u>	<u>11,614,850</u>

Depreciation expense of \$1,588,961 and \$1,348,612 in 2013 and 2012, respectively, is included in the accompanying statements of revenue, expenses and change in net position.

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

(8) Line of Credit

On April 16, 2012 the Hospital entered into a \$3,700,000 line of credit with West Bank. The line of credit has a maturity date of September 30, 2013 and bears interest at a variable rate not less than 3%. As of June 30, 2013, the Hospital made no draws on the line of credit and had no outstanding balance at June 30, 2013. Subsequent to year end, the line of credit was not renewed.

(9) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$4,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. 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.

Accounting principles generally accepted in the United States of America require a healthcare provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. The Hospital does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. For the years ending June 30, 2013 and 2012, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying financial statements.

(10) 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 their 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 5.78% and 5.38% of their annual covered salary and the Hospital is required to contribute 8.67% and 8.07% of annual covered payroll for the years ended June 30, 2013 and 2012, respectively. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$365,369, \$333,283, and \$302,006, respectively, equal to the required contributions for each year.

(11) Operating Leases

Prior to December 2012, the Hospital leased 23,734 rentable square feet (74.99%) of an attached building on the Hospital's campus under a 164 month non-cancelable operating lease (South Building Addition). Rental expense for the operating lease was \$165,686 and \$371,297 for the years ended June 30, 2013 and 2012, respectively. In December 2012, the Hospital entered into an agreement of sale and purchase (Agreement) to acquire the entire south building addition, a portion of which was leased by the Hospital, and a medical office building (MOB) which was being leased by a physician clinic group. The purchase price for the South Building Addition and MOB was \$7,956,221.

Additionally, the Hospital leases surgical equipment under a 48 month operating lease. The monthly lease payments, which includes service coverage, for the operating lease are minimum monthly payments of \$3,348 over the term of the lease. Rental expense for the lease was \$40,173 and \$26,782 for the years ended June 30, 2013 and 2012, respectively.

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2013:

2014	\$	130,433
2015		80,133
2016		57,626
2017		57,626
2018		<u>10,020</u>
Total	\$	<u>335,838</u>

(12) Concentration of Credit Risk

The Hospital is located in Perry, Iowa. 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>2013</u>	<u>2012</u>
Medicare	29%	17%
Medicaid	7	8
Blue Cross	18	16
Other commercial insurance	21	23
Private pay	<u>25</u>	<u>36</u>
	<u>100%</u>	<u>100%</u>

(13) Contingencies

The Hospital is involved in litigation arising in the normal course of business. After consulting with legal counsel, management estimates these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

(14) Rental Income

The Hospital is the lessor of certain space under various noncancelable-operating leases with terms from one to twelve years. Rental income is recorded monthly when earned.

The following is a schedule by year of future minimum receipts under operating leases as of June 30, 2013, that have lease terms in excess of one year:

<u>Year</u>	<u>Amount</u>
2014	\$ 293,863
2015	268,096
2016	226,366
2017	197,974
2018	196,694
Thereafter	1,496,376

Dallas County Hospital

Notes to Financial Statements June 30, 2013 and 2012

(15) 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 statements of financial position, statements of activities and statements of cash flows of and for the years ended June 30, 2013 and 2012 are included on pages 14-16.

Spring Valley constructed a senior housing facility on the campus of the Hospital entitled the Spring Valley Project (Project). Included in the Project was 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 would have remained in effect until the date on which the entire principal and interest on the bonds was provided for. In 2012, the Hospital entered into a loan agreement with Spring Valley for \$3,495,000 to refund the outstanding bonds (See Notes 5 and 17).

The Hospital has included transfers to Spring Valley of \$50,000 and \$46,345 for the years ended June 30, 2013 and 2012, respectively, in the statements of revenue, expenses and changes in net position. These amounts are related to capital advances 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 14. 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.

(16) Foundation

On July 1, 2006, Dallas County Hospital Foundation, Inc. (Foundation) was established to raise funds to support the 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 \$109,421 and \$109,671 at June 30, 2013 and 2012, respectively. The Hospital has included transfers to the Foundation of \$37,147 and \$36,601 for the years ended June 30, 2013 and 2012, respectively, in the statement of revenues, expenses and changes in net position. These amounts were to support the operations of the Foundation. The Foundation transferred grants totaling \$93,085 and \$97,788 as of June 30, 2013 and 2012, respectively, for operating and capital needs of the Hospital.

(17) Subsequent Event

In September 2013, Spring Valley entered into a lease agreement with Lutheran Home for the Aged Assoc-West d/b/a Perry Lutheran Home (the Home) whereby Spring Valley would lease its entire facility to the Home and would cease operations of the independent and assisted living facility. The initial term of the lease is ten years with a right to extend five years if the Home is not in default. The Home will be responsible for all costs associated with the facility and will be required to make the following rent payments:

<u>Months</u>	<u>Monthly Rent</u>
1 – 29	\$ 22,059
30 – 78	23,537
79 – 120	23,615

Dallas County Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position Budget and Actual (Cash Basis) Required Supplementary Information For the Year Ended June 30, 2013

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.

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.

For the year ended June 30, 2013, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Amount to be raised by taxation	\$ 2,188,111	42,186	2,230,297	2,186,519	43,778
Estimated other revenues / receipts	<u>11,649,001</u>	<u>796,845</u>	<u>12,445,846</u>	<u>12,829,431</u>	<u>(383,585)</u>
Total	13,837,112	839,031	14,676,143	15,015,950	(339,807)
Expenses / Disbursements	<u>13,271,838</u>	<u>6,479,992</u>	<u>19,751,830</u>	<u>26,094,541</u>	<u>6,342,711</u>
Net	565,274	(5,640,961)	(5,075,687)	\$ <u><u>(11,078,591)</u></u>	<u><u>6,002,904</u></u>
Balance beginning of year	<u>32,993,098</u>	<u>(14,571,005)</u>	<u>18,422,094</u>		
Balance end of year	\$ <u><u>33,558,372</u></u>	<u><u>(20,211,965)</u></u>	<u><u>13,346,407</u></u>		

See accompanying independent auditor's report

**Patient Service Revenue
For the Years Ended June 30, 2013 and 2012**

	2013				2012			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Medical/surgical	\$ 741,700	162,436	--	904,136	664,880	62,698	--	727,578
Swing bed	--	--	489,840	489,840	--	--	534,112	534,112
	<u>741,700</u>	<u>162,436</u>	<u>489,840</u>	<u>1,393,976</u>	<u>664,880</u>	<u>62,698</u>	<u>534,112</u>	<u>1,261,690</u>
OTHER PROFESSIONAL SERVICES:								
Emergency department	23,245	2,968,365	400	2,992,010	30,384	2,695,251	--	2,725,635
Operating room	14,385	2,602,590	2,445	2,619,420	16,765	2,694,037	11,235	2,722,037
Laboratory	103,162	2,077,506	30,022	2,210,690	93,334	1,541,499	21,813	1,656,646
Physical therapy	4,175	1,319,311	86,370	1,409,856	7,223	1,295,462	84,987	1,387,672
Pharmacy	168,606	1,008,932	109,409	1,286,947	181,709	1,103,688	155,802	1,441,199
Radiology	9,440	1,148,296	6,895	1,164,631	14,101	1,004,092	5,307	1,023,500
CT scans	49,030	1,045,070	4,000	1,098,100	41,011	939,567	--	980,578
Emergency physicians	6,330	1,076,654	--	1,082,984	9,117	1,035,171	--	1,044,288
Mobile MRI	27,870	422,605	--	450,475	6,584	374,484	2,959	384,027
Ultrasounds	22,084	404,040	4,190	430,314	13,121	280,672	3,594	297,387
Anesthesia	4,440	360,330	--	364,770	1,230	199,871	--	201,101
Cardiopulmonary	50,835	260,060	29,994	340,889	48,481	192,057	14,795	255,333
Sleep studies	--	262,530	--	262,530	--	240,648	--	240,648
Occupational therapy	1,455	159,620	31,720	192,795	1,800	175,305	26,095	203,200
Electrocardiology	6,320	164,634	620	171,574	6,291	144,111	979	151,381
Echocardiology	13,200	128,635	--	141,835	4,557	84,264	10,699	99,520
Intravenous therapy	38,925	53,973	11,025	103,923	40,565	63,602	10,295	114,462
Speciality clinic	--	49,755	--	49,755	--	43,898	--	43,898
Transfusion services	3,142	29,997	2,368	35,507	6,240	17,620	--	23,860
Nuclear medicine	--	30,615	--	30,615	929	28,932	--	29,861
Bone density	--	28,120	--	28,120	--	32,350	--	32,350
Corp wellness	--	24,890	--	24,890	--	29,355	--	29,355
Speech therapy	625	15,685	2,275	18,585	1,785	17,555	1,185	20,525
Treadmills	--	9,060	--	9,060	--	12,082	--	12,082
Dietician	--	4,120	--	4,120	--	3,055	--	3,055
	<u>547,269</u>	<u>15,655,393</u>	<u>321,733</u>	<u>16,524,395</u>	<u>525,227</u>	<u>14,248,628</u>	<u>349,745</u>	<u>15,123,600</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>1,288,969</u>	<u>15,817,829</u>	<u>811,573</u>	<u>17,918,371</u>	<u>1,190,107</u>	<u>14,311,326</u>	<u>883,857</u>	<u>16,385,290</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(5,492,119)				(3,647,439)
Charity care services and other discounts, based on charges forgone				(632,438)				(582,670)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				11,793,814				12,155,181
PROVISION FOR BAD DEBT				(822,375)				(850,998)
NET PATIENT SERVICE REVENUE				\$ <u>10,971,439</u>				<u>11,304,183</u>

See accompanying independent auditor's report

**Other Operating Revenue
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Atrium rental	\$ 93,233	--
Nutritional service	86,642	79,521
Other	55,480	37,987
Electronic health record incentive payments	47,200	113,992
South addition maintenance	44,861	59,225
Vendor discounts/rebates	21,352	64,664
Grant revenue	9,782	63,968
Medical records transcripts	8,258	7,742
	<u>\$ 366,808</u>	<u>427,099</u>

**Departmental Expenses
For the Years Ended June 30, 2013 and 2012**

	2013				2012			
	Salaries	Professional Fees	Supplies and Other	Total	Salaries	Professional Fees	Supplies and Other	Total
NURSING SERVICES:								
Medical/surgical	\$ 782,364	155,746	56,777	994,887	807,145	145,448	54,791	1,007,383
Nursing administration	444,090	--	5,562	449,652	342,498	--	7,408	349,906
	<u>1,226,454</u>	<u>155,746</u>	<u>62,339</u>	<u>1,444,539</u>	<u>1,149,643</u>	<u>145,448</u>	<u>62,198</u>	<u>1,357,289</u>
OTHER PROFESSIONAL SERVICES:								
Emergency department	344,820	1,013,814	68,774	1,427,408	411,409	998,732	71,003	1,481,144
Physical therapy	--	563,942	6,533	570,475	--	555,129	6,540	561,669
Operating room	222,198	27,296	305,962	555,456	200,730	21,887	268,113	490,730
Laboratory	264,683	6,100	278,987	549,770	250,215	6,180	308,349	564,744
Pharmacy	166,096	16,571	359,134	541,801	173,354	19,513	366,431	559,298
Radiology	(16,148)	357,333	78,890	420,075	8,590	365,999	60,458	435,047
Anesthesia	--	200,000	5,327	205,327	--	159,212	--	159,212
Cardiopulmonary	103,664	--	37,308	140,972	94,433	-	30,695	125,128
Education	32,349	1,997	64,912	99,258	21,424	2,094	4,191	27,709
Occupational therapy	--	77,118	690	77,808	--	81,280	1,612	82,892
Specialty clinic - south addition	15,545	49,467	4,217	69,229	8,765	48,173	5,607	62,545
Mobile MRI	--	59,475	--	59,475	--	51,025	--	51,025
Sleep studies	--	54,675	--	54,675	--	53,400	--	53,400
Cardiac rehabilitation	45,190	--	3,279	48,469	48,953	--	3,321	52,274
Echocardiology	--	46,321	--	46,321	--	38,581	--	38,581
CT scans	--	--	40,561	40,561	--	--	31,099	31,099
Nuclear medicine	--	15,885	--	15,885	--	15,569	--	15,569
Ultrasounds	--	--	8,980	8,980	--	--	3,573	3,573
Speech therapy	--	7,434	--	7,434	--	8,210	--	8,210
Electrocardiology	--	5,204	677	5,881	--	7,605	401	8,006
	<u>1,178,397</u>	<u>2,502,632</u>	<u>1,264,231</u>	<u>4,945,260</u>	<u>1,217,873</u>	<u>2,432,589</u>	<u>1,161,393</u>	<u>4,811,855</u>
GENERAL SERVICES:								
Facility	329,923	8,244	634,895	973,062	303,242	7,683	909,510	1,220,435
Nutritional services/dietician	171,266	30,851	119,497	321,614	157,896	27,665	116,135	301,696
Environmental services	125,602	52,207	9,528	187,337	122,045	53,187	11,966	187,198
	<u>626,791</u>	<u>91,302</u>	<u>763,920</u>	<u>1,482,013</u>	<u>583,183</u>	<u>88,535</u>	<u>1,037,611</u>	<u>1,709,329</u>
ADMINISTRATIVE SERVICES	<u>1,240,210</u>	<u>692,649</u>	<u>630,011</u>	<u>2,562,870</u>	<u>1,282,267</u>	<u>683,422</u>	<u>612,048</u>	<u>2,577,737</u>
NONDEPARTMENTAL:								
Depreciation	--	--	1,529,052	1,529,052	--	--	1,348,612	1,348,612
Employee benefits	--	--	1,074,894	1,074,894	--	--	999,226	999,226
Insurance	--	--	136,703	136,703	--	--	163,663	163,663
	<u>--</u>	<u>--</u>	<u>2,740,649</u>	<u>2,740,649</u>	<u>--</u>	<u>--</u>	<u>2,511,501</u>	<u>2,511,501</u>
TOTAL EXPENSES	<u>\$ 4,271,852</u>	<u>3,442,329</u>	<u>5,461,150</u>	<u>13,175,331</u>	<u>4,232,967</u>	<u>3,349,994</u>	<u>5,384,752</u>	<u>12,967,711</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
June 30, 2013 and 2012**

ANALYSIS OF AGING:

Days Since Discharge	2013		2012	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,243,082	59.68 %	916,117	52.55 %
31 - 60	345,278	16.64	304,394	17.46
61 - 90	202,769	9.77	161,847	9.28
91 - 120	108,428	5.22	106,299	6.10
> 120	180,457	8.69	254,617	14.61
	<u>2,080,014</u>	100.00 %	<u>1,743,274</u>	100.00 %
Less:				
Allowance for doubtful accounts	(376,643)		(452,659)	
Allowance for contractual adjustments	<u>(431,145)</u>		<u>(328,185)</u>	
	<u>\$ 1,272,226</u>		<u>962,430</u>	

	2013	2012
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	39.36 days	30.23 days

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

Balance, beginning of year	\$ 452,659	496,428
Provision of uncollectible accounts	822,375	850,998
Recoveries of accounts previously written off	225,722	257,991
Accounts written off	<u>(1,124,113)</u>	<u>(1,152,757)</u>
Balance, end of year	<u>\$ 376,643</u>	<u>452,659</u>

See accompanying independent auditor's report

**Inventory/Prepaid Expenses
June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
INVENTORY:		
Departmental	\$ 94,783	95,594
Pharmacy	78,319	82,573
General stores/central supply	26,881	27,306
Dietary	<u>4,633</u>	<u>4,775</u>
	<u>\$ 204,616</u>	<u>210,248</u>
PREPAID EXPENSES:		
Insurance	\$ 114,555	63,591
Other	<u>28,646</u>	<u>39,828</u>
	<u>\$ 143,201</u>	<u>103,419</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Patient days:		
Acute	653	671
Swingbed	627	723
Respite	<u>39</u>	<u>45</u>
Total	<u><u>1,319</u></u>	<u><u>1,439</u></u>
Patient discharges:		
Acute	201	197
Swingbed	90	90
Respite	<u>9</u>	<u>11</u>
Total	<u><u>300</u></u>	<u><u>298</u></u>
Average length of stay:		
Acute	3.25 days	3.14 days
Swingbed	6.97 days	8.03 days
Respite	4.33 days	4.09 days
Emergency room visits	5,902	5,968
Specialty clinic visits	4,192	4,525
Other outpatient visits	18,973	20,586
Number of employees - full-time equivalents	89.5	89.6

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Dallas County Hospital (Hospital) as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 11, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that were not identified.

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, 2013 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.

Purpose of this Report

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

Spim Johnson, LLP

Omaha, Nebraska,
October 11, 2013.

Dallas County Hospital

Schedule of Findings and Responses June 30, 2013

Part I: Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INSTANCES OF DEFICIENCIES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

- III-A-13 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2013.
- III-B-13 Certified Budget: Disbursements during the year ended June 30, 2013 did not exceed the amount budgeted.
- III-C-13 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-13 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-13 Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which permits a direct interest of less than or equal to \$1,500 in transactions between a Hospital Trustee or a Hospital Trustee's spouse and the Hospital.
- III-F-13 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-13 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy were noted.
- III-H-13 Publication of Bills Allowed and Salaries: Chapter 347.13(11) 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 non-compliance 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, 2013

This audit was performed by:

Roger E. Thompson, FHFMA, CPA, Partner
Vanessa Schmidt, In-Charge
Bryce Arp, Staff Auditor