

Dallas County Hospital
Perry, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2015 and 2014**

Together with Independent Auditor's Report

Dallas County Hospital

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Dallas County Hospital

Officials
June 30, 2015

<u>Board of Trustees</u>	<u>Title</u>	<u>Term Expires</u>
Mary Laborde	Chairman	December 31, 2020
Rich Jones	Vice Chairman	December 31, 2020
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
Randy Loomis	Chief Financial Officer	Indefinite
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, 2015 and 2014, 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, 2015 and 2014, 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 14 to the financial statements, in 2015 the Hospital adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. 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, budgetary comparison information, the schedule of the Hospital's proportionate share of the net pension liability, and the schedule of the Hospital contributions on pages 4 through 7 and pages 27 through 30 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 22, 2015 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.

Spim Johnson, LLP

Omaha, Nebraska,
October 22, 2015.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of Dallas County Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- The Hospital's operating loss decreased by 74.6%, or \$858,601, from fiscal year 2014 to fiscal year 2015 primarily due to an increase in net patient service revenue and expenses remaining flat.
- Net patient service revenue increased by 6.9%, or \$769,233, from fiscal year 2014 to fiscal year 2015, primarily due to an increase in outpatient revenue and lower levels of charity care and bad debt expenses.
- Operating expenses decreased 0.25%, or \$32,890, from fiscal year 2014 to fiscal year 2015.
- The Hospital's net position decreased 3%, or \$966,292, from June 30, 2014 to June 30, 2015, primarily due to the implementation of GASB 68 and the restatement of the 2015 beginning balance for net pension liability of \$3,293,290.

Using This Annual Report

The Hospital's financial statements consist of three statements: a statement of net position; a statement of revenue, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Position

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, deferred inflows and outflows, and liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's total net position – the difference between assets, deferred outflows, liabilities, and deferred inflows – is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

The Hospital's Net Position

The Hospital's net position is the difference between its assets, deferred inflows and outflows, and liabilities reported in the statement of net position. The Hospital's net position decreased by \$966,292, or 3%, in 2015 compared to 2014 and increased by \$1,394,329, or 4%, in 2014 compared to 2013 as shown in Table 1.

Table 1 - Condensed Statements of Net Position

	June 30, 2015	(not restated) June 30, 2014	(not restated) June 30, 2013	2015-2014 Dollar Change	Percent Change
Assets:					
Patient accounts receivable, net	\$ 1,169,260	1,081,068	1,272,226	88,192	8%
Current and other assets	21,918,308	18,306,212	15,907,292	3,612,096	20%
Long-term portion of notes receivable	128,312	145,820	3,426,229	(17,508)	-12%
Capital assets, net	<u>18,253,376</u>	<u>19,717,040</u>	<u>18,261,397</u>	<u>(1,463,664)</u>	-7%
Total assets	41,469,256	39,250,140	38,867,144	2,219,116	6%
Deferred Outflows of Resources					
	<u>422,600</u>	--	--	<u>422,600</u>	100%
Total assets and deferred outflows	<u>\$ 41,891,856</u>	<u>39,250,140</u>	<u>38,867,144</u>	<u>2,641,716</u>	7%
Liabilities:					
Current liabilities	\$ 2,060,698	1,960,203	3,192,591	100,495	5%
Net pension liability	<u>2,537,080</u>	--	--	<u>2,537,080</u>	100%
Total liabilities	<u>4,597,778</u>	<u>1,960,203</u>	<u>3,192,591</u>	<u>2,637,575</u>	135%
Deferred Inflows of Resources:					
Unavailable property tax revenue	2,340,100	2,337,236	2,116,181	2,864	0%
Pension related deferred inflows	<u>967,569</u>	--	--	<u>967,569</u>	100%
Total deferred inflows	<u>3,307,669</u>	<u>2,337,236</u>	<u>2,116,181</u>	<u>970,433</u>	42%
Net Position:					
Net investment in capital assets	18,253,376	19,717,040	18,261,397	(1,463,664)	-7%
Unrestricted	<u>15,733,033</u>	<u>15,235,661</u>	<u>15,296,975</u>	<u>497,372</u>	3%
Total net position	<u>33,986,409</u>	<u>34,952,701</u>	<u>33,558,372</u>	<u>(966,292)</u>	-3%
Total liabilities, deferred inflows and net position	<u>\$ 41,891,856</u>	<u>39,250,140</u>	<u>38,867,144</u>	<u>2,641,716</u>	7%

Year ended June 30, 2015: In fiscal year 2015 the total assets and deferred outflows increased by \$2,641,716, or 7%. This was primarily caused by the recording of pension related deferred outflows and an increase in assets limited as to use of \$3,248,229, combined with an increase of accumulated depreciation due to depreciation on capital assets of \$1,559,073. In fiscal year 2015 the total liabilities increased by \$2,637,575, or 135%, mainly due to the recording of the Hospital's net pension liability.

