

Davis County Hospital

Accountants' Report and Financial Statements

June 30, 2007 and 2006



Davis County Hospital
June 30, 2007 and 2006

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information.....	1
Management's Discussion and Analysis	2
Financial Statements	
Balance Sheets	7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	11
Supplementary Information	
Schedules of Patient Service Revenues	24
Schedules of Other Revenues	25
Schedules of Operating Expenses.....	26
Schedules of Patient Receivables and Allowance for Uncollectible Accounts	27
Schedules of Supplies and Prepaid Expenses	28
Schedule of Officials—Year Ended June 30, 2007	29
Schedules of Financial and Statistical Data.....	30
Schedule of Insurance Coverage—Year Ended June 30, 2007	31
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....	32
Schedule of Findings and Responses	36



Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Davis County Hospital
Bloomfield, Iowa

We have audited the accompanying balance sheets of Davis County Hospital, as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Davis County Hospital as of June 30, 2007 and 2006, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2007 on our consideration of Davis County 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* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information in 2007 and 2006. Other accountants have applied similar limited procedures to Management's Discussion and Analysis for 2005. However, we did not audit the information and express no opinion on it.

Board of Trustees
Davis County Hospital
Page 2

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
December 13, 2007

Davis County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

Introduction

This management's discussion and analysis of the financial performance of Davis County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2007 and 2006. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2007 and 2006 by \$109,162 or 12% and increased between 2006 and 2005 by \$121,333 or 16%.
- The Hospital's net assets increased \$334,247 or 5% in 2007 and decreased \$150,715 or 2% in 2006.
- The Hospital reported operating losses in both 2007 (\$128,390) and 2006 (\$623,397). The operating loss in 2007 decreased by \$495,007 or 79% over the operating loss reported in 2006 and the loss in 2006 increased by \$385,089 or over 100% of the operating loss reported in 2005.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; 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.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

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 Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets 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 and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets 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.

The 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.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$334,247 or 5% in 2007 over 2006 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2007	2006	2005
Assets			
Patient accounts receivable, net	\$ 2,360,479	\$ 2,244,435	\$ 2,946,428
Other current assets	3,029,702	2,873,709	2,712,277
Capital assets, net	8,926,510	10,000,214	11,022,777
Other noncurrent assets	<u>2,025,773</u>	<u>1,685,623</u>	<u>1,018,529</u>
Total assets	<u>\$ 16,342,464</u>	<u>\$ 16,803,981</u>	<u>\$ 17,700,011</u>
Liabilities			
Current liabilities	\$ 2,648,711	\$ 2,934,750	\$ 3,146,630
Long-term debt	<u>6,486,717</u>	<u>6,996,442</u>	<u>7,529,877</u>
Total liabilities	<u>9,135,428</u>	<u>9,931,192</u>	<u>10,676,507</u>
Net Assets			
Invested in capital assets, net of related debt	1,953,044	2,534,657	3,027,347
Restricted expendable	296,609	458,067	352,742
Unrestricted	<u>4,957,383</u>	<u>3,880,065</u>	<u>3,643,415</u>
Total net assets	<u>7,207,036</u>	<u>6,872,789</u>	<u>7,023,504</u>
Total liabilities and net assets	<u>\$ 16,342,464</u>	<u>\$ 16,803,981</u>	<u>\$ 17,700,011</u>

In fiscal year 2007, total assets decreased by \$461,517 or 3%, which was caused by depreciation of capital assets for 2007 of \$1,243,821 with only \$170,386 in additional capital purchases. This decreased net plant assets by \$1,073,704 or 11%. This decrease was offset partially due to an increase in cash of \$109,162 or 12%, and an increase in assets limited as to use internally designated for capital investment of \$412,542 or 28%.

In fiscal year 2006, total assets decreased by \$896,030 or 5%, which was mostly attributable to a decrease in accounts receivable of \$701,993 or 24%. Part of the decrease in the 2006 accounts receivable is due to the Hospital installing a new computer system in February of 2005, which caused the accounts receivable to increase substantially at year end in 2005, and then subsequently the Hospital working on accounts receivable throughout 2006 and reducing the accounts receivable balances. Another significant change in assets is the increase in other noncurrent assets of \$671,591 or 72% compared to 2005 due to the Hospital saving approximately \$50,000 a month during 2006, which was part of the Hospital's cash management strategy. During 2005, the Hospital disposed several fully depreciated capital assets that were outdated or

no longer used by the Hospital such as the home health computer system, defibrators, an ambulance, hematology equipment, a chemistry analyzer, x-ray unit and system and various other major movable equipment.

