

**Dallas County Hospital**  
Perry, Iowa

**Basic Financial Statements and  
Supplementary Information  
June 30, 2014 and 2013**

**Together with Independent Auditor's Report**

# Dallas County Hospital

## Table of Contents

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	<u>Page</u>
Officials - June 30, 2014 .....	1
Independent Auditor's Report .....	2 – 3
Required Supplementary Information:	
Management's Discussion and Analysis .....	4 – 9
Basic Financial Statements:	
Statements of Net Position June 30, 2014 and 2013.....	10
Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2014 and 2013 .....	11
Statements of Cash Flows For the Years Ended June 30, 2014 and 2013 .....	12 – 13
Notes to Financial Statements June 30, 2014 and 2013.....	14 – 25
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis).....	26
Other Supplementary Information:	
Exhibit 1 - Patient Service Revenue For the Years Ended June 30, 2014 and 2013 .....	27
Exhibit 2 - Other Operating Revenue For the Years Ended June 30, 2014 and 2013 .....	28
Exhibit 3 - Departmental Expenses For the Years Ended June 30, 2014 and 2013 .....	29
Exhibit 4 - Patient Receivables and Allowance for Uncollectible Accounts June 30, 2014 and 2013.....	30
Exhibit 5 - Inventory/Prepaid Expenses June 30, 2014 and 2013.....	31
Exhibit 6 - Financial and Statistical Highlights For the Years Ended June 30, 2014 and 2013 .....	32
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.....	33 – 34
Schedule of Findings and Responses .....	35
Audit Staff .....	36

# Dallas County Hospital

Officials  
June 30, 2014

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<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	September 2014
Donna Vandelaar	Chief Clinical Officer	Indefinite

## 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, 2014 and 2013, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2014 and 2013, and the respective change in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014 the Hospital adopted new accounting guidance to reflect the provisions of Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 9) and budgetary comparison information (page 26) 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 supplementary information (Exhibits 1 – 6) is the responsibility of management and was 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 supplementary information (Exhibits 1 – 6) is fairly stated, in all material respects, in relation to the basic 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 15, 2014 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.

*Sam Johnson, LLP*

Omaha, Nebraska,  
October 15, 2014.

# Dallas County Hospital

## Management's Discussion and Analysis June 30, 2014 and 2013

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### 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, 2014 and 2013. 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 basic financial statements of the Hospital include the following:

The statements of net position include all of the Hospital's assets, deferred outflows, liabilities, deferred inflows and net position and provide information about the nature and amounts of investments in resources and the obligations to the Hospital's creditors. 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 primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

### FINANCIAL HIGHLIGHTS

- Total assets increased by \$382,996 in 2014 to \$39,250,140, compared to a \$1,611,278 increase to \$38,867,144 in 2013.
- Total assets limited as to use increased by \$2,919,523 in 2014, and decreased by \$5,887,759 in 2013.
- Capital assets, net, increased by \$1,455,643 in 2014, and increased by \$6,646,547 in 2013.
- Total debt remains at zero in both 2014 and 2013.
- Total net position increased by \$1,394,329 in 2014 and by \$565,274 in 2013.
- Net patient service revenue increased by \$620,025 in 2014 and decreased by \$332,744 in 2013.
- Expenses increased by \$24,197 or 0.2% in 2014, and by \$207,620 or 2% in 2013.
- Total margin for fiscal year 2014 was 11.6% and 4.8% for fiscal year 2013.

# Dallas County Hospital

## Management's Discussion and Analysis June 30, 2014 and 2013

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### FINANCIAL ANALYSIS OF THE HOSPITAL

The statements of net position and the statements 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, deferred outflows, liabilities and deferred inflows and 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.

In December 2013, a component unit of the Hospital was dissolved and all assets remaining, after paying or making provision for the payment of all its remaining liabilities, were transferred to the Hospital. The changes in notes receivable and capital assets between fiscal years 2014 and 2013 are attributed to this transfer. New footnotes are included in the financial statements to disclose these transactions.

### NET POSITION

A summary of the Hospital's statements of net position at June 30, 2014, 2013 and 2012, are presented in Table 1 below.

**Table 1 - Condensed Statements of Net Position**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Assets:			
Current and other assets	\$ 19,387,280	17,179,518	22,280,221
Long-term portion of notes receivable	145,820	3,426,229	3,360,795
Capital assets, net	<u>19,717,040</u>	<u>18,261,397</u>	<u>11,614,850</u>
Total assets	<u>39,250,140</u>	<u>38,867,144</u>	<u>37,255,866</u>
Liabilities:			
Other liabilities	<u>1,960,203</u>	<u>3,192,591</u>	<u>2,076,249</u>
Deferred Inflows of Resources,			
Unavailable property tax revenue	<u>2,337,236</u>	<u>2,116,181</u>	<u>2,186,519</u>
Net Position:			
Net investment in capital assets	19,717,040	18,261,397	11,614,850
Unrestricted	<u>15,235,661</u>	<u>15,296,975</u>	<u>21,378,248</u>
Total net position	<u>\$ 34,952,701</u>	<u>33,558,372</u>	<u>32,993,098</u>

As shown by Table 1, net position increased by \$1,394,329 in 2014, and by \$565,274 in 2013.