Year ended June 30, 2014: In fiscal year 2014 the total assets and deferred outflows increased by \$382,996, or 1%. This was primarily caused by an increase in accumulated depreciation due to depreciation on capital assets of \$1,629,771, a decrease of notes receivable of \$3,820,409, and an increase in cash, investments and assets limited as to use of \$2,247,848. In fiscal year 2014, the total liabilities decreased by \$1,232,388, or 39%, mainly due to a decrease in the estimated third-party payor settlement.

Dallas County Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Operating Results and Changes in the Hospital's Net Position

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$3,293,290 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

The following shows the changes in net position of the Hospital:

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

	<u>2015</u>	<u>(not restated) 2014</u>	<u>(not restated) 2013</u>
Operating Revenue:			
Net patient service revenue	\$ 12,360,697	11,591,464	10,971,439
Other operating revenue	513,832	457,354	366,808
Total operating revenue	<u>12,874,529</u>	<u>12,048,818</u>	<u>11,338,247</u>
Operating Expenses:			
Salaries, wages and employee benefits	5,196,998	5,418,332	5,385,238
Contract labor, professional fees & purchased services	3,940,247	3,811,627	3,561,686
Depreciation	1,559,073	1,629,771	1,529,052
Other operating	2,470,320	2,339,798	2,699,355
Total operating expenses	<u>13,166,638</u>	<u>13,199,528</u>	<u>13,175,331</u>
Operating Loss	<u>(292,109)</u>	<u>(1,150,710)</u>	<u>(1,837,084)</u>
Nonoperating Revenue (Expenses), Net:			
County tax revenue	2,353,283	2,242,256	2,188,111
Rental property, net	123,422	95,571	58,246
Investment income	187,963	163,457	253,584
(Gain) loss on disposal of capital assets	157	(1,319)	--
Other nonoperating expense, net	(9,400)	(9,400)	(9,360)
Nonoperating revenue, net	<u>2,655,425</u>	<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	2,363,316	1,339,855	653,497
Change in net unrealized gains and losses on other than trading securities	(14,400)	46,753	(84,379)
Capital grants and contributions	23,129	53,400	83,303
Transfers to Foundation	<u>(45,047)</u>	<u>(45,679)</u>	<u>(87,147)</u>
Increase in net position	2,326,998	1,394,329	565,274
Net position, beginning of year, as restated	<u>31,659,411</u>	<u>33,558,372</u>	<u>32,993,098</u>
Net position, end of year	<u>\$ 33,986,409</u>	<u>34,952,701</u>	<u>33,558,372</u>

Dallas County Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Operating Loss

The first component of the overall change in the Hospital's net position is its operating loss, generally the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In 2015 the Hospital reported operating loss of \$292,109 and in 2014 and 2013 the Hospital reported operating losses of \$1,150,710 and \$1,837,084, respectively. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The primary components impacting operating loss are as follows:

- In fiscal year 2015 net patient service revenue grew by \$769,233, due to increased outpatient revenue coupled with a decrease in charity care and bad debt expenses. Other operating revenue grew by \$56,478 year-over-year, while overall operating expenses declined slightly, principally due to lower employee benefit expenses as a result of implementing GASB 68. Fiscal year 2015's operating loss was \$858,601 less than prior year.
- In fiscal year 2014 net patient service revenue increased by \$620,025. Roughly half of this increase was due to growth in gross patient revenue, with the remainder primarily due to the Hospital receiving favorable settlements from Medicare relating to previous years. Other operating revenue grew by \$90,546, principally in atrium rental income and grant revenue. Operating expenses increased by only \$24,197 year-over-year, so fiscal year 2014's operating loss was \$686,374 less than prior year.

Nonoperating Revenue

Nonoperating revenue consists primarily of property taxes levied by the Hospital, rental property income and investment income. Nonoperating revenue in 2015 increased by \$164,860, or 6.6%, as compared to 2014 due mainly to an increase in property tax receipts. Nonoperating revenue for 2014 decreased by \$16 compared to 2013. The decrease 2014 is primarily due to a decrease in investment income.

The Hospital's Cash Flows

Year ended June 30, 2015: The Hospital's cash increased by \$429,582 in 2015 as compared to 2014. The primary reason for the increase is the operating income generated in 2015 compared to 2014.

Year ended June 30, 2014: The Hospital's cash decreased by \$173,802 in 2014 as compared to 2013. The primary reason for the decrease is the decrease in cash used in operating activities.

Capital Assets

June 30, 2015: At the end of fiscal year 2015, the hospital had \$18,253,376 invested in capital assets, net of accumulated depreciation. In fiscal year 2015, the hospital had \$1,559,073 in depreciation expense and purchased \$420,145 in new fixed assets.

June 30, 2014: At the end of fiscal year 2014, the hospital had \$19,717,040 invested in capital assets, net of accumulated depreciation. In fiscal year 2014, the hospital had \$1,629,771 in depreciation expense and purchased \$359,077 in new fixed assets.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 515.465.7628.

Dallas County Hospital

Statements of Net Position June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 900,165	470,583
Short-term investments	2,294,040	2,361,738
Current portion of notes receivable	17,508	17,508
Receivables -		
Patient, net of allowance for uncollectible accounts of \$257,508 in 2015 and \$312,421 in 2014, respectively	1,169,260	1,081,068
Succeeding year property taxes receivable	2,340,100	2,337,236
Other	10,534	64,096
Inventories	184,423	206,441
Prepaid expenses	161,335	86,676
	<u>7,077,365</u>	<u>6,625,346</u>
Total current assets		
Noncurrent assets:		
Assets limited as to use	16,010,203	12,761,934
Long-term portion of notes receivable	128,312	145,820
Capital assets, net	18,253,376	19,717,040
	<u>41,469,256</u>	<u>39,250,140</u>
Total assets		
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	422,600	--
	<u>422,600</u>	<u>--</u>
Total assets and deferred outflows of resources		
	<u>\$ 41,891,856</u>	<u>39,250,140</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 508,646	726,672
Accrued salaries, vacation and benefits payable	609,565	590,185
Estimated third-party payor settlements - Medicare and Medicaid	798,096	571,686
Deferred revenue for previous year property taxes	144,391	71,660
	<u>2,060,698</u>	<u>1,960,203</u>
Total current liabilities		
Long-term liabilities:		
Net pension liability	2,537,080	--
	<u>2,537,080</u>	<u>--</u>
Total liabilities		
	<u>4,597,778</u>	<u>1,960,203</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	2,340,100	2,337,236
Pension related deferred inflows	967,569	--
	<u>3,307,669</u>	<u>2,337,236</u>
Total deferred inflows of resources		
Commitments and contingencies		
NET POSITION		
Net investment in capital assets	18,253,376	19,717,040
Unrestricted	15,733,033	15,235,661
	<u>33,986,409</u>	<u>34,952,701</u>
Total net position		
Total liabilities, deferred inflows of resources and net position		
	<u>\$ 41,891,856</u>	<u>39,250,140</u>

See notes to financial statements

Dallas County Hospital

Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 12,795,022	12,399,766
Provision for bad debt	(434,325)	(808,302)
Net patient service revenue	12,360,697	11,591,464
Other operating revenue	513,832	457,354
Total operating revenue	<u>12,874,529</u>	<u>12,048,818</u>
OPERATING EXPENSES:		
Salaries and wages	4,319,120	4,296,360
Employee benefits	877,878	1,121,972
Contract labor	2,925,114	2,812,599
Professional fees & purchased services	1,015,133	999,028
Supplies	1,168,752	1,015,955
Facility costs	436,831	442,616
Repairs and maintenance	290,544	267,336
Equipment lease/rentals	104,708	103,448
Insurance	129,682	133,255
Depreciation	1,559,073	1,629,771
Other	339,803	377,188
Total operating expenses	<u>13,166,638</u>	<u>13,199,528</u>
OPERATING LOSS	<u>(292,109)</u>	<u>(1,150,710)</u>
NONOPERATING REVENUE (EXPENSE), NET:		
County tax revenue	2,353,283	2,242,256
Rental property, net -		
Including depreciation of \$324,872 in 2015 and \$222,344 in 2014	123,422	95,571
Investment income	187,963	163,457
(Gain) loss on disposal of capital assets	157	(1,319)
Other nonoperating expense, net	(9,400)	(9,400)
Nonoperating revenue, net	<u>2,655,425</u>	<u>2,490,565</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CHANGE IN NET UNREALIZED GAINS AND LOSSES, CAPITAL GRANTS AND CONTRIBUTIONS, AND TRANSFERS	2,363,316	1,339,855
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	(14,400)	46,753
CAPITAL GRANTS AND CONTRIBUTIONS	23,129	53,400
TRANSFERS TO FOUNDATION	(45,047)	(45,679)
INCREASE IN NET POSTION	2,326,998	1,394,329
NET POSITION, beginning of year, as restated (see Note 14)	<u>31,659,411</u>	<u>33,558,372</u>
NET POSITION, end of year	<u>\$ 33,986,409</u>	<u>34,952,701</u>

See notes to financial statements

Dallas County Hospital

Statements of Cash Flows For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 12,498,915	10,782,087
Cash paid for employees for salaries and benefits	(5,388,859)	(5,410,507)
Cash paid to suppliers and contractors	(6,681,234)	(6,239,813)
Other receipts and payments, net	559,366	493,424
Net cash provided by (used in) operating activities	<u>988,188</u>	<u>(374,809)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES,		
Property taxes received	<u>2,424,642</u>	<u>2,142,638</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(420,125)	(359,077)
Capital grants and contributions	23,129	53,400
Net cash used in capital and related financing activities	<u>(396,996)</u>	<u>(305,677)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquired from dissolution of Spring Valley	--	294,496
Withdrawals from short term investments, net	67,698	497,873
Deposits to assets limited as to use, net	(3,241,158)	(2,861,876)
Investment income	166,453	152,563
Cash received from rental property	448,294	317,915
Payments received on note receivable	17,508	8,754
Transfers to Foundation	(45,047)	(45,679)
Net cash used in investing activities	<u>(2,586,252)</u>	<u>(1,635,954)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	429,582	(173,802)
CASH AND CASH EQUIVALENTS, beginning of year	<u>470,583</u>	<u>644,385</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 900,165</u>	<u>470,583</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
The following amounts were acquired (assumed) from the dissolution of Spring Valley -		
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	--	(23,559)
	<u>\$ --</u>	<u>--</u>

See notes to financial statements

Dallas County Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (292,109)	(1,150,710)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities -		
Other nonoperating expense, net	(9,400)	(9,400)
Depreciation	1,559,073	1,629,771
Decrease in net pension liability	(1,130,026)	--
Increase in deferred outflows of resources	(48,784)	--
Increase in deferred inflows of resources	967,569	--
(Increase) decrease in current assets -		
Receivables -		
Patients	(88,192)	191,158
Other	54,934	30,337
Inventories	22,018	31,385
Prepaid expenses	(74,659)	56,525
Increase (decrease) in current liabilities -		
Accounts payable	(218,026)	(161,165)
Accrued salaries, vacation and benefits payable	19,380	7,825
Estimated third-party payor settlements - Medicare and Medicaid	226,410	(1,000,535)
Net cash provided by (used in) operating activities	<u>\$ 988,188</u>	<u>(374,809)</u>

See notes to financial statements

Dallas County Hospital

Notes to Financial Statements June 30, 2015 and 2014

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

Dallas County Hospital (Hospital) is a Critical Access Hospital, organized under Chapter 347 of the Code of Iowa, governed by a 7 member Board of Trustees, which is elected by the voters of Dallas County. The Hospital is a Critical Access Hospital with 25 acute-care beds. The Hospital also has related healthcare ancillary and outpatient services.

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 healthcare 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.

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*

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, 2015 the Hospital has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The healthcare 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 healthcare 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 healthcare 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. Several provisions have been implemented while other provisions are slated to take effect at specified times over approximately the next decade.

Dallas County Hospital

Notes to Financial Statements June 30, 2015 and 2014

C. *Basis of Presentation*

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

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 Hospital's basic financial statements are presented 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, deferred inflows and outflows, 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, 2015 and 2014

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.

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. 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.

L. 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.

M. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Dallas County Hospital

Notes to Financial Statements June 30, 2015 and 2014

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. Pensions

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

P. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statement of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Q. 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.

R. 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.

S. 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 healthcare services are reported as operating revenue and expenses. Property tax levied to finance the current year is included as nonoperating revenue and peripheral or incidental transactions are reported as nonoperating revenue and expenses.

T. 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, 2015 and 2014

U. *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.

V. *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.

W. *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 \$382,357 and \$330,597 were incurred for the years ended June 30, 2015 and 2014, respectively.

X. *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.

Y. *Reclassifications*

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 reporting format.

Z. *Subsequent Events*

The Hospital considered events occurring through October 22, 2015 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, 2015 and 2014 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, 2015 and 2014

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, 2015, 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, 2015, 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.

The Hospital's investments are carried at fair value. As of June 30, 2015 and 2014, the Hospital's investments, including assets limited as to use, consisted of the following:

	<u>2015</u>	<u>2014</u>
Cash and money market funds	\$ 1,911,167	1,531,014
Certificates of deposit	10,513,470	9,334,217
Government obligations	5,258,294	4,111,997
Corporate bonds	453,358	--
Accrued interest receivable	167,954	146,444
	<u>\$ 18,304,243</u>	<u>15,123,672</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, 2013.

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, 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, 2015 and 2014

Commercial – 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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Gross patient service revenue:		
Inpatient	\$ 1,332,175	1,191,790
Outpatient	18,197,981	16,496,186
Swingbed	<u>778,940</u>	<u>590,944</u>
Total gross patient service revenue	<u>20,309,096</u>	<u>18,278,920</u>
Deductions from gross patient service revenue:		
Medicare	(2,399,357)	(1,508,253)
Medicaid	(1,898,500)	(1,319,241)
Other	(3,009,054)	(2,475,518)
Charity care services	<u>(207,163)</u>	<u>(576,142)</u>
Total deductions from gross patient service revenue	<u>(7,514,074)</u>	<u>(5,879,154)</u>
Net patient service revenue before provision for bad debt	<u>\$ 12,795,022</u>	<u>12,399,766</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 42% and 16%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2015 compared to 44% for Medicare and 11% for Medicaid in 2014. 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 2015 and 2014 net patient service revenue increased approximately \$550,000 and \$860,000, 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.

Dallas County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(4) Other Operating Revenue

Other operating revenue for the years ended June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Atrium rental	\$ 149,243	154,948
Nutritional service	91,550	90,884
Other	54,260	50,642
Electronic health record incentive payments	135,977	23,600
South addition maintenance	38,225	36,461
Vendor discounts/rebates	12,377	16,672
Grant revenue	20,745	73,572
Medical records transcripts	11,464	10,575
	<u>\$ 513,832</u>	<u>457,354</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 healthcare providers. During 2013, 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 2016. 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. 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 \$135,977 and \$23,600 in 2015 and 2014, 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, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Patient accounts	\$ 2,108,618	1,854,446
Less allowance for uncollectible accounts	(257,508)	(312,421)
Less estimated third-party payor contractual adjustments	(681,850)	(460,957)
	<u>\$ 1,169,260</u>	<u>1,081,068</u>

Dallas County Hospital

Notes to Financial Statements June 30, 2015 and 2014

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>2015</u>	<u>2014</u>
Medicare	20%	24%
Medicaid	14	11
Blue Cross	21	20
Other commercial insurance	30	23
Private pay	15	22
	<u>100%</u>	<u>100%</u>

(6) Notes Receivable

In September 2013, Spring Valley, Inc. (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 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 in fiscal year 2014 due to the dissolution of Spring Valley in December 2013. The note receivable of \$145,820 is included in the accompanying statements of net position for the year ended June 30, 2015. A summary of future payments as of June 30, 2015 is as follows:

<u>Year</u>	<u>Payment</u>
2016	\$ 17,508
2017	17,508
2018	17,508
2019	17,508
2020	17,508
Thereafter	<u>58,280</u>
Total	<u>\$ 145,820</u>

(7) Assets Limited as to Use

By Board

Cash deposits, certificates of deposit, corporate bonds and government obligations designated by the Board for future capital improvements as of June 30, 2015 and 2014, are summarized as follows:

	<u>2015</u>	<u>2014</u>
Capital improvements -		
Cash and money market funds	\$ 1,561,167	1,181,014
Certificates of deposit	8,569,430	7,322,479
Government obligations	5,258,294	4,111,997
Corporate bonds	453,358	--
Accrued interest receivable	167,954	146,444
	<u>\$ 16,010,203</u>	<u>12,761,934</u>

Dallas County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(8) Capital Assets

Capital assets activity for the years ended June 30, 2015 and 2014 were as follows:

	June 30, 2014	Additions	Transfers and Disposals	June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	24,999	114,070	(51,999)	87,070
Total capital assets, not being depreciated	<u>94,522</u>	<u>114,070</u>	<u>(51,999)</u>	<u>156,593</u>
Capital assets, being depreciated:				
Land improvements	1,780,959	--	--	1,780,959
Buildings and fixed equipment	24,451,214	--	--	24,451,214
Major moveable equipment	5,430,189	307,628	51,999	5,789,816
Total capital assets, being depreciated	<u>31,662,362</u>	<u>307,628</u>	<u>51,999</u>	<u>32,021,989</u>
Less accumulated depreciation:				
Land improvements	(563,290)	(126,109)	--	(689,398)
Buildings and fixed equipment	(7,431,387)	(1,272,919)	--	(8,704,306)
Major moveable equipment	(4,045,167)	(484,917)	(1,418)	(4,531,502)
Total accumulated depreciation	<u>(12,039,844)</u>	<u>(1,883,945)</u>	<u>(1,418)</u>	<u>(13,925,206)</u>
Total capital assets, being depreciated, net	<u>19,622,518</u>	<u>(1,576,317)</u>	<u>50,581</u>	<u>18,096,783</u>
Total capital assets, net	<u>\$ 19,717,040</u>	<u>(1,462,247)</u>	<u>(1,418)</u>	<u>18,253,376</u>
	June 30, 2013	Additions	Transfers and Disposals	June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 69,523	--	--	69,523
Construction in progress	1,500	133,880	(110,381)	24,999
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	5,502,087	276,454	(348,352)	5,430,189
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)	(126,108)	--	(563,290)
Buildings and fixed equipment	(6,257,509)	(1,209,448)	35,570	(7,431,387)
Major moveable equipment	(3,876,960)	(516,559)	348,352	(4,045,167)
Total accumulated depreciation	<u>(10,571,651)</u>	<u>(1,852,115)</u>	<u>383,922</u>	<u>(12,039,844)</u>
Total capital assets, being depreciated, net	<u>18,190,374</u>	<u>3,299,373</u>	<u>(1,867,229)</u>	<u>19,622,518</u>
Total capital assets, net	<u>\$ 18,261,397</u>	<u>3,433,253</u>	<u>(1,977,610)</u>	<u>19,717,040</u>

Depreciation expense of \$1,883,945 and \$1,852,115 in 2015 and 2014, respectively, is included in the accompanying statements of revenue, expenses and change in net position.

Dallas County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(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, 2015 and 2014, 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 Plan

Plan Description

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 membership is mandatory for employees of the Hospital, except for those covered by another retirement system. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

Pension Benefits

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

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

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

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

Dallas County Hospital

Notes to Financial Statements June 30, 2015 and 2014

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2015 and 2014, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Hospital contributed 8.93 percent for a total rate of 14.88 percent.

The Hospital's contributions to IPERS for the years ended June 30, 2015 and 2014 were \$378,773 and \$373,816, respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Hospital reported a liability of \$2,537,080 for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's proportion was .059457 percent, which was a decrease of .001797 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Hospital recognized pension expense of \$167,532. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 27,573	--
Changes of assumptions	111,967	--
Net difference between projected and actual earnings on pension plan investments	--	967,569
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	(95,713)	--
Hospital contributions subsequent to the measurement date	<u>378,773</u>	<u>--</u>
Total	<u>\$ 422,600</u>	<u>967,569</u>

Dallas County Hospital

Notes to Financial Statements June 30, 2015 and 2014

Deferred outflows of resources related to pensions included \$378,773 resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>		
2016	\$	(231,652)
2017		(231,652)
2018		(231,652)
2019		(231,652)
2020		<u>2,866</u>
	\$	<u>(923,742)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation.
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
Total	<u>100%</u>	

Dallas County Hospital

Notes to Financial Statements June 30, 2015 and 2014

Discount Rate

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

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	\$ 4,987,643	2,537,080	468,896

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$66,882 for legally required employer contributions and \$19,555 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(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 one to ten 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, 2015, that have lease terms in excess of one year:

<u>Year</u>	<u>Amount</u>
2016	\$ 544,910
2017	503,696
2018	504,188
2019	504,188
2020	495,990
Thereafter	2,066,505

Dallas County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(13) 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 \$94,732 and \$104,854 at June 30, 2015 and 2014, respectively. The Hospital has included transfers to the Foundation of \$45,047 and \$45,679 for the years ended June 30, 2015 and 2014, respectively, in the statement of revenue, expenses and changes in net position. These amounts were to support the operations of the Foundation. The Foundation transferred grants totaling \$43,874 and \$126,972 as of June 30, 2015 and 2014, respectively, for operating and capital needs of the Hospital.

(14) Change in Accounting Principle

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$ 34,952,701
Net pension liability at June 30, 2014	(3,667,106)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	<u>373,816</u>
Net position July 1, 2014, as restated	<u>\$ 31,659,411</u>

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, 2015

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, 2015, 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	\$ 2,353,283	71,359	2,424,642	2,337,236	87,406
Estimated other revenue / receipts	<u>13,194,643</u>	<u>519,022</u>	<u>13,713,665</u>	<u>11,442,962</u>	<u>2,270,703</u>
Total	15,547,926	590,381	16,138,307	13,780,198	2,358,109
Expenses / Disbursements	<u>13,220,928</u>	<u>(692,774)</u>	<u>12,528,154</u>	<u>13,164,856</u>	<u>636,702</u>
Net	2,326,998	1,283,155	3,610,153	\$ <u><u>615,342</u></u>	<u><u>2,994,811</u></u>
Balance beginning of year, as restated	<u>31,659,411</u>	<u>(16,065,156)</u>	<u>15,594,255</u>		
Balance end of year	\$ <u><u>33,986,409</u></u>	<u><u>(14,782,001)</u></u>	<u><u>19,204,408</u></u>		

See accompanying independent auditor's report

Dallas County Hospital

Schedule of the Hospital's Proportionate Share of the Net Pension Liability Required Supplementary Information June 30, 2015

		<u>2015</u>
	Iowa Public Employee's Retirement System Last Fiscal Year* (In Thousands)	
Hospital's proportion of net pension liability		0.059457%
Hospital's proportionate share of the net pension liability	\$	2,537
Hospital's covered-employee payroll	\$	4,188
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll		60.58%
Plan fiduciary net position as a percentage of the total pension liability		87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report

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

Dallas County Hospital

**Schedule of Hospital Contributions
Required Supplementary Information
June 30, 2015**

Iowa Public Employee's Retirement System
Last 10 Fiscal Years
(In Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contribution	\$ 379	374	363	333	302	332	312	247	209	203
Contributions in relation to the statutorily required contribution	<u>(379)</u>	<u>(374)</u>	<u>(363)</u>	<u>(333)</u>	<u>(302)</u>	<u>(332)</u>	<u>(312)</u>	<u>(247)</u>	<u>(209)</u>	<u>(203)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>--</u>								
Hospital's covered-employee payroll	\$ 4,244	4,188	4,187	4,126	4,345	4,992	4,913	4,083	3,635	3,530
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

See accompanying independent auditor's report

Dallas County Hospital

Notes to Required Supplementary Information – Pension Liability June 30, 2015

Notes to Required Supplementary Information – Pension Liability

Changes of benefit terms

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

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

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

Changes of assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study

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

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

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

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

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

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

**Net Patient Service Revenue
For the Years Ended June 30, 2015 and 2014**

	2015			2014 (not restated)		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
NURSING SERVICES:						
Medical/surgical	\$ 745,987	89,775	835,762	660,800	186,215	847,015
Swing bed	427,777	--	427,777	360,113	--	360,113
	<u>1,173,764</u>	<u>89,775</u>	<u>1,263,539</u>	<u>1,020,913</u>	<u>186,215</u>	<u>1,207,128</u>
OTHER PROFESSIONAL SERVICES:						
Emergency department	28,160	3,552,840	3,581,000	29,500	3,239,530	3,269,030
Laboratory	162,437	2,679,054	2,841,491	134,876	2,392,313	2,527,189
Operating room	--	2,220,673	2,220,673	7,355	2,208,767	2,216,122
Physical therapy	96,505	1,638,705	1,735,210	78,320	1,386,939	1,465,259
CT scans	42,350	1,458,450	1,500,800	32,760	1,283,465	1,316,225
Radiology	17,925	1,285,895	1,303,820	14,925	1,132,895	1,147,820
Emergency physicians	7,450	1,255,660	1,263,110	7,850	1,124,040	1,131,890
Pharmacy	324,002	994,480	1,318,482	262,519	767,699	1,030,218
Mobile MRI	9,965	567,005	576,970	12,055	537,700	549,755
Ultrasounds	21,020	421,980	443,000	12,065	433,945	446,010
Cardiopulmonary	81,525	286,950	368,475	60,920	305,525	366,445
Sleep studies	--	374,140	374,140	--	347,880	347,880
Anesthesia	--	404,930	404,930	3,016	325,939	328,955
Occupational therapy	52,255	280,160	332,415	23,130	216,055	239,185
Electrocardiology	10,405	199,130	209,535	8,610	188,575	197,185
Echocardiology	23,205	174,245	197,450	22,295	120,710	143,005
Intravenous therapy	53,657	77,409	131,066	41,175	60,345	101,520
Nuclear medicine	1,185	31,575	32,760	--	61,027	61,027
Specialty clinic	--	69,420	69,420	--	47,950	47,950
Transfusion services	4,620	25,795	30,415	7,400	32,560	39,960
Bone density	--	47,600	47,600	--	33,495	33,495
Corp wellness	--	28,070	28,070	--	27,832	27,832
Speech therapy	685	16,060	16,745	3,050	16,440	19,490
Treadmills	--	16,300	16,300	--	13,345	13,345
Dietician	--	1,680	1,680	--	5,000	5,000
	<u>937,351</u>	<u>18,108,206</u>	<u>19,045,557</u>	<u>761,821</u>	<u>16,309,971</u>	<u>17,071,792</u>
GROSS PATIENT SERVICE REVENUE	\$ 2,111,115	18,197,981	20,309,096	1,782,734	16,496,186	18,278,920
DEDUCTIONS FROM GROSS PATIENT SERVICE REVENUE						
Contractual allowances and other deductions			(7,306,911)			(5,303,012)
Charity care			(207,163)			(576,142)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			12,795,022			12,399,766
PROVISION FOR BAD DEBT			(434,325)			(808,302)
NET PATIENT SERVICE REVENUE			\$ 12,360,697			11,591,464

See accompanying independent auditor's report

**Other Operating Revenue
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>(not restated) 2014</u>
Atrium rental	\$ 149,234	154,948
Nutritional service	91,550	90,884
Other	54,260	50,643
Electronic health record incentive payments	135,977	23,599
South addition maintenance	38,225	36,461
Vendor discounts/rebates	12,377	16,672
Grant revenue	20,745	73,572
Medical records transcripts	11,464	10,575
	<u>\$ 513,832</u>	<u>457,354</u>

See accompanying independent auditor's report

**Departmental Expenses
For the Years Ended June 30, 2015 and 2014**

	2015			2014 (not restated)		
	Salaries	Supplies and Other	Total	Salaries	Supplies and Other	Total
NURSING SERVICES:						
Medical/surgical	\$ 803,674	216,947	1,020,621	789,306	233,322	1,022,628
Nursing administration	514,464	8,694	523,158	457,464	11,269	468,733
	<u>1,318,138</u>	<u>225,641</u>	<u>1,543,779</u>	<u>1,246,770</u>	<u>244,591</u>	<u>1,491,361</u>
OTHER PROFESSIONAL SERVICES:						
Emergency department	400,167	1,121,503	1,521,670	379,275	1,111,501	1,490,776
Physical therapy	--	703,903	703,903	--	592,532	592,532
Laboratory	247,718	317,309	565,027	242,666	304,132	546,798
Operating room	204,851	312,593	517,444	228,628	274,501	503,129
Radiology	8,880	487,483	496,363	10,947	462,224	473,171
Pharmacy	30,973	497,976	528,949	66,477	373,596	440,073
Anesthesia	--	200,000	200,000	--	201,137	201,137
Cardiopulmonary	109,796	37,859	147,655	102,279	32,268	134,547
Education	27,299	86,476	113,775	21,466	81,004	102,470
Occupational therapy	--	133,865	133,865	--	96,305	96,305
CT scans	--	88,301	88,301	--	87,132	87,132
Sleep studies	--	68,850	68,850	--	67,500	67,500
Mobile MRI	--	68,693	68,693	--	64,025	64,025
Specialty clinic	13,619	83,492	97,111	13,064	48,553	61,617
Cardiac rehabilitation	52,494	142	52,636	54,757	179	54,936
Echocardiology	--	68,343	68,343	--	52,672	52,672
Nuclear medicine	--	14,318	14,318	--	26,480	26,480
Ultrasounds	--	5,341	5,341	--	8,953	8,953
Speech therapy	--	6,698	6,698	--	7,837	7,837
Electrocardiology	--	6,135	6,135	--	7,567	7,567
	<u>1,095,797</u>	<u>4,309,280</u>	<u>5,405,077</u>	<u>1,119,559</u>	<u>3,900,098</u>	<u>5,019,657</u>
GENERAL SERVICES:						
Facility	286,508	431,754	718,262	325,251	430,610	755,861
Nutritional services/dietician	181,437	150,564	332,001	175,533	149,408	324,941
Environmental services	125,644	54,555	180,199	126,062	51,288	177,350
Social services	37,669	4,826	42,495	13,569	3,385	16,954
	<u>631,258</u>	<u>641,699</u>	<u>1,272,957</u>	<u>640,415</u>	<u>634,691</u>	<u>1,275,106</u>
ADMINISTRATIVE SERVICES	<u>1,273,927</u>	<u>734,569</u>	<u>2,378,196</u>	<u>1,289,616</u>	<u>734,569</u>	<u>2,528,406</u>
NONDEPARTMENTAL:						
Depreciation	--	1,559,073	1,559,073	--	1,629,771	1,629,771
Employee benefits	--	877,878	877,878	--	1,121,972	1,121,972
Insurance	--	129,682	129,682	--	133,255	133,255
	<u>--</u>	<u>2,566,633</u>	<u>2,566,633</u>	<u>--</u>	<u>2,884,998</u>	<u>2,884,998</u>
TOTAL EXPENSES	<u>\$ 4,319,120</u>	<u>5,911,189</u>	<u>13,166,638</u>	<u>4,296,360</u>	<u>5,513,949</u>	<u>13,199,528</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Uncollectible Accounts
June 30, 2015 and 2014**

ANALYSIS OF AGING:

Days Since Discharge	2015		2014	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,129,122	53 %	1,197,732	65 %
31 - 60	310,842	15	234,849	13
61 - 90	204,929	10	149,132	8
91 - 120	145,672	7	97,165	5
> 120	318,053	15	175,568	9
	<u>2,108,618</u>	100 %	<u>1,854,446</u>	100 %
Less:				
Allowance for uncollectible accounts	(257,508)		(312,421)	
Allowance for contractual adjustments	<u>(681,850)</u>		<u>(460,957)</u>	
	<u>\$ 1,169,260</u>		<u>1,081,068</u>	

	2015	2014
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	33.36 days	31.82 days
ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS:		
Balance, beginning of year	\$ 312,421	376,643
Provision of uncollectible accounts	434,325	808,302
Recoveries of accounts previously written off	243,417	296,892
Accounts written off	<u>(732,655)</u>	<u>(1,169,416)</u>
Balance, end of year	<u>\$ 257,508</u>	<u>312,421</u>

See accompanying independent auditor's report

**Inventories / Prepaid Expenses
June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
INVENTORIES:		
Departmental	\$ 94,033	92,815
Pharmacy	74,367	84,128
General stores/central supply	11,989	25,106
Dietary	4,034	4,392
	<u>\$ 184,423</u>	<u>206,441</u>
PREPAID EXPENSES:		
Insurance	\$ 112,067	55,732
Other	49,268	30,944
	<u>\$ 161,335</u>	<u>86,676</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Patient days:		
Acute	587	544
Swingbed	506	423
Respite	<u>33</u>	<u>13</u>
Total	<u><u>1,126</u></u>	<u><u>980</u></u>
Patient discharges:		
Acute	194	184
Swingbed	73	58
Respite	<u>9</u>	<u>4</u>
Total	<u><u>276</u></u>	<u><u>246</u></u>
Average length of stay:		
Acute	3.03 days	2.96 days
Swingbed	6.93 days	7.29 days
Respite	3.67 days	3.25 days
Emergency room visits	6,248	6,163
Specialty clinic visits	3,531	3,455
Other outpatient visits	17,763	17,518
Number of employees - full-time equivalents	81.9	82.9

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, 2015 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 22, 2015.

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, 2015 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

Slim Johnson, LLP

Omaha, Nebraska,
October 22, 2015.

Dallas County Hospital

Schedule of Findings and Responses June 30, 2015

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

Internal control deficiencies:

No matters were reported.

Instances of Non-Compliance:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

- III-A-15 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, 2015.
- III-B-15 Certified Budget: Disbursements during the year ended June 30, 2015 did not exceed the amount budgeted.
- III-C-15 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-15 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-15 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-15 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-15 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-15 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, 2015

This audit was performed by:

Roger E. Thompson, FHFMA, CPA, Partner
Nicole R. McDonald, CPA, Manager
Sarah C. Griger, Staff
Amanda L. Penalva, Staff