Operating Results and Changes in the Hospital's Net Assets

In 2007, the Hospital's net assets increased by \$334,247 or 5% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2007	2006	2005
Operating Revenues			
Net patient service revenue	\$ 12,558,050	\$ 11,960,921	\$ 11,714,663
Other operating revenues	418,821	449,363	488,600
Total operating revenues	<u>12,976,871</u>	<u>12,410,284</u>	<u>12,203,263</u>
Operating Expenses			
Salaries, wages and employee benefits	6,899,912	7,144,007	6,895,622
Medical professional fees	1,615,165	1,504,026	709,758
Depreciation and amortization	1,257,258	1,331,327	1,125,569
Other operating expenses	3,332,926	3,054,321	3,710,622
Total operating expenses	<u>13,105,261</u>	<u>13,033,681</u>	<u>12,441,571</u>
Operating Loss	<u>(128,390)</u>	<u>(623,397)</u>	<u>(238,308)</u>
Nonoperating Revenues (Expenses)			
County taxes	686,616	716,535	718,707
Interest expense	(378,286)	(391,932)	(367,727)
Interest income	115,099	49,633	22,482
Non-capital grants and gifts	33,137	96,555	28,432
Total nonoperating revenues	<u>456,566</u>	<u>470,791</u>	<u>401,894</u>
Excess Revenues Over Expenses Before Capital Grants and Contributions	328,176	(152,606)	163,586
Capital Grants and Contributions, Net of Restricted Contributions	<u>6,071</u>	<u>1,891</u>	<u>3,821</u>
Increase (Decrease) in Net Assets	<u>\$ 334,247</u>	<u>\$ (150,715)</u>	<u>\$ 167,407</u>

Operating Loss

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2007, 2006 and 2005, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Davis County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss for 2007 decreased by \$495,007 or 79% as compared to 2006. The primary components causing the decrease in the operating loss are as follows:

- Net patient revenue for 2007 was \$597,129 or 5% more than in 2006 with operating expenses remaining constant with only a 1% increase. Bed occupancy rate was up 3% for both acute and swing-bed and outpatient visits were up 16% in 2007 compared to 2006. There was also a 5% increase in ancillary and room rate fees in 2007.

The operating loss for 2006 increased by \$385,089 compared to 2005. The primary components of the increased operating loss are:

- Increase in total operating expenses of \$592,110 or 5% as compared to 2005. The increase in total operating expense is partially due to increases of \$248,385 or 4% in salaries, wages and employee benefits over 2005 due to employee salaries and severance pay to the prior Chief Executive Officer.
- Increase in depreciation and amortization of \$205,758 or 18% as compared to 2005 due to the addition of new major movable equipment during 2005.
- Increase in other operating expenses of \$66,445 or 2% as compared to 2005 due to an increase in patient days of 63 or 3%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income and interest expense. Overall, nonoperating revenues and expenses remained relatively constant from 2007 to 2006.

Contributions

The Hospital received contributions of \$33,137 and \$96,555 from various individuals in 2007 and 2006, respectively.

The Hospital's Cash Flows

The Hospital's cash flows in 2007 increased by \$80,287 as compared to 2006. The primary reason for the increase in overall cash flows in 2007 was due to changes made in billing of patient accounts, which was performed more timely than in 2006. This enabled the Hospital to increase the cash flow being remitted to the hospital. Also, during 2007, contractual allowances decreased from 2006 which allowed the Hospital to receive a greater percentage of total charges in cash from third-party payers.

Capital Asset and Debt Administration

Capital Assets

At the end of 2007, the Hospital had \$8,926,510 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2007, the Hospital purchased new capital assets costing \$170,386.

At the end of 2006, the Hospital had \$10,000,214 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2006, the Hospital purchased new capital assets costing \$315,850.

Debt

At June 30, 2007 and 2006, the Hospital had \$7,046,175 and \$7,542,763 in hospital revenue bonds, loans and capital lease obligations outstanding, respectively. In 2007, the Hospital initiated a capital lease totaling \$45,175 to purchase equipment. The Hospital issued no new debt in 2006.

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 641.664.2145.

Davis County Hospital
Balance Sheets
June 30, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$ 996,014	\$ 886,852
Assets held under bond indenture agreement	342,654	430,685
Short-term deposits	589,467	466,724
Patient accounts receivable, net of allowance; 2007 - \$845,578, 2006 - \$968,000	2,360,479	2,244,435
Property taxes receivable	685,803	679,624
Other receivables	33,579	20,463
Supplies	333,728	335,669
Prepaid expenses and other	<u>48,457</u>	<u>53,692</u>
Total current assets	<u>5,390,181</u>	<u>5,118,144</u>
Noncurrent Cash and Deposits		
Internally designated		
For capital acquisitions	1,866,636	1,454,094
Foundation assets	17,472	70,499
Externally restricted		
Held by trustee under bond indenture agreement for debt service	342,654	430,685
By donors	<u>68,956</u>	<u>83,824</u>
	2,295,718	2,039,102
Less amount required to meet current obligations	<u>342,654</u>	<u>430,685</u>
	<u>1,953,064</u>	<u>1,608,417</u>
Capital Assets	<u>8,926,510</u>	<u>10,000,214</u>
Other Assets		
Deferred financing costs	<u>72,709</u>	<u>77,206</u>
Total assets	<u>\$ 16,342,464</u>	<u>\$ 16,803,981</u>

Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
Current Liabilities		
Current maturities of long-term debt	\$ 559,458	\$ 546,321
Accounts payable	441,459	524,381
Accrued expenses	648,551	920,187
Accrued interest	115,001	118,959
Estimated amounts due to third-party payers	198,439	145,278
Deferred revenue for property taxes	<u>685,803</u>	<u>679,624</u>
Total current liabilities	2,648,711	2,934,750
Long-term Debt		
Total liabilities	<u>6,486,717</u>	<u>6,996,442</u>
Net Assets		
Invested in capital assets, net of related debt	1,953,044	2,534,657
Restricted-expendable for		
Debt service	227,653	311,726
Specific operating activities	68,956	146,341
Unrestricted	<u>4,957,383</u>	<u>3,880,065</u>
Total net assets	<u>7,207,036</u>	<u>6,872,789</u>
Total liabilities and net assets	<u>\$ 16,342,464</u>	<u>\$ 16,803,981</u>

Davis County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 13,033,979	\$ 12,170,111
Provision for uncollectible accounts	<u>(475,929)</u>	<u>(209,190)</u>
Net patient service revenue	12,558,050	11,960,921
Other	<u>418,821</u>	<u>449,363</u>
Total operating revenues	<u>12,976,871</u>	<u>12,410,284</u>
Operating Expenses		
Salaries and wages	5,541,547	5,696,753
Employee benefits	1,358,365	1,447,254
Purchased services and medical professional fees	1,615,165	1,504,026
Supplies and other	1,255,196	1,210,172
General services	908,061	945,116
Administrative services	1,043,132	792,095
Depreciation and amortization	1,257,258	1,331,327
Insurance	<u>126,537</u>	<u>106,938</u>
Total operating expenses	<u>13,105,261</u>	<u>13,033,681</u>
Operating Loss	<u>(128,390)</u>	<u>(623,397)</u>
Nonoperating Revenues (Expenses)		
County taxes	686,616	716,535
Interest Income	115,099	49,633
Non-capital grants and contributions	33,137	96,555
Interest expense	<u>(378,286)</u>	<u>(391,932)</u>
Total nonoperating revenues	<u>456,566</u>	<u>470,791</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants and Contributions	328,176	(152,606)
Capital Grants and Contributions, Net of Restricted Contributions	<u>6,071</u>	<u>1,891</u>
Increase (Decrease) in Net Assets	334,247	(150,715)
Net Assets, Beginning of Year	<u>6,872,789</u>	<u>7,023,504</u>
Net Assets, End of Year	<u>\$ 7,207,036</u>	<u>\$ 6,872,789</u>

Davis County Hospital
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 12,495,167	\$ 12,513,404
Payments to suppliers and contractors	(5,023,837)	(4,479,331)
Payments to and on behalf of employees	(7,171,548)	(7,289,554)
Other receipts, net	<u>400,324</u>	<u>478,550</u>
Net cash provided by operating activities	<u>700,106</u>	<u>1,223,069</u>
Noncapital Financing Activities		
Property taxes	686,616	716,535
Noncapital grants and gifts	<u>33,137</u>	<u>98,446</u>
Net cash provided by noncapital financing activities	<u>719,753</u>	<u>814,981</u>
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(550,703)	(543,309)
Interest paid on capital debt and leases	(382,244)	(403,097)
Proceeds from sale of capital assets	5,650	16,286
Purchase of capital assets	(125,211)	(317,741)
Capital grants and contributions	<u>6,071</u>	<u>1,891</u>
Net cash used in capital and related financing activities	<u>(1,046,437)</u>	<u>(1,245,970)</u>
Investing Activities		
Interest income	115,099	49,633
Purchases of investments	<u>(408,234)</u>	<u>(520,954)</u>
Net cash used in investing activities	<u>(293,135)</u>	<u>(471,321)</u>
Increase in Cash and Cash Equivalents	80,287	320,759
Cash and Cash Equivalents, Beginning of Year	<u>2,420,474</u>	<u>2,099,715</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,500,761</u></u>	<u><u>\$ 2,420,474</u></u>

Davis County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 996,014	\$ 886,852
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	1,077,974	948,614
Held under bond agreement	342,654	430,685
Externally restricted by donor	3,042	83,824
Foundation assets	81,077	70,499
	\$ 2,500,761	\$ 2,420,474
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating loss	\$ (128,390)	\$ (623,397)
Depreciation and amortization	1,257,258	1,331,327
Loss (gain) on sale of capital assets	(5,381)	4,236
Changes in operating assets and liabilities		
Patient accounts receivable, net	(116,044)	701,993
Inventory	1,941	(22,209)
Estimated amounts due from and to third-party payers	53,161	(149,510)
Accounts payable, accrued expenses and other	(362,439)	(6,443)
Other	-	(12,928)
Net cash provided by operating activities	\$ 700,106	\$ 1,223,069
Supplemental Cash Flows Information		
Debt incurred for purchase of capital assets	\$ 45,175	\$ -

Davis County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Davis County Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Davis County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Davis County area.

The Davis County Hospital Endowment Foundation (Foundation) is included in the Hospital's financial statements as a component unit using the blended method. The Foundation is a legally separate not-for-profit corporation that is, in substance, a part of the Hospital's operations and is primarily organized to benefit the Hospital.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

Davis County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2007 and 2006, cash equivalents consisted primarily of money market accounts and certificates of deposit.

Property Taxes

The Hospital received approximately 5.05% and 5.46% of its financial support from property tax revenues in the years ended June 30, 2007 and 2006, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

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 employee health, dental, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to dental and vision claims, for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee dental and vision claims. The Hospital was self-insured for employee medical claims until January 1, 2007, at which point commercial insurance coverage was obtained. Annual estimated provisions are accrued for the self-insured dental and vision claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Davis County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 to 25 years
Buildings, improvements and fixed equipment	5 to 40 years
Moveable equipment	3 to 20 years

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using bonds outstanding method.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable net assets.

Davis County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$43,339 and \$51,813 for 2007 and 2006, respectively.

Income Taxes

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

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- ◆ **Medicare.** Inpatient and outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.

Davis County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

- ◆ **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 55% and 47% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2007 and 2006, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Interest Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2007 and 2006. The Hospital's deposits in banks at June 30, 2007 and 2006 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2007 and 2006.

Davis County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	<u>2007</u>	<u>2006</u>
Carrying value		
Deposits	\$ 3,880,247	\$ 3,391,672
Other	952	1,006
	<u>\$ 3,881,199</u>	<u>\$ 3,392,678</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 996,014	\$ 886,852
Assets held under bond indenture agreement	342,654	430,685
Short-term investments	589,467	466,724
Foundation Assets	17,543	70,499
Other noncurrent cash and deposits	1,935,521	1,537,918
	<u>\$ 3,881,199</u>	<u>\$ 3,392,678</u>

Interest Income

Interest income for the years ended June 30, 2007 and 2006, amounted to \$115,099 and 49,633, respectively.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2007 and 2006 consisted of:

	<u>2007</u>	<u>2006</u>
Medicare	\$ 962,157	\$ 807,981
Medicaid	284,431	100,473
Other third-party payers	1,013,889	958,249
Patients	945,580	1,345,732
	<u>3,206,057</u>	<u>3,212,435</u>
Less allowance for uncollectible accounts	845,578	968,000
	<u>\$ 2,360,479</u>	<u>\$ 2,244,435</u>

Davis County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Note 5: Capital Assets

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

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2007					
Land and land improvements	\$ 288,839	\$ -	\$ -	\$ -	\$ 288,839
Buildings	12,384,013	-	(4,093)	11,597	12,391,517
Fixed equipment	1,515,302	-	-	-	1,515,302
Major movable equipment	4,493,080	167,544	(10,579)	-	4,650,045
Construction in progress	20,533	2,842	-	(11,597)	11,778
	<u>18,701,767</u>	<u>170,386</u>	<u>(14,672)</u>	<u>-</u>	<u>18,857,481</u>
Less accumulated depreciation					
Land improvements	(162,176)	(6,606)	-	-	(168,782)
Buildings	(4,266,547)	(633,867)	4,091	-	(4,896,323)
Fixed equipment	(1,355,462)	(15,865)	-	-	(1,371,327)
Major movable equipment	(2,917,368)	(587,483)	10,312	-	(3,494,539)
	<u>(8,701,553)</u>	<u>(1,243,821)</u>	<u>14,403</u>	<u>-</u>	<u>(9,930,971)</u>
Capital assets, net	<u>\$10,000,214</u>	<u>\$(1,073,435)</u>	<u>\$ (269)</u>	<u>\$ -</u>	<u>\$ 8,926,510</u>
2006					
Land and land improvements	\$ 330,686	\$ -	\$ (41,847)	\$ -	\$ 288,839
Buildings	12,455,353	12,500	(133,016)	49,175	12,384,013
Fixed equipment	1,784,810	-	(269,508)	-	1,515,302
Major movable equipment	5,765,585	71,944	(1,539,767)	195,318	4,493,080
Construction in progress	33,621	231,406	-	(244,493)	20,533
	<u>20,370,055</u>	<u>315,850</u>	<u>(1,984,138)</u>	<u>-</u>	<u>18,701,767</u>
Less accumulated depreciation					
Land improvements	(194,143)	(7,625)	39,591	-	(162,176)
Buildings	(3,753,779)	(641,143)	128,374	-	(4,266,547)
Fixed equipment	(1,594,518)	(29,687)	268,744	-	(1,355,462)
Major movable equipment	(3,804,838)	(639,436)	1,526,907	-	(2,917,368)
	<u>(9,347,278)</u>	<u>(1,317,891)</u>	<u>1,963,616</u>	<u>-</u>	<u>(8,701,553)</u>
Capital assets, net	<u>\$11,022,777</u>	<u>\$(1,002,041)</u>	<u>\$ (20,522)</u>	<u>\$ -</u>	<u>\$10,000,214</u>

Davis County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Note 6: Medical Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

Note 7: Risk Management

Accrued expenses include an accrual for claims that have been incurred but not reported for self-insured employee health benefits. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. The Hospital is self-insured for employee dental and vision benefits. The Hospital was self-insured for employee medical claims until January 1, 2007, at which point commercial insurance coverage was obtained. Changes in the balance of claims liabilities during 2007 and 2006 are summarized as follows:

	2007	2006
Balance, beginning of year	\$ 48,000	\$ 45,000
Current year claims and changes in estimates	481,987	575,946
Claim payments	(509,987)	(572,946)
Balance, end of year	\$ 20,000	\$ 48,000

Note 8: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at June 30, 2007 and 2006 consisted of:

	2007	2006
Payable to suppliers and contractors	\$ 441,459	\$ 524,381
Payable to employees (including payroll taxes and benefits)	624,381	920,187
Other	24,170	-
	\$ 1,090,010	\$ 1,444,568

Davis County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

- (B) Noninterest bearing loan agreement between Davis County, Iowa and a cooperative to foster economic development in rural areas solely used to improve the Hospital; dated June 17, 1999; payable in 36 quarterly installments of \$9,167 without interest starting June 2000 through March 2008; payable exclusively from net revenues of the Hospital.
- (C) At varying rates of imputed interest from 2.8% to 7.4% maturing through 2012 and collateralized by leased equipment.

Equipment includes the following property under capital leases:

	2007	2006
Equipment	\$ 1,399,689	\$ 1,260,747
Less accumulated depreciation	909,602	559,834
	\$ 490,087	\$ 700,913

The loan agreement also requires that payments be made to a Sinking Fund in amounts sufficient to pay the principal of and interest due on the bonds when due. Sinking funds available for payment of maturing bonds amounted to \$342,654 and \$430,685 at June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, deposits in the Sinking Fund were in excess of required amounts of \$302,501 and \$330,650, respectively.

The debt service requirements for the Hospital revenue bonds as of June 30, 2007, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2008	\$ 594,369	\$ 255,000	\$ 339,369
2009	597,609	270,000	327,609
2010	600,045	285,000	315,045
2011	596,721	295,000	301,721
2012	602,498	315,000	287,498
2013-2017	3,108,882	1,835,000	1,273,882
2018-2022	3,278,168	2,390,000	888,168
2023	941,034	720,000	221,034
	\$ 10,319,326	\$ 6,365,000	\$ 3,954,326

Davis County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

The debt service requirements as of June 30, 2007 are as follows for the Rural Economic Development Loan:

Year Ending June 30,	Total to be Paid	Principal
2008	\$ 36,668	\$ 36,668
2009	27,499	27,499
	<u>\$ 64,167</u>	<u>\$ 64,167</u>

The following is a schedule by year of future minimum lease payments under the capital lease including interest together with the present value of the future minimum lease payments as of June 30, 2007:

Year Ending June 30,	Amount
2008	\$ 290,549
2009	290,224
2010	207,781
2011	9,817
2012	4,056
Total minimum lease payments	<u>802,427</u>
Less amount representing interest	<u>40,902</u>
Present value of future minimum lease payments	<u>\$ 761,525</u>

Davis County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Note 10: Restricted and Designated Net Assets

At June 30, 2007 and 2006, restricted expendable net assets were available for the following purposes:

	2007	2006
Debt service	\$ 227,653	\$ 311,726
Specific operating activities		
Project fund	-	81,025
Foundation assets	63,534	58,954
Other	5,422	6,362
Total restricted expendable net assets	\$ 296,609	\$ 458,067

Note 11: Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 3.7% of their annual covered salaries and the Hospital is required to contribute 5.75% of annual covered payroll for 2007 and 2006. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2007, 2006 and 2005 were \$302,584, \$315,582 and \$299,745, respectively, which equaled the required contributions for each year.

Note 12: Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization to provide computer network administration and support services. Administration and support services fees of \$173,357 and \$96,634 were incurred for the years ended June 30, 2007 and 2006, respectively.

Davis County Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Note 13: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The Hospital made no amendments to the budget during the year.

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2007:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 686,616	\$ -	\$ 686,616	\$ 679,624
Other revenues/receipts	<u>13,131,178</u>	<u>(62,883)</u>	<u>13,068,295</u>	<u>12,364,172</u>
Total revenues/receipts	13,817,794	(62,883)	13,754,911	13,043,796
Expenses/disbursements	<u>13,483,547</u>	<u>(347,382)</u>	<u>13,136,165</u>	<u>15,249,600</u>
Change in net assets	334,247	284,499	618,746	(2,205,804)
Net assets, beginning of year	<u>6,872,789</u>	<u>(1,064,413)</u>	<u>5,808,376</u>	<u>5,808,376</u>
Net assets, end of year	<u><u>\$ 7,207,036</u></u>	<u><u>\$ (779,914)</u></u>	<u><u>\$ 6,427,122</u></u>	<u><u>\$ 3,602,572</u></u>

Supplementary Information

Davis County Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Medical and surgical	\$ 1,170,402	\$ 1,170,402		\$ 1,185,505	\$ 1,185,505	
Swing-bed	434,432	434,432		246,680	246,680	
	<u>1,604,834</u>	<u>1,604,834</u>		<u>1,432,185</u>	<u>1,432,185</u>	
Nursing Services						
Operating and recovery rooms	1,545,845	297,243	\$ 1,248,602	1,819,434	364,215	\$ 1,455,219
Emergency room	1,208,789	63,787	1,145,002	1,000,693	152,263	848,430
	<u>2,754,634</u>	<u>361,030</u>	<u>2,393,604</u>	<u>2,820,127</u>	<u>516,478</u>	<u>2,303,649</u>
Other Professional Services						
Laboratory	2,261,387	360,912	1,900,475	2,059,418	329,140	1,730,278
Central services and supplies	347,000	151,137	195,863	402,286	207,568	194,718
Electrocardiology	110,969	15,682	95,287	98,956	17,709	81,247
Radiology	3,278,124	77,154	3,200,970	3,227,071	78,289	3,148,782
Ambulance services	381,461	5,543	375,918	334,886		334,886
Labor and delivery	46,291	35,868	10,423	32,229	23,057	9,172
Cardiac rehabilitation	7,455		7,455	58,133		58,133
Pharmacy	1,790,704	796,293	994,411	1,560,576	846,205	714,371
Home health	122,954		122,954	134,139		134,139
Anesthesiology	158,511	32,937	125,574	175,611	42,016	133,595
Respiratory therapy	596,045	459,853	136,192	621,681	451,639	170,042
Physical therapy	1,124,475	233,236	891,239	1,125,791	3 52,387	773,404
Speech therapy	25,693	7,365	18,328	31,963	5,426	26,537
Electroencephalography	2,905	793	2,112	5,282	1,761	3,521
Long term care	1,281,684	1,281,684		1,305,288	1,305,288	
Nursery	64,917	64,917		40,937	40,937	
Outpatient clinic	157,013		157,013	1,081,603		1,081,603
	<u>11,757,588</u>	<u>3,523,374</u>	<u>8,234,214</u>	<u>12,295,850</u>	<u>3,701,422</u>	<u>8,594,428</u>
Gross Patient Service Revenue	16,117,056	<u>\$ 5,489,238</u>	<u>\$ 10,627,818</u>	16,548,162	<u>\$ 5,650,085</u>	<u>\$ 10,898,077</u>
Contractual Adjustments	<u>3,083,077</u>			<u>4,378,051</u>		
Net Patient Service Revenue before Provision for Uncollectible Accounts	13,033,979			12,170,111		
Provision for Uncollectible Accounts	<u>(475,929)</u>			<u>(209,190)</u>		
Net Patient Service Revenue	<u>\$ 12,558,050</u>			<u>\$ 11,960,921</u>		

Davis County Hospital
Schedules of Other Revenues
Years Ended June 30, 2007 and 2006

	2007	2006
Revenues for expenses of Home Health Care		
Davis County	\$ 35,995	\$ 25,565
Iowa Department of Public Health	42,244	38,875
Other funding	119,913	111,463
Ambulance subsidy – Davis County	25,000	25,000
Cafeteria	79,036	91,855
Sale of supplies and drugs	9,944	5,941
Rent income	51,160	43,295
Purchase discounts	5,880	70,611
Other	39,751	40,994
Gain (loss) on disposal of property and equipment	9,898	(4,236)
	\$ 418,821	\$ 449,363

Davis County Hospital
Schedules of Operating Expenses
Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 836,855	\$ 792,649	\$ 44,206	\$ 736,994	\$ 701,333	\$ 35,661
Emergency room	765,132	488,956	276,176	590,348	362,991	227,357
Operating and recovery rooms	270,936	186,710	84,226	249,017	172,010	77,007
Nursing administration	124,371	104,830	19,541	252,586	235,873	16,713
	<u>1,997,294</u>	<u>1,573,145</u>	<u>424,149</u>	<u>1,828,945</u>	<u>1,472,207</u>	<u>356,738</u>
Other Professional Services						
Laboratory	531,716	173,583	358,133	644,209	283,660	360,549
Central services and supplies	138,612		138,612	168,522		168,522
Radiology	625,105	211,531	413,574	638,457	208,411	430,046
Ambulance	307,542	268,320	39,222	271,983	237,889	34,094
Obstetric, labor, and delivery	112,359	103,906	8,453	72,980	64,429	8,551
Cardiac rehabilitation	41,597	34,978	6,619	34,588	28,407	6,181
Pharmacy	579,029	139,340	439,689	533,154	143,927	389,227
Home health	264,067	217,896	46,171	284,663	237,409	47,254
Anesthesiology	161,978		161,978	149,254		149,254
Respiratory therapy	180,443	112,320	68,123	184,966	119,420	65,546
Physical therapy	538,432	33,460	504,972	539,365	29,352	510,013
Speech therapy	19,619		19,619	20,481		20,481
Electroencephalography	960		960	2,016		2,016
Nursery	379	379		611	182	429
Clinic	246,914	140,058	106,856	635,929	573,216	62,713
Nursing home	774,418	725,426	48,992	801,897	744,051	57,846
Medical records and library	185,256	101,017	84,239	151,940	107,202	44,738
	<u>4,708,426</u>	<u>2,262,214</u>	<u>2,446,212</u>	<u>5,135,015</u>	<u>2,777,555</u>	<u>2,357,460</u>
General Services						
Operation of plant	664,538	195,530	469,008	722,211	209,677	512,534
Dietary	536,128	245,546	290,582	504,256	226,889	277,367
Housekeeping	96,066	20,414	75,652	99,998	18,839	81,159
Environmental services	293,242	220,423	72,819	278,232	204,176	74,056
	<u>1,589,974</u>	<u>681,913</u>	<u>908,061</u>	<u>1,604,697</u>	<u>659,581</u>	<u>945,116</u>
Administrative Services	2,067,407	1,024,275	1,043,132	1,579,505	787,410	792,095
Employee Benefits	1,358,365		1,358,365	1,447,254		1,447,254
Depreciation and Amortization	1,257,258		1,257,258	1,331,327		1,331,327
Insurance	126,537		126,537	106,938		106,938
	<u>\$ 13,105,261</u>	<u>\$ 5,541,547</u>	<u>\$ 7,563,714</u>	<u>\$ 13,033,681</u>	<u>\$ 5,696,753</u>	<u>\$ 7,336,928</u>

Davis County Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2007 and 2006

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2007	2006	2007	2006
Days Since Discharge				
0 – 60	\$ 1,880,670	\$ 1,484,606	52%	39%
61 – 120	621,828	634,967	17%	17%
121 – 180	347,952	267,222	10%	7%
181 – 365	457,462	165,283	13%	4%
366 and over	<u>294,145</u>	<u>1,223,357</u>	<u>8%</u>	<u>33%</u>
	3,602,057	3,775,435	<u>100%</u>	<u>100%</u>
Less contractual allowances	<u>396,000</u>	<u>563,000</u>		
	3,206,057	3,212,435		
Less allowance for uncollectible accounts	<u>845,578</u>	<u>968,000</u>		
	<u>\$ 2,360,479</u>	<u>\$ 2,244,435</u>		

Allowance for Uncollectible Accounts

	2007	2006
Balance, beginning of year	\$ 968,000	\$ 1,099,981
Provision for year	475,929	209,190
Recoveries of accounts previously written off	<u>139,518</u>	<u>202,568</u>
	1,583,447	1,511,739
Less accounts written off	<u>737,869</u>	<u>543,739</u>
Balance, end of year	<u>\$ 845,578</u>	<u>\$ 968,000</u>

Davis County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2007 and 2006

Supplies

	<u>2007</u>	<u>2006</u>
Central stores	\$ 57,426	\$ 31,902
Pharmacy	122,676	125,318
Dietary	11,501	18,773
Laboratory	-	18,933
Office supplies	10,665	10,200
Floor supplies	123,836	126,056
Fuel oil	7,624	4,487
	<u>\$ 333,728</u>	<u>\$ 335,669</u>

Prepaid Expenses

	<u>2007</u>	<u>2006</u>
Insurance	\$ 16,761	\$ 17,044
Service contracts	22,958	18,947
Dues	8,178	7,821
Maintenance and other	560	9,880
	<u>\$ 48,457</u>	<u>\$ 53,692</u>

Davis County Hospital

Schedule of Officials

Year Ended June 30, 2007

Name	Title	Term Expires
Board of Trustees		
Leon Wilkinson	Chairperson	2008
Pat Van Arkel	Vice-Chairperson	2010
Wayne Birchmier	Member	2008
Judy Carlson	Member	2010
Kevin Cook	Secretary/Treasurer	2012
JoAnn Augspurger	Chairperson	2010
Hospital Officials		
Deborah Herzberg	Chief Executive Officer	
Gary Foll	Chief Financial Officer	
Debra Scott	Chief Operating Officer	
Nola Pollmann	Chief Nursing Officer	

Davis County Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2007 and 2006

	2007	2006
Patient Days (Exclusive of swing-bed)		
Medicare	1,366	1,488
Medicaid	240	152
Private and other	560	595
	2,166	2,235
Medicare and Medicaid Percent	74.1%	73.4%
Percent of Occupancy (Acute)	23.7%	24.5%
Discharges (Exclusive of swing-bed)		
Medicare	352	354
Medicaid	92	63
Private and other	211	208
	655	625
Average Length of Stay in Days	3.3	3.6

Davis County Hospital
Schedule of Insurance Coverage
Year Ended June 30, 2007

Chubb Group of Insurance (expires June 16, 2008)	
Building and contents, fire and extended coverage (100% co-insurance, replacement cost) (all locations)	\$23,555,200/\$5,000
Earthquake (expires June 16, 2008)	\$10,000,000/\$50,000
Blanket earnings and expense (expires June 16, 2008)	\$4,319,106
Accounts receivable (expires June 16, 2008)	\$250,000
General Liability - PIC Wisconsin (expires June 16, 2008)	\$1,000,000/\$3,000,000
Healthcare facility medical professional liability - PIC Wis.	\$1,000,000/\$3,000,000
Owned automobiles - Iowa Fire/EMS Pak (ambulances) (expires June 16, 2008)	
Continental Western (All other autos) (expires June 16, 2008)	
Liability	\$1,000,000
Collision/comprehensive (\$1,000/\$500 deductible)	No Limit
Uninsured/underinsured motorist (each)	\$1,000,000
Hired vehicle/nonowned automobiles liability	\$1,000,000
Blanket fidelity bond - Old Republic Surety Company (continuous)	\$50,000
Employees and Board Members	\$1,000 deductible
Excess coverage on certain individuals	\$200,000
Boiler (included in property coverage)	
Comprehensive accident coverage	
Mechanical Breakdown Limit	
Federal Insurance Company (policy expiration June 16, 2008)	\$1,000,000
Trustees' and Officers' liability	\$10,000 deductible
Employment Practices Liability Coverage	\$15,000 deductible
United Fire and Casualty Company (continuous)	
Surety bonding (for LTC patient funds held by hospital)	\$10,000
Farm Bureau Financial Services (policy expiration April 1, 2008)	
Workers' Compensation	Statutory
Petroleum Marketers Mutual Storage Tank (expires March 25, 2008)	
Financial Responsibility Program (release/aggregate)	\$500,000/\$1,000,000 \$10,000 deductible



**Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Davis County Hospital
Bloomfield, Iowa

We have audited the financial statements of Davis County Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated December 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 07-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

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*.

We also noted certain additional matters that are reported to the Hospital's management in a separate letter dated December 13, 2007.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2007. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

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, 2007.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital expenses/disbursements during the year ended June 30, 2007 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979. However, the following was noted:

Criteria or Specific Requirement – Management is responsible for establishing policies regarding questionable expenditures.

Condition – The Board of Trustees has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context – Written policies are not in effect.

Effect – Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause – Written policies are not in place.

Recommendation – Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management adopted a policy in September 2007 which will be effective for the year ending June 30, 2008.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

Business Transactions

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

No transactions were found that we believe should have been approved in the Trustee minutes but were not.

Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

Unclaimed Property

The Hospital is required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. The Hospital filed the unclaimed property report for the year ended June 30, 2007.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

Publication of Bills Allowed and Salaries

Chapters 347.13 (14) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with this Code section.

The Hospital's responses to the findings identified in our audit are described above and in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

* * * * *

This report is intended solely for the information and use of the governing body and management and the State of Iowa, and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
December 13, 2007

Davis County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2007

Reference Number	Finding
07-1	<p>Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements.</p> <p>Condition—Audit adjustments were proposed to management.</p> <p>Context—Management applied certain judgments to the Medicare and Medicaid contractual allowances and the allowance for uncollectible accounts that were different than recent Medicare and Medicaid remittance advices.</p> <p>Effect— Management’s calculations of Medicare and Medicaid contractual allowances and the allowance for uncollectible accounts in the financial statements were higher than the contractual allowances and the allowance for uncollectible accounts calculated during the audit.</p> <p>Cause—Closing and review procedures did not consider review of subsequent remittance advices.</p> <p>Recommendation—Management should review the Medicare and Medicaid contractual allowances and the allowance for uncollectible accounts and test the calculation against subsequent remittance advices before issuance of the monthly financial statements.</p> <p>Views of Responsible Officials and Planned Corrective Actions— Management concurs with the finding and recommendation. Management will perform the suggested evaluation and make changes as a result of their evaluation on a monthly basis.</p>



Board of Trustees and Management
Davis County Hospital
Bloomfield, Iowa

In planning and performing our audit of the financial statements of Davis County Hospital (Hospital) as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing and auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control. As such, our consideration of internal controls would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the Hospital's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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

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

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously, we made observations as a result of our 2006 audit engagement in a letter dated September 29, 2006.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

Medicare and Medicaid Contractual Allowances

The Medicare and Medicaid contractual allowance calculation was not based on the most current reimbursement information available. This resulted in a significant audit adjustment. The Hospital should use current reimbursement rates to calculate contractual allowances.

Review of Journal Entries

We noted there is no formal review of journal entries before the entries are posted in the general ledger system. During the audit, we identified adjustments and proposed journal entries to the financial statements that were not previously identified by management's internal controls. The adjustments were in the areas of allowance for bad debt, fixed assets, accounts payable and accrued liabilities. The impact of these adjustments, in total, was an increase to net assets by approximately \$193,000. We recommend journal entries be reviewed for accuracy before posting to prevent potential misstatements from occurring.

Control Deficiencies

Internal Controls

Management is responsible for establishing and maintaining effective internal control over financial reporting. Individuals within the Hospital have incompatible duties in several financial statement reporting transaction cycles. Duties in these transaction cycles are not adequately segregated to safeguard the Hospital's assets. Following is a summary of various positions in which incompatible duties were identified:

- The Accounts Payable/Payroll Clerk has conflicting duties in the purchases and payroll cycles
- The Accounting Manager has conflicting duties in the purchases, revenues and payroll cycles
- The Accountant I has conflicting duties in the purchases cycle, revenues and payroll cycles

Management has implemented some mitigating controls for these conflicts to help reduce the likelihood of material misstatement or fraud. We recommend management continue to evaluate the costs versus the benefits of further segregating these duties or adding monitoring or other compensating controls.

Other Matters

Although not considered material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters, which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Risk Assessment Audit Standards

The AICPA issued the Risk Assessment Suite of Standards (Statements of Auditing Standards Numbers 104 through 111). These Statements establish standards and provide guidance concerning the auditors' assessment of the risks of material misstatement in a financial statement audit and provide guidance on the design and performance of the audit procedures whose nature, timing and extent are designed to address the assessed risks. In addition, the Statements establish standards and guidance on planning and supervision, the nature of audit evidence and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements.

Overall, the primary objective of these Statements is to enhance the auditors' application of the audit risk model in conducting audits by specifying a more in-depth understanding of the Hospital and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the Hospital is doing to mitigate the risks.

These Standards will have a significant impact on the Hospital's audit once they become effective, which will be June 30, 2008.

Independent Assessment of Corporate Compliance Program

In the Office of Inspector General's (OIG) *Supplemental Compliance Program Guidance for Hospitals* of January 31, 2005, the OIG recommends that, "Hospitals should regularly review the implementation and execution of their compliance program elements. This review should be conducted at least annually and should include an assessment of each of the basic elements individually, as well as the overall success of the program." Furthermore, the OIG recommends that the review be conducted by individuals "independent of line management."

We understand through discussions with management and review of the corporate compliance questionnaire that the Hospital is operating under a corporate compliance program. During 2007, the Hospital conducted compliance committee meetings, performed compliance audits, performed a charge description master review, updated the corporate compliance plan and conducted compliance training and education. All of these functions contribute to the effectiveness of a corporate compliance program and should be continued in future years.

Although the Hospital is performing several functions related to its corporate compliance program, we noted on the corporate compliance questionnaire that the Hospital marked that it has not conducted an independent review of its corporate compliance program, prepared an audit work plan or conducted a risk assessment. We recommend the Hospital consider conducting an independent review of its corporate compliance program, preparing an audit work plan and performing a risk assessment of the corporate compliance program as suggested by the OIG.

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This communication is intended solely for the information and use of Management, the Board of Trustees and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
December 13, 2007