

McGladrey & Pullen

Certified Public Accountants

November 5, 2008

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To the Board of Trustees
Davis County Hospital
Bloomfield, Iowa

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the financial statements of Davis County Hospital as of and for the year ended June 30, 2008. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that the electronic transmission is not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our report on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors or "experts," in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, the Hospital will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, the Hospital also agrees to provide us with printer's proofs or masters of such offering documents for our review and approval before printing and with a copy of the final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when the Hospital seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve Davis County Hospital.

McGladrey & Pullen, LLP



Ryan J. Weber, Director

Attachment

Davis County Hospital

Financial Report

06.30.2008

McGladrey & Pullen
Certified Public Accountants

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an affiliation of separate and independent legal entities.

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Certified Public Accountants

Independent Auditor's Report

To the Board of Trustees
Davis County Hospital
Bloomfield, Iowa

We have audited the accompanying balance sheet of Davis County Hospital (Hospital), as of June 30, 2008 and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. We have also audited the balance sheet of Davis County Hospital Endowment Foundation (Foundation), a discretely presented component unit, as of June 30, 2008, and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital and the Foundation's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of Davis County Hospital for the year ended June 30, 2007 were audited by other auditors whose report, dated December 13, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Davis County Hospital and Davis County Hospital Foundation, a discretely presented component unit, as of June 30, 2008, and the results of their operations and their cash flows for the years the ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, for the year ended June 30, 2008 we have also issued our report dated November 4, 2008 and for the year ended June 30, 2007 other auditors have issued their report dated December 13, 2007 on our respective consideration of the 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 those reports 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. Those reports are 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 on pages 3 through 7 and required supplementary information on page 27 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. 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. However, we did not audit the information and express no opinion on it.

The accompanying Davis County Hospital schedule of insurance and comparative statistics, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. The supplementary information as listed in the table of contents for the year ended June 30, 2007 was audited by other auditors whose report, dated December 13, 2007, expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Davenport, Iowa
November 4, 2008

Davis County Hospital

Management's Discussion and Analysis Years Ended June 30, 2008 and 2007

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, 2008 and 2007. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2008 and 2007 by \$967,086 or 97% and increased between 2007 and 2006 by \$109,162 or 12%.
- The Hospital's net assets increased \$1,179,533 or 16% in 2008 and increased \$334,247 or 5% in 2007.
- The Hospital reported an operating income of \$443,219 in 2008 and an operating loss of \$128,390 in 2007. The income in 2008 increased by \$571,609 or 445% over the operating loss reported in 2007 and the operating loss in 2007 decreased by \$495,007 or 79% over the operating loss reported in 2006

Using This Annual Report

The Hospital's financial statements consist of three statements: a balance sheet; a statement of revenue, 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.

Balance Sheet and Statement of Revenue, 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 revenue, 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 revenue 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.

Davis County Hospital

Management's Discussion and Analysis Years Ended June 30, 2008 and 2007

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 \$1,179,533 or 16% in 2008 over 2007 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2008	2007	2006
Assets:			
Patient accounts receivable, net	\$ 2,238,183	\$ 2,360,479	\$ 2,244,435
Other current assets	4,025,586	3,029,702	2,873,709
Capital assets, net	8,295,518	8,926,510	10,000,214
Other noncurrent assets	2,501,543	2,025,773	1,685,623
Total assets	\$ 17,060,830	\$ 16,342,464	\$ 16,803,981
Liabilities:			
Current liabilities	\$ 2,752,888	\$ 2,648,711	\$ 2,934,750
Long-term debt	5,921,373	6,486,717	6,996,442
Total liabilities	8,674,261	9,135,428	9,931,192
Net assets:			
Invested in capital assets, net of related debt	1,827,390	1,953,044	2,534,657
Restricted expendable	339,294	296,609	458,067
Unrestricted	6,219,885	4,957,383	3,880,065
Total net assets	8,386,569	7,207,036	6,872,789
Total liabilities and net assets	\$ 17,060,830	\$ 16,342,464	\$ 16,803,981

Year ended June 30, 2008: In fiscal year 2008, total assets increased by \$718,366 or 4%, which was caused by depreciation of capital assets for 2008 of \$1,172,213 with \$573,596 in additional capital purchases. This decreased net capital assets by \$330,992 or 4%. This decrease was offset partially due to an increase in cash of \$967,086 and short-term deposits of \$28,945.

Year ended June 30, 2007: In fiscal year 2007, total assets decreased by \$461,517 or 3%, which was caused by depreciation of capital assets for 2007 of \$1,257,258 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%.