# Dallas County Hospital

## Management's Discussion and Analysis June 30, 2014 and 2013

### 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, 2014, 2013 and 2012:

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Operating Revenue:</b>			
Net patient service revenue	\$ 11,591,464	10,971,439	11,304,183
Other operating revenue	457,354	366,808	427,099
<b>Total operating revenue</b>	<u>12,048,818</u>	<u>11,338,247</u>	<u>11,731,282</u>
<b>Operating Expenses:</b>			
Salaries and wages	4,296,360	4,271,852	4,232,967
Employee benefits	1,121,972	1,113,387	1,036,720
Professional fees	3,670,985	3,442,329	3,349,994
Supplies and other	2,480,440	2,818,711	2,999,418
Depreciation	1,629,771	1,529,052	1,348,612
<b>Total operating expenses</b>	<u>13,199,528</u>	<u>13,175,331</u>	<u>12,967,711</u>
<b>Operating Loss</b>	<u>(1,150,710)</u>	<u>(1,837,084)</u>	<u>(1,236,429)</u>
<b>Nonoperating Revenue (Expenses), Net:</b>			
County tax revenue	2,242,256	2,188,111	2,055,992
Rental property, net	95,571	58,246	26,150
Investment income	163,457	253,584	274,067
Loss on disposal of capital assets	(1,319)	--	(11,952)
Other nonoperating expense, net	(9,400)	(9,360)	(9,360)
<b>Nonoperating revenue, net</b>	<u>2,490,565</u>	<u>2,490,581</u>	<u>2,334,897</u>
<b>Excess of Revenue Over Expenses Before Change in Net Unrealized Gains and Losses, Capital Grants and Contributions, and Transfers</b>	1,339,855	653,497	1,098,468
<b>Change in Net Unrealized Gains and Losses on Other Than Trading Securities</b>	46,753	(84,379)	56,566
<b>Capital Grants and Contributions</b>	53,400	83,303	33,820
<b>Transfers to Foundation and Spring Valley</b>	<u>(45,679)</u>	<u>(87,147)</u>	<u>(82,946)</u>
<b>Increase in Net Position</b>	1,394,329	565,274	1,105,908
<b>Net Position, Beginning of year</b>	<u>33,558,372</u>	<u>32,993,098</u>	<u>31,887,190</u>
<b>Net Position, End of year</b>	<u>\$ 34,952,701</u>	<u>33,558,372</u>	<u>32,993,098</u>

# Dallas County Hospital

## Management's Discussion and Analysis June 30, 2014 and 2013

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### Operating and Financial Performance

- **Volume:** Acute inpatient discharges for fiscal year 2014 were 184 compared to 201 in 2013; however average length of stay declined to 2.96 compared to 3.25 in 2013. Acute patient days decreased by 109 days in 2014 to 544, decreased in 2013 by 18 to 653 from 671 in 2012. 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 also declined in fiscal year 2014 to a total of 58 discharges; down from 90 in 2013. 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. Outpatient visits decreased in 2014 by 1,194 visits to 23,681 compared to a decrease of 1,679 to 24,875 visits in fiscal year 2013. Surgical volumes completed the year with 640 procedures; down from the 2013 volumes of 737. The number of specialists providing services continues to hold constant however the organization experienced the loss and replacement of three key surgeons during fiscal year 2014. Specialty clinic visits increased by 13 visits in 2014 from 2013.
- **Net Patient Service Revenue:** Gross patient service revenue increased by \$360,549 or 2% compared to fiscal year 2013. During fiscal year 2014, Dallas County Hospital's contractual allowances (the difference between billed charges and paid charges from third party payers) decreased by \$189,107. Contractual allowances as a percentage of gross patient revenue decreased to 30.6% of gross charges in 2014 compared to 34.2% in 2013, largely due to the Hospital receiving favorable settlements from Medicare related to previous years.
- **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 as well as confirm insurance eligibility. 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, 2014 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. 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.
- **Financial Services Policy** – The Hospital revised its financial services policy during 2014. An automatic discount of 35% is applied to charges for all uninsured patients; this discount aligns the charges with fully insured contract rates. Also a prompt pay discount is available to patients who elect to remit payment for 100% of the estimate presented at time of service.
- **Changes in Net Position:** In fiscal year 2014, \$45,679 was transferred to Dallas County Hospital Foundation, Inc., compared to \$87,147 in 2013 (Spring Valley, Inc. was a beneficiary of part of the transfer amount in 2013). 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, 2014, 2013 and 2012:

**Table 3 - Payer Mix by Percentage**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Medicare	38.5%	43.5%	41.3%
Blue Cross (Wellmark)	22.1%	21.1%	21.4%
Medicaid	15.0%	11.7%	12.4%
Private Pay	4.7%	3.9%	5.7%
Other Commercial Insurance	<u>19.7%</u>	<u>19.8%</u>	<u>19.2%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

## Dallas County Hospital

### Management's Discussion and Analysis June 30, 2014 and 2013

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Significant changes in operations from fiscal year 2014:

- **Other Operating Revenue:** Fiscal year 2014 showed an increase of \$90,546 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 Stage I of the implementation of an electronic health record in 2012. Incentive dollars recorded as other operating revenue in 2014 and 2013 were \$23,600 and \$47,200. Also in 2014 a full year of rental income along with grant income to support the ER care coordinator position increased the other operating revenue amount over 2013.
- **Salary and Benefits Expense:** Salary expense increased \$24,508 or 0.6%. Salary and benefit expense constitutes 41.0% of total expenses in 2014 and 40.9% in 2013. Full time equivalents (FTE's) remained constant at 88.80 in 2014 compared to 89.50 in 2013. 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 2014 showed an increase of \$228,656 or 7% increase in professional fees; most of which was volume related from direct fee for service contracts.
- **Depreciation:** Fiscal year 2014 showed an increase in depreciation by \$100,719.
- **Supplies and Other Expenses:** Fiscal year 2014 showed a decrease in other expenses of \$334,823.

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 and Benefits Expense:** Salary expense increased \$38,885 or 0.9%. 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 89.50 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:** Fiscal year 2013 showed an increase in depreciation by \$180,440.
- **Supplies and Other Expenses:** Fiscal year 2013 showed a decrease in other expenses of \$153,747.

## Dallas County Hospital

### Management's Discussion and Analysis June 30, 2014 and 2013

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#### 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 was secured by the future net revenue of Spring Valley and a mortgage of the Spring 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, 2014 Spring Valley, Inc. was dissolved and all assets were transferred to the Hospital. A ten year lease was assumed with the current tenant who continues to operate assisted living services in the building.

#### CAPITAL ASSETS

At the end of fiscal year 2014, the Hospital has invested a total of \$5,151,487 in capital assets. Of that total, \$4,875,033 included the Spring Valley assisted living facility as well as capital expenditures to remodel the health information and therapy departments. Other miscellaneous equipment was also purchased.

The following table summarizes the Hospital's capital assets as of June 30, 2014, 2013 and 2012:

**Table 4 - Capital Assets**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Land	\$ 69,523	69,523	69,523
Land improvements	1,780,959	1,780,959	1,780,959
Buildings and fixed equipment	24,451,214	21,478,980	13,477,173
Major moveable equipment	5,430,189	5,502,087	5,448,271
Construction in progress	<u>24,999</u>	<u>1,500</u>	<u>--</u>
Subtotal	31,756,884	28,833,049	20,775,926
Less accumulated depreciation	<u>12,039,844</u>	<u>10,571,652</u>	<u>9,161,076</u>
Capital assets, net	<u>\$ 19,717,040</u>	<u>18,261,397</u>	<u>11,614,850</u>

#### DEBT ADMINISTRATION

##### **Long-Term Debt**

At June 30, 2014 and 2013, 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 2014.

#### 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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 470,583	644,385
Short-term investments	2,361,738	2,859,611
Current portion of notes receivable	17,508	--
Receivables -		
Patient, net of allowance for uncollectible accounts of \$312,421 in 2014 and \$376,643 in 2013, respectively	1,081,068	1,272,226
Other	64,096	96,887
Succeeding year property tax	2,337,236	2,116,181
Inventories	206,441	204,616
Prepaid expenses	<u>86,676</u>	<u>143,201</u>
Total current assets	6,625,346	7,337,107
Noncurrent assets:		
Assets limited as to use	12,761,934	9,842,411
Long-term portion of notes receivable	145,820	3,426,229
Capital assets, net	<u>19,717,040</u>	<u>18,261,397</u>
Total assets	<u>39,250,140</u>	<u>38,867,144</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	726,672	864,278
Salaries, wages and accrued vacation payable	478,500	470,263
Payroll taxes payable	111,685	112,097
Estimated third-party payor settlements - Medicare and Medicaid	556,939	1,527,354
Deferred Medicare revenue	14,747	44,867
Deferred revenue for previous year property taxes	<u>71,660</u>	<u>173,732</u>
Total current liabilities	<u>1,960,203</u>	<u>3,192,591</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable property tax revenue	<u>2,337,236</u>	<u>2,116,181</u>
Commitments and contingencies		
<b>NET POSITION</b>		
Net investment in capital assets	19,717,040	18,261,397
Unrestricted	<u>15,235,661</u>	<u>15,296,975</u>
Total net position	<u>\$ 34,952,701</u>	<u>33,558,372</u>

See notes to financial statements

## Dallas County Hospital

### Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 12,399,766	11,793,814
Provision for bad debt	<u>(808,302)</u>	<u>(822,375)</u>
Net patient service revenue	11,591,464	10,971,439
Other operating revenue	<u>457,354</u>	<u>366,808</u>
Total operating revenue	<u>12,048,818</u>	<u>11,338,247</u>
OPERATING EXPENSES:		
Salaries and wages	4,296,360	4,271,852
Employee benefits	1,121,972	1,113,387
Professional fees	3,670,985	3,442,329
Supplies and other	2,347,185	2,682,008
Depreciation	1,629,771	1,529,052
Insurance	<u>133,255</u>	<u>136,703</u>
Total operating expenses	<u>13,199,528</u>	<u>13,175,331</u>
OPERATING LOSS	<u>(1,150,710)</u>	<u>(1,837,084)</u>
NONOPERATING REVENUE (EXPENSES), NET:		
County tax revenue	2,242,256	2,188,111
Rental property, net -		
Including depreciation of \$222,344 in 2014 and \$59,909 in 2013	95,571	58,246
Investment income	163,457	253,584
Loss on disposal of capital assets	(1,319)	--
Other nonoperating expense, net	<u>(9,400)</u>	<u>(9,360)</u>
Nonoperating revenue, net	<u>2,490,565</u>	<u>2,490,581</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CHANGE IN NET UNREALIZED GAINS AND LOSSES, CAPITAL GRANTS AND CONTRIBUTIONS, AND TRANSFERS	1,339,855	653,497
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	46,753	(84,379)
CAPITAL GRANTS AND CONTRIBUTIONS	53,400	83,303
TRANSFERS TO FOUNDATION AND SPRING VALLEY	<u>(45,679)</u>	<u>(87,147)</u>
INCREASE IN NET POSTION	1,394,329	565,274
NET POSITION, Beginning of year	<u>33,558,372</u>	<u>32,993,098</u>
NET POSITION, End of year	<u>\$ 34,952,701</u>	<u>33,558,372</u>

See notes to financial statements

# Dallas County Hospital

## Statements of Cash Flows For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 10,782,087	11,365,307
Cash paid for employees for salaries and benefits	(5,410,507)	(5,354,738)
Cash paid to suppliers and contractors	(6,239,813)	(5,955,769)
Other receipts and payments, net	493,424	522,437
Net cash provided by (used in) operating activities	<u>(374,809)</u>	<u>577,237</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES,		
County taxes received	<u>2,142,638</u>	<u>2,230,297</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(359,077)	(8,235,507)
Capital grants and contributions	<u>53,400</u>	<u>83,303</u>
Net cash used in capital and related financing activities	<u>(305,677)</u>	<u>(8,152,204)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquired from dissolution of Spring Valley	294,496	--
Withdrawals from (deposits to) short term investments, net	497,873	(987,000)
Withdrawals from (deposits to) assets limited as to use, net	(2,861,876)	5,769,090
Investment income	152,563	287,873
Cash received from rental property	317,915	118,155
Payments received from Spring Valley for note receivable	--	68,771
Payments received on note receivable	8,754	--
Transfers to Foundation and Spring Valley	<u>(45,679)</u>	<u>(87,147)</u>
Net cash provided by (used in) investing activities	<u>(1,635,954)</u>	<u>5,169,742</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(173,802)	(174,928)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>644,385</u>	<u>819,313</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 470,583</u>	<u>644,385</u>

### SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

The following amounts were acquired (assumed) from the dissolution of Spring Valley (Note 13) -

Cash	\$ 294,496	--
Write-off of note receivable - Spring Valley	(3,426,229)	--
Note receivable	172,082	--
Capital assets	2,950,000	--
Other assets	33,210	--
Liabilities	<u>(23,559)</u>	<u>--</u>
	<u>\$ --</u>	<u>--</u>

See notes to financial statements

## Dallas County Hospital

### Statements of Cash Flows (Continued) For the Years Ended June 30, 2014 and 2013

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	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (1,150,710)	(1,837,084)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities -		
Other nonoperating expense, net	(9,400)	(9,360)
Depreciation	1,629,771	1,529,052
(Increase) decrease in current assets -		
Receivables -		
Patients	191,158	(309,796)
Other	30,337	158,063
Inventories	31,385	5,632
Prepaid expenses	56,525	(39,782)
Increase (decrease) in current liabilities -		
Accounts payable	(161,165)	346,348
Salaries, wages and accrued vacation payable	8,237	19,351
Payroll taxes payable	(412)	11,149
Estimated third-party payor settlements - Medicare and Medicaid	(970,415)	742,005
Deferred Medicare revenue	(30,120)	(38,341)
	<u>(374,809)</u>	<u>577,237</u>
Net cash provided by (used in) operating activities	\$ <u>(374,809)</u>	<u>577,237</u>

*See notes to financial statements*

# Dallas County Hospital

## Notes to Financial Statements June 30, 2014 and 2013

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### (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 of the Hospital, specifically all assets, liabilities, revenue and expenses over which the Hospital's governing board exercises oversight responsibility. 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. For the fiscal year ending June 30, 2014 the Hospital has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria. For the fiscal year ended June 30, 2013 the Hospital had one component unit, Spring Valley, Inc., (Spring Valley) which was dissolved in December 2013 (Note 13).

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.

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.

# Dallas County Hospital

## Notes to Financial Statements June 30, 2014 and 2013

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### C. *Basis of Presentation*

The statements of net position display the Hospital's assets, deferred inflow, liabilities, and deferred outflow, with the difference reported as net position. Net position is reported in the following categories/components:

*Net investments in capital assets* – This component of net position consists of capital assets net of accumulated depreciation.

*Unrestricted* – This component of net position consists of net position not meeting the definition of the preceding category. 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 accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

### E. *Use of Estimates*

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

### F. *Cash and Cash Equivalents*

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

### G. *Patient Receivables, 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.

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

### H. *Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year.

# Dallas County Hospital

## Notes to Financial Statements June 30, 2014 and 2013

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*I. Inventories*

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

*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. Investments in Debt Securities*

Investments in debt securities 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 securities are included in nonoperating revenue unless restricted by donor or law. Unrealized gains and losses on investment are excluded from the excess of revenue over expenses unless the investments are trading securities.

*M. Capital Assets, Net*

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

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.

# Dallas County Hospital

## Notes to Financial Statements June 30, 2014 and 2013

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*N. 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.

*O. Deferred Inflows of Resources*

Deferred inflows of resources consist of succeeding year property taxes receivable which will not be recognized as revenue until the year for which it is levied. It is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property taxes 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 that fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year.

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

For the purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included as nonoperating revenues and peripheral or incidental transactions are reported as nonoperating revenues 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.

*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.

## Dallas County Hospital

### Notes to Financial Statements June 30, 2014 and 2013

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*T. Management*

The Hospital is a provider of healthcare services as a Critical Access Hospital. The Hospital has an agreement for management services with Mercy Health Network, Inc. Administration and support services fees of \$477,542 and \$401,093 were incurred for the years ended June 30, 2014 and 2013, 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*

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Dallas, Iowa. As such, the Hospital is exempt from paying income taxes. However, the Hospital is subject to federal income tax on any unrelated business taxable income

*W. Reclassification*

Certain amounts in the 2013 financial statements have been reclassified to conform to the 2014 reporting format.

*X. Change in Accounting Principle*

During 2014, the Hospital has adopted the provisions of GASB Statement No. 65, which requires reclassification of certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources on the statement of net position. GASB 65 also requires recognition of certain items previously reported as assets and liabilities as outflows of resources or inflows of resources on the statement of revenue, expenses and changes in net position. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

*Y. Subsequent Events*

The Hospital considered events occurring through October 15, 2014 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) Cash, Investments and Assets Limited as to Use**

The Hospital's deposits in banks at June 30, 2014 and 2013 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.

# Dallas County Hospital

## Notes to Financial Statements June 30, 2014 and 2013

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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, 2014, 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, 2014, 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, 2014, 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, 2014 and 2013, the Hospital's investments, including assets limited as to use, consisted of the following:

	<u>2014</u>	<u>2013</u>
Cash and money market funds	\$ 1,531,014	775,544
Certificates of deposit	9,334,217	7,665,743
Government Agency Securities	4,111,997	4,125,185
Accrued interest receivable	<u>146,444</u>	<u>135,550</u>
	<u>\$ 15,123,672</u>	<u>12,702,022</u>

### (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, 2012.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. 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.

## Dallas County Hospital

### Notes to Financial Statements June 30, 2014 and 2013

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 gross patient service revenue and contractual adjustments for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue:		
Inpatient	\$ 1,191,790	1,288,969
Outpatient	16,496,186	15,817,829
Swingbed	590,944	811,573
Total gross patient service revenue	<u>18,278,920</u>	<u>17,918,371</u>
Deductions from gross patient service revenue:		
Medicare	(1,508,253)	(2,613,835)
Medicaid	(1,319,241)	(918,560)
Other	(2,475,518)	(1,959,724)
Charity care services	(576,142)	(632,438)
Total deductions from gross patient service revenue	<u>(5,879,154)</u>	<u>(6,124,557)</u>
Net patient service revenue before provision for bad debt	<u>\$ 12,399,766</u>	<u>11,793,814</u>

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 11%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2014 compared to 44% for Medicare and 12% for Medicaid in 2013. 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 2014 and 2013 net patient service revenue increased (decreased) approximately \$860,000 and (\$125,000), 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, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Atrium rental	\$ 154,948	93,233
Nutritional service	90,884	86,642
Other	50,642	55,480
Electronic health record incentive payments	23,600	47,200
South addition maintenance	36,461	44,861
Vendor discounts/rebates	16,672	21,352
Grant revenue	73,572	9,782
Medical records transcripts	10,575	8,258
	<u>\$ 457,354</u>	<u>366,808</u>

# Dallas County Hospital

## Notes to Financial Statements June 30, 2014 and 2013

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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. 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. Management has elected to defer a portion of received incentive amounts related to future Medicare reimbursement, and has recorded these amounts in current liabilities in the statements of net position. In addition, the Iowa Department of Health and Human Services provides EHR incentive payments that will be earned and received through various payments through 2014. The Hospital has recognized \$23,600 and \$47,200 in 2014 and 2013, 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.

### (5) Composition of Patient Receivables

Patient receivables as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Patient Accounts	\$ 1,854,446	2,080,014
Less allowance for uncollectible accounts	(312,421)	(376,643)
Less estimated third-party payor contractual adjustments	<u>(460,957)</u>	<u>(431,145)</u>
	<u>\$ 1,081,068</u>	<u>1,272,226</u>

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>2014</u>	<u>2013</u>
Medicare	24%	29%
Medicaid	11	7
Blue Cross	20	18
Other commercial insurance	23	21
Private pay	<u>22</u>	<u>25</u>
	<u>100%</u>	<u>100%</u>

### (6) Notes Receivable

On April 16, 2012 the Hospital entered into a loan agreement with Spring Valley, Inc. (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 note receivable outstanding at June 30, 2013 was \$3,426,229. Due to the dissolution of Spring Valley in December 2013 and the subsequent transfer of all assets of Spring Valley to the Hospital (Note 13), there is no longer a note receivable outstanding at June 30, 2014.

## Dallas County Hospital

### Notes to Financial Statements June 30, 2014 and 2013

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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 (Note 13). In addition to monthly rent payments the lease agreement also specified the Home will pay a monthly furniture, fixtures and equipment (FF&E) payment of \$1,459 for a period of 10 years to purchase the furniture, fixtures, and equipment remaining in the facility. This asset was transferred as a note receivable to the Hospital due to the dissolution of Spring Valley (Note 13). The note receivable of \$163,328 is included in the accompanying statements of net position for the year ended June 30, 2014. A summary of future payments as of June 30, 2014 is as follows:

<u>Year</u>	<u>Payment</u>
2015	\$ 17,508
2016	17,508
2017	17,508
2018	17,508
2019	17,508
Thereafter	<u>75,788</u>
Total	\$ <u>163,328</u>

#### (7) 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, 2014 and 2013, are summarized as follows:

	<u>2014</u>	<u>2013</u>
Capital improvements -		
Cash and money market funds	\$ 1,181,014	522,933
Certificates of deposit	7,322,479	5,058,743
Government Agency Securities	4,111,997	4,125,185
Accrued interest receivable	<u>146,444</u>	<u>135,550</u>
	\$ <u>12,761,934</u>	<u>9,842,411</u>

# Dallas County Hospital

## Notes to Financial Statements June 30, 2014 and 2013

### (8) Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013 were as follows:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	<u>1,500</u>	<u>133,880</u>	<u>(110,381)</u>	<u>24,999</u>
Total capital assets, not being depreciated	<u>71,023</u>	<u>133,880</u>	<u>(110,381)</u>	<u>94,522</u>
Capital assets, being depreciated:				
Land improvements	1,780,959	--	--	1,780,959
Buildings and fixed equipment	21,478,979	4,875,034	(1,902,799)	24,451,214
Major moveable equipment	<u>5,502,087</u>	<u>276,454</u>	<u>(348,352)</u>	<u>5,430,189</u>
Total capital assets, being depreciated	<u>28,762,025</u>	<u>5,151,488</u>	<u>(2,251,151)</u>	<u>31,662,362</u>
Less accumulated depreciation:				
Land improvements	(437,182)	(126,109)	--	(563,290)
Buildings and fixed equipment	(6,257,509)	(1,209,448)	35,570	(7,431,387)
Major moveable equipment	<u>(3,876,960)</u>	<u>(516,559)</u>	<u>348,352</u>	<u>(4,045,167)</u>
Total accumulated depreciation	<u>(10,571,651)</u>	<u>(1,852,116)</u>	<u>383,922</u>	<u>(12,039,844)</u>
Total capital assets, being depreciated, net	<u>18,190,374</u>	<u>3,299,372</u>	<u>(1,867,229)</u>	<u>19,622,518</u>
Total capital assets, net	<u>\$ 18,261,397</u>	<u>3,433,252</u>	<u>(1,977,610)</u>	<u>19,717,040</u>
	<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	<u>--</u>	<u>94,173</u>	<u>(92,673)</u>	<u>1,500</u>
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	8,004,083	(2,277)	21,478,979
Major moveable equipment	<u>5,448,271</u>	<u>229,924</u>	<u>(176,108)</u>	<u>5,502,087</u>
Total capital assets, being depreciated	<u>20,706,403</u>	<u>8,234,007</u>	<u>(178,385)</u>	<u>28,762,025</u>
Less accumulated depreciation:				
Land improvements	(311,075)	(126,107)	--	(437,182)
Buildings and fixed equipment	(5,359,673)	(900,111)	2,275	(6,257,509)
Major moveable equipment	<u>(3,490,328)</u>	<u>(562,742)</u>	<u>176,110</u>	<u>(3,876,960)</u>
Total accumulated depreciation	<u>(9,161,076)</u>	<u>(1,588,960)</u>	<u>178,385</u>	<u>(10,571,651)</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>

Depreciation expense of \$1,852,115 and \$1,588,961 in 2014 and 2013, respectively, is included in the accompanying statements of revenue, expenses and change in net position.

# Dallas County Hospital

## Notes to Financial Statements June 30, 2014 and 2013

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### (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 \$9,000,000 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, 2014 and 2013, 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 5.95% and 5.78% of their annual covered salary and the Hospital is required to contribute 8.93% and 8.67% of annual covered payroll for the years ended June 30, 2014 and 2013, respectively. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$374,398, \$365,369, and \$333,283, respectively, equal to the required contributions for each year.

### (11) 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.

### (12) Rental Income

The Hospital is the lessor of certain space under various noncancelable operating leases with terms from two to eleven 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, 2014, that have lease terms in excess of one year:

<u>Year</u>	<u>Amount</u>
2015	\$ 568,106
2016	544,910
2017	503,696
2018	504,188
2019	504,188
Thereafter	2,562,495

## Dallas County Hospital

### Notes to Financial Statements June 30, 2014 and 2013

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#### (13) Spring Valley, Inc.

For the year ended June 30, 2013, Spring Valley was considered to be a component unit of the Hospital with separately presented financial statements. During December 2013, Spring Valley's Board of Directors authorized the dissolution of the corporation, with all assets remaining, after paying or making provision for the payment of all its remaining liabilities, to be transferred to the Hospital. For the year ended June 30, 2014 the hospital had no component units required to be reported.

Previous transactions between Spring Valley and the Hospital include a loan agreement entered into in 2012 in which the Hospital loaned Spring Valley \$3,495,000 to refund its outstanding bonds. At the time of dissolution the note receivable balance was \$3,426,229. The value of the net assets transferred to the Hospital were sufficient to pay the remaining note receivable balance. Significant assets transferred to the hospital include the building located in Perry, Iowa at the appraised value of \$2,950,000.

Before dissolution of the corporation, 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 Hospital is now the lessor and future lease payments are included in Note 12. In addition, a note receivable was also transferred to the Hospital for the agreement entered into with the Home to purchase the furniture, fixtures and equipment of the facility (Note 6).

#### (14) 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 as a component unit. The Foundation's unaudited net assets were approximately \$104,854 and \$109,421 at June 30, 2014 and 2013, respectively. The Hospital has included transfers to the Foundation of \$45,679 and \$37,147 for the years ended June 30, 2014 and 2013, 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 \$126,972 and \$93,085 as of June 30, 2014 and 2013, respectively, for operating and capital needs of the Hospital.

## Dallas County Hospital

### Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position Budget and Actual (Cash Basis) For the Year Ended June 30, 2014

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, 2014, 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	\$ 2,242,256	(99,618)	2,142,638	2,116,181	26,457
Estimated other revenues / receipts	<u>12,407,999</u>	<u>(608,610)</u>	<u>11,799,389</u>	<u>12,766,106</u>	<u>(966,717)</u>
Total	14,650,255	(708,228)	13,942,027	14,882,287	(940,260)
Expenses / Disbursements	<u>13,255,926</u>	<u>(1,561,747)</u>	<u>11,694,179</u>	<u>13,291,870</u>	<u>1,597,691</u>
Net	1,394,329	853,519	2,247,848	\$ <u>1,590,417</u>	<u>657,431</u>
Balance beginning of year	<u>33,558,372</u>	<u>(20,211,965)</u>	<u>13,346,407</u>		
Balance end of year	\$ <u>34,952,701</u>	<u>(19,358,446)</u>	<u>15,594,255</u>		

*See accompanying independent auditor's report*

**Patient Service Revenue  
For the Years Ended June 30, 2014 and 2013**

	2014				2013			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
<b>NURSING SERVICES:</b>								
Medical/surgical	\$ 660,800	186,215	--	847,015	741,700	162,436	--	904,136
Swing bed	--	--	360,113	360,113	--	--	489,840	489,840
	<u>660,800</u>	<u>186,215</u>	<u>360,113</u>	<u>1,207,128</u>	<u>741,700</u>	<u>162,436</u>	<u>489,840</u>	<u>1,393,976</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Emergency department	29,325	3,239,530	175	3,269,030	23,245	2,968,365	400	2,992,010
Laboratory	114,025	2,392,313	20,851	2,527,189	103,162	2,077,506	30,022	2,210,690
Operating room	7,355	2,208,767	--	2,216,122	14,385	2,602,590	2,445	2,619,420
Physical therapy	7,795	1,386,939	70,525	1,465,259	4,175	1,319,311	86,370	1,409,856
CT scans	28,315	1,283,465	4,445	1,316,225	49,030	1,045,070	4,000	1,098,100
Radiology	11,750	1,132,895	3,175	1,147,820	9,440	1,148,296	6,895	1,164,631
Emergency physicians	7,850	1,124,040	--	1,131,890	6,330	1,076,654	--	1,082,984
Pharmacy	176,239	767,699	86,280	1,030,218	168,606	1,008,932	109,409	1,286,947
Mobile MRI	12,055	537,700	--	549,755	27,870	422,605	--	450,475
Ultrasounds	10,150	433,945	1,915	446,010	22,084	404,040	4,190	430,314
Cardiopulmonary	47,215	305,525	13,705	366,445	50,835	260,060	29,994	340,889
Sleep studies	--	347,880	--	347,880	--	262,530	--	262,530
Anesthesia	3,016	325,939	--	328,955	4,440	360,330	--	364,770
Occupational therapy	1,945	216,055	21,185	239,185	1,455	159,620	31,720	192,795
Electrocardiology	7,810	188,575	800	197,185	6,320	164,634	620	171,574
Echocardiology	18,865	120,710	3,430	143,005	13,200	128,635	--	141,835
Intravenous therapy	37,260	60,345	3,915	101,520	38,925	53,973	11,025	103,923
Nuclear medicine	--	61,027	--	61,027	--	30,615	--	30,615
Speciality clinic	--	47,950	--	47,950	--	49,755	--	49,755
Transfusion services	7,400	32,560	--	39,960	3,142	29,997	2,368	35,507
Bone density	--	33,495	--	33,495	--	28,120	--	28,120
Corp wellness	--	27,832	--	27,832	--	24,890	--	24,890
Speech therapy	2,620	16,440	430	19,490	625	15,685	2,275	18,585
Treadmills	--	13,345	--	13,345	--	9,060	--	9,060
Dietician	--	5,000	--	5,000	--	4,120	--	4,120
	<u>530,990</u>	<u>16,309,971</u>	<u>230,831</u>	<u>17,071,792</u>	<u>547,269</u>	<u>15,655,393</u>	<u>321,733</u>	<u>16,524,395</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<u>\$ 1,191,790</u>	<u>16,496,186</u>	<u>590,944</u>	<u>18,278,920</u>	<u>1,288,969</u>	<u>15,817,829</u>	<u>811,573</u>	<u>17,918,371</u>
<b>LESS:</b>								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(5,303,012)				(5,492,119)
Charity care services and other discounts, based on charges forgone				(576,142)				(632,438)
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>				12,399,766				11,793,814
<b>PROVISION FOR BAD DEBT</b>				(808,302)				(822,375)
<b>NET PATIENT SERVICE REVENUE</b>				<u>\$ 11,591,464</u>				<u>10,971,439</u>

See accompanying independent auditor's report

**Other Operating Revenue  
For the Years Ended June 30, 2014 and 2013**

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	<u>2014</u>	<u>2013</u>
Atrium rental	\$ 154,948	93,233
Nutritional service	90,884	86,642
Grant revenue	73,572	9,782
Other	50,642	55,481
South addition maintenance	36,461	44,861
Electronic health record incentive payments	23,600	47,200
Vendor discounts/rebates	16,672	21,352
Medical records transcripts	10,575	8,258
	<u>\$ 457,354</u>	<u>366,808</u>

*See accompanying independent auditor's report*

**Departmental Expenses  
For the Years Ended June 30, 2014 and 2013**

	2014				2013			
	Salaries	Professional Fees	Supplies and Other	Total	Salaries	Professional Fees	Supplies and Other	Total
<b>NURSING SERVICES:</b>								
Medical/surgical	\$ 789,306	163,297	70,025	1,022,628	782,365	155,746	56,777	994,887
Nursing administration	457,464	--	11,269	468,733	444,090	--	5,562	449,652
	<u>1,246,770</u>	<u>163,297</u>	<u>81,294</u>	<u>1,491,361</u>	<u>1,226,454</u>	<u>155,746</u>	<u>62,339</u>	<u>1,444,539</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Emergency department	379,275	1,033,969	77,532	1,490,776	344,820	1,013,814	68,774	1,427,408
Physical therapy	--	586,104	6,428	592,532	--	563,942	6,533	570,475
Laboratory	242,666	5,280	298,852	546,798	264,683	6,100	278,987	549,770
Operating room	228,628	29,261	245,240	503,129	222,198	27,296	305,962	555,456
Radiology	10,947	382,132	80,092	473,171	(16,148)	357,333	78,890	420,075
Pharmacy	66,477	79,710	293,886	440,073	166,096	16,571	359,134	541,801
Anesthesia	--	200,000	1,137	201,137	--	200,000	5,327	205,327
Cardiopulmonary	102,279	--	32,268	134,547	103,664	--	37,308	140,972
Education	21,466	1,972	79,032	102,470	32,349	1,997	64,912	99,258
Occupational therapy	--	95,674	631	96,305	--	77,118	690	77,808
CT scans	--	--	87,132	87,132	--	--	40,561	40,561
Sleep studies	--	67,500	--	67,500	--	54,675	--	54,675
Mobile MRI	--	64,025	--	64,025	--	59,475	--	59,475
Specialty clinic	13,064	45,206	3,347	61,617	15,545	49,467	4,217	69,229
Cardiac rehabilitation	54,757	--	179	54,936	45,190	--	97	45,287
Echocardiology	--	52,672	--	52,672	--	46,321	--	46,321
Nuclear medicine	--	26,480	--	26,480	--	15,885	--	15,885
Ultrasounds	--	--	8,953	8,953	--	--	8,980	8,980
Speech therapy	--	7,837	--	7,837	--	7,434	--	7,434
Electrocardiology	--	7,015	552	7,567	--	5,204	677	5,881
	<u>1,119,559</u>	<u>2,684,837</u>	<u>1,215,261</u>	<u>5,019,657</u>	<u>1,178,397</u>	<u>2,502,632</u>	<u>1,261,049</u>	<u>4,942,078</u>
<b>GENERAL SERVICES:</b>								
Facility	325,251	10,831	419,779	755,861	329,923	8,244	634,895	973,062
Nutritional services/dietician	175,533	27,814	121,594	324,941	171,266	30,851	119,497	321,614
Environmental services	126,062	40,410	10,878	177,350	125,602	52,207	9,528	187,337
Social services	13,569	--	3,385	16,954	--	--	--	--
	<u>640,415</u>	<u>79,055</u>	<u>555,636</u>	<u>1,275,106</u>	<u>626,791</u>	<u>91,302</u>	<u>763,920</u>	<u>1,482,013</u>
<b>ADMINISTRATIVE SERVICES</b>	<u>1,289,616</u>	<u>743,796</u>	<u>494,998</u>	<u>2,528,410</u>	<u>1,240,210</u>	<u>692,649</u>	<u>594,700</u>	<u>2,527,559</u>
<b>NONDEPARTMENTAL:</b>								
Depreciation	--	--	1,629,771	1,629,771	--	--	1,529,052	1,529,052
Employee benefits	--	--	1,121,972	1,121,972	--	--	1,113,387	1,113,387
Insurance	--	--	133,255	133,255	--	--	136,703	136,703
	<u>--</u>	<u>--</u>	<u>2,884,998</u>	<u>2,884,998</u>	<u>--</u>	<u>--</u>	<u>2,779,142</u>	<u>2,779,142</u>
<b>TOTAL EXPENSES</b>	<u>\$ 4,296,360</u>	<u>3,670,985</u>	<u>5,232,187</u>	<u>13,199,528</u>	<u>4,271,852</u>	<u>3,442,329</u>	<u>5,461,150</u>	<u>13,175,331</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Uncollectible Accounts  
June 30, 2014 and 2013**

ANALYSIS OF AGING:

Days Since Discharge	2014		2013	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,197,732	65 %	1,243,082	60 %
31 - 60	234,849	13	345,278	17
61 - 90	149,132	8	202,769	10
91 - 120	97,165	5	108,428	5
> 120	175,568	9	180,457	8
	<u>1,854,446</u>	100 %	<u>2,080,014</u>	100 %
Less:				
Allowance for uncollectible accounts	(312,421)		(376,643)	
Allowance for contractual adjustments	<u>(460,957)</u>		<u>(431,145)</u>	
	<u>\$ 1,081,068</u>		<u>1,272,226</u>	

	2014	2013
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	32.60 days	39.36 days
ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS:		
Balance, beginning of year	\$ 376,643	452,659
Provision of uncollectible accounts	808,302	822,375
Recoveries of accounts previously written off	296,892	225,722
Accounts written off	<u>(1,169,416)</u>	<u>(1,124,113)</u>
Balance, end of year	<u>\$ 312,421</u>	<u>376,643</u>

See accompanying independent auditor's report

**Inventory/Prepaid Expenses  
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
INVENTORY:		
Departmental	\$ 92,815	94,783
Pharmacy	84,128	78,319
General stores/central supply	25,106	26,881
Dietary	<u>4,392</u>	<u>4,633</u>
	<u>\$ 206,441</u>	<u>204,616</u>
PREPAID EXPENSES:		
Insurance	\$ 55,732	114,555
Other	<u>30,944</u>	<u>28,646</u>
	<u>\$ 86,676</u>	<u>143,201</u>

*See accompanying independent auditor's report*

**Financial and Statistical Highlights  
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Patient days:		
Acute	544	653
Swingbed	423	627
Respite	<u>13</u>	<u>39</u>
Total	<u><u>980</u></u>	<u><u>1,319</u></u>
Patient discharges:		
Acute	184	201
Swingbed	58	90
Respite	<u>4</u>	<u>9</u>
Total	<u><u>246</u></u>	<u><u>300</u></u>
Average length of stay:		
Acute	2.96 days	3.25 days
Swingbed	7.29 days	6.97 days
Respite	3.25 days	4.33 days
Emergency room visits	6,163	5,902
Specialty clinic visits	3,455	4,192
Other outpatient visits	17,518	18,973
Number of employees - full-time equivalents	88.8	89.5

*See accompanying independent auditor's report*

**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 year ended June 30, 2014 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 15, 2014.

**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, 2014 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 15, 2014.

# Dallas County Hospital

## Schedule of Findings and Responses For the Year Ended June 30, 2014

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### 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-14 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, 2014.
- III-B-14 Certified Budget: Disbursements during the year ended June 30, 2014 did not exceed the amount budgeted.
- III-C-14 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-14 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-14 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-14 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-14 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-14 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. They also publish a schedule of salaries annually by category.

## **Dallas County Hospital**

**Audit Staff  
June 30, 2014**

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**This audit was performed by:**

Roger E. Thompson, FHFMA, CPA, Partner  
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