Davis County Hospital

Management's Discussion and Analysis
Years Ended June 30, 2008 and 2007

Operating Results and Changes in the Hospital's Net Assets

In 2008, the Hospital's net assets increased by \$1,179,533 or 16% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	2008	2007	2006
Operating revenue:			
Net patient service revenue	\$ 14,154,981	\$ 12,558,050	\$ 11,960,921
Other operating revenue	395,633	418,821	449,363
Total operating revenue	14,550,614	12,976,871	12,410,284
Operating expenses:			
Salaries, wages and employee benefits	7,502,286	6,899,912	7,144,007
Medical professional fees	1,591,668	1,615,165	1,504,026
Depreciation and amortization	1,172,213	1,257,258	1,331,327
Other operating expenses	3,841,228	3,332,926	3,054,321
Total operating expenses	14,107,395	13,105,261	13,033,681
Operating income (loss)	443,219	(128,390)	(623,397)
Nonoperating revenue (expenses):			
County taxes	691,825	686,616	716,535
Interest expense	(357,248)	(378,286)	(391,932)
Interest income	153,053	115,099	49,633
Impairment loss, net of insurance recoveries	205,926	-	-
Noncapital grants and gifts	2,579	33,137	96,555
Total nonoperating revenue	696,135	456,566	470,791
Excess revenue over (under) expenses before capital grants and contributions	1,139,354	328,176	(152,606)
Capital grants and contributions	40,179	6,071	1,891
Increase (decrease) in net assets	\$ 1,179,533	\$ 334,247	\$ (150,715)

Davis County Hospital

Management's Discussion and Analysis Years Ended June 30, 2008 and 2007

Operating Income or 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 revenue and the expenses incurred to perform those services. In 2008 the Hospital reported operating income, and in 2007 and 2006, the Hospital reported operating losses. 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 income for 2008 increased by \$571,609, or 445% as compared to 2007. The primary components causing the increase in operating income are as follows:

- Net patient revenue for 2008 was \$1,596,931 or 13% more than in 2007 with operating expenses only having an 8% increase. There was also a 5% increase in ancillary and room rate fees in 2008.

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.

Nonoperating Revenue and Expenses

Nonoperating revenue and expenses consist primarily of property taxes levied by the Hospital and interest income and interest expense. Nonoperating revenue for 2008 increased by \$239,569 or 52% compared to 2007. This increase is due to the insurance recoveries received in the current year related to the roof damage. Nonoperating revenue and expenses remained relatively constant from 2007 to 2006.

Contributions

The Hospital received contributions of \$2,579 and \$33,137 from various individuals in 2008 and 2007, respectively.

The Hospital's Cash Flows

The Hospital's cash flows in 2008 increased by \$2,229,288 as compared to 2007. The primary reason for the increase in overall cash flows in 2008 was due to changes made in billing of patient accounts. Also during 2008, contractual allowances decreased from 2007 which allowed the Hospital to receive a greater percentage of total charges in cash from third-party payors. Also, the Hospital received insurance recoveries of \$222,015 in the current year.

Davis County Hospital

Management's Discussion and Analysis Years Ended June 30, 2008 and 2007

Capital Asset and Debt Administration

Capital Assets

June 30, 2008: At the end of 2008, the Hospital had \$8,295,518 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2008, the Hospital purchased new capital assets costing \$573,596.

June 30, 2007: 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.

Debt

June 30, 2008: At June 30, 2008 and 2007, the Hospital had \$6,495,628 and \$7,046,175 in hospital revenue bonds, loans and capital lease obligations outstanding, respectively. The Hospital issued no new debt in 2008.

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, 2008 and 2007

Assets	Hospital		Component Unit (Foundation)
	2008	2007	2008
Current Assets:			
Cash and cash equivalents	\$ 1,963,100	\$ 996,014	\$ 89,678
Assets limited as to use, restricted by bond agreement	333,617	342,654	-
Certificates of deposit	618,412	589,467	-
Receivables:			
Patient	2,238,183	2,360,479	-
Property taxes receivable	701,129	685,803	-
Other	17,727	33,579	-
Inventories	330,646	333,728	-
Prepaid expenses	60,955	48,457	-
Total current assets	6,263,769	5,390,181	89,678
Assets Limited as to Use:			
Board-designated for capital acquisitions	2,427,655	1,866,636	-
Foundation assets	-	17,472	-
Restricted by bond agreement	333,617	342,654	-
Donor restricted	5,677	68,956	-
	2,766,949	2,295,718	-
Less current portion of assets limited as to use	333,617	342,654	-
	2,433,332	1,953,064	-
Capital Assets:			
Nondepreciable	242,936	83,239	-
Depreciable, net	8,052,582	8,843,271	-
	8,295,518	8,926,510	-
Other Assets, deferred financing costs	68,211	72,709	-
	\$ 17,060,830	\$ 16,342,464	\$ 89,678

See Notes to Basic Financial Statements.

Liabilities and Net Assets	Hospital		Component Unit (Foundation)
	2008	2007	2008
Current Liabilities:			
Current maturities of long-term debt	\$ 574,255	\$ 559,458	\$ -
Accounts payable	482,031	441,459	-
Accrued expenses:			
Salaries, wages and payroll taxes	206,048	166,438	-
Paid leave	474,157	412,955	-
Interest	110,807	115,001	-
Other	24,461	69,158	-
Estimated amounts due to third-party payors	180,000	198,439	-
Deferred revenue for property taxes	701,129	685,803	-
Total current liabilities	2,752,888	2,648,711	-
Long-Term Debt, less current maturities	5,921,373	6,486,717	-
Total liabilities	8,674,261	9,135,428	-
Net Assets:			
Invested in capital assets, net of related debt	1,827,390	1,953,044	-
Restricted:			
Restricted by bond agreement	333,617	227,653	-
Restricted by donor for specific operating activities	5,677	68,956	65,260
Unrestricted	6,219,885	4,957,383	24,418
Total net assets	8,386,569	7,207,036	89,678
	\$ 17,060,830	\$ 16,342,464	\$ 89,678

Davis County Hospital

Statements of Revenue, Expenses and Changes in Net Assets Years Ended June 30, 2008 and 2007

	Hospital		Component Unit (Foundation)
	2008	2007	2008
Operating revenue:			
Net patient service revenue	\$ 14,154,981	\$ 12,558,050	\$ -
Other	395,633	418,821	150,315
Total operating revenue	14,550,614	12,976,871	150,315
Operating expenses:			
Salaries and wages	5,990,939	5,541,547	-
Employee benefits	1,511,347	1,358,365	-
Purchased services and medical professional fees	1,591,668	1,615,165	-
Supplies and other	1,643,319	1,255,196	60,637
General services	956,627	908,061	-
Administrative services	1,163,792	1,043,132	-
Depreciation and amortization	1,172,213	1,257,258	-
Insurance	77,490	126,537	-
Total operating expenses	14,107,395	13,105,261	60,637
Operating income (loss)	443,219	(128,390)	89,678
Nonoperating income (expense):			
Tax revenue	691,825	686,616	-
Interest income	153,053	115,099	-
Noncapital grants and contributions	2,579	33,137	-
Insurance recoveries, net of impairment loss of \$16,089	205,926	-	-
Interest expense	(357,248)	(378,286)	-
Total nonoperating revenue	696,135	456,566	-
Excess of revenue over expenses before capital grants and contributions	1,139,354	328,176	89,678
Capital grants and contributions	40,179	6,071	-
Increase in net assets	1,179,533	334,247	89,678
Net assets:			
Beginning	7,207,036	6,872,789	-
Ending	\$ 8,386,569	\$ 7,207,036	\$ 89,678

See Notes to Basic Financial Statements.

Davis County Hospital

Statements of Cash Flows Years Ended June 30, 2008 and 2007

	Hospital		Component Unit (Foundation)
	2008	2007	2008
Cash Flows from Operating Activities:			
Cash received from patients and third parties	\$ 14,258,838	\$ 12,495,167	\$ -
Cash paid to suppliers	(5,385,888)	(5,023,837)	(60,637)
Cash paid to employees	(7,446,171)	(7,171,548)	-
Other receipts and payments, net	402,448	400,324	150,315
Net cash provided by operating activities	1,829,227	700,106	89,678
Cash Flows from Noncapital Financing Activities:			
Property taxes received	691,825	686,616	-
Noncapital grants and gifts	2,579	33,137	-
Net cash provided by noncapital financing activities	694,404	719,753	-
Cash Flows from Capital and Related Financing Activities:			
Principal payments on long-term debt, including capital lease obligations	(559,486)	(550,703)	-
Interest paid on long-term debt	(361,442)	(382,244)	-
Proceeds from sale of capital assets	22,908	5,650	-
Purchase of capital assets	(573,596)	(125,211)	-
Proceeds from insurance recovery	222,015	-	-
Capital grants and contributions	40,179	6,071	-
Net cash (used in) capital and related financing activities	(1,209,422)	(1,046,437)	-
Cash Flows from Investing Activities:			
Interest income	153,053	115,099	-
Proceeds from collection of and sale of assets limited as to use and investments	790,971	-	-
Purchases of assets limited as to use and investments	(28,945)	(408,234)	-
Net cash provided by (used in) investing activities	915,079	(293,135)	-
Increase in cash and cash equivalents	2,229,288	80,287	89,678
Cash and cash equivalents:			
Beginning, including assets limited as to use 2007 \$1,504,747; 2006 \$1,533,622	2,500,761	2,420,474	-
Ending, including assets limited as to use 2008 \$2,433,332; 2007 \$1,504,747	\$ 4,730,049	\$ 2,500,761	\$ 89,678

(Continued)

Davis County Hospital

Statements of Cash Flows (Continued)
 Years Ended June 30, 2008 and 2007

	Hospital		Component Unit (Foundation)
	2008	2007	2008
Reconciliation of Operating Income (Loss) to Net Cash Provided			
by Operating Activities:			
Operating income (loss)	\$ 443,219	\$ (128,390)	\$ 89,678
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,172,213	1,257,258	-
Loss (gain) on sale of capital assets	6,815	(5,381)	-
Changes in assets and liabilities:			
(Increase) decrease in patient accounts receivable, net	122,296	(116,044)	-
(Increase) decrease in receivables	15,852	(13,116)	-
Decrease in inventories	3,082	1,941	-
(Increase) decrease in prepaid expenses	(12,498)	5,235	-
Increase (decrease) in estimated amounts due to third-party payors	(18,439)	53,161	-
Increase (decrease) in accounts payable and accrued liabilities	96,687	(354,558)	-
	<u>\$ 1,829,227</u>	<u>\$ 700,106</u>	<u>\$ 89,678</u>
Supplemental Disclosure of Noncash Inventory and Financing Activities, debt incurred for purchase of capital assets	<u>\$ -</u>	<u>\$ 45,175</u>	

See Notes to Basic Financial Statements.

Davis County Hospital

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Davis County Hospital (Hospital) 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. The Hospital is exempt from income taxes as a political subdivision of the State of Iowa.

Davis County Hospital Endowment Foundation (Foundation) is a legally separate, tax exempt, discretely presented component unit of Davis County Hospital. The Foundation was formed to, among other things, raise funds for the general welfare, maintenance and improvement of the Hospital. The Board of the Foundation is self-perpetuating and consists of citizens. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds are contributed to the Hospital. Because these resources held by the Foundation have historically been for the benefit of the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements. The Foundation has a June 30 fiscal year-end and is a 501(c)(3) not-for-profit organization.

Significant accounting policies:

Accrual basis of accounting: The accrual basis of accounting is used by the Hospital and Foundation. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred.

Accounting pronouncements: The Hospital has elected to apply all applicable Governmental Accounting Standard Board (GASB) Pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB Pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB's).

Accounting estimates: The preparation of basic 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 basic financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents include temporary cash investments whose use is not limited or restricted. The Hospital considers all liquid investments with original maturities of three months or less at the date of issuance to be cash equivalents. Certain temporary investments internally designated as long-term investments are excluded from cash and cash equivalents.

Davis County Hospital

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Patient receivables: Patient receivables where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts, by historical experience applied to an aging of accounts, and by considering the patient's financial history, credit history and current economic conditions. The Hospital does not charge interest on patient receivables. Patient receivables are written off as bad debt expense when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Receivables or payables related to estimated settlements on various risk contracts that the Hospital participates in are reported as third-party payor receivables or payables.

Property taxes: The Hospital received approximately 4.48% and 5.05% of its financial support from property tax revenue in the years ended June 30, 2008 and 2007, 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 proceeding 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 and is thereby an enforceable legal claim. 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.

Inventories: Inventories are valued at the lower of cost (first-in, first-out method) or market.

Assets limited as to use or restricted: Assets limited as to use or restricted include assets restricted by revenue bond ordinance, donor-restricted assets and assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes.

Davis County Hospital

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Capital assets: Capital assets are carried at cost or fair value if donated. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Amortization on assets under capital leases is included with depreciation expense on owned assets. Depreciation is computed by the straight-line method over the estimated useful lives as follows:

	<u>Years</u>
Land improvements	10 - 25
Buildings, improvements and fixed equipment	5 - 40
Major moveable equipment	3 - 20

Donations of capital assets are reported at fair value as an increase in unrestricted net assets unless use of the asset is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted net assets. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Deferred financing costs: Deferred financing costs include debt issuance costs which are being amortized over the term of the respective debt using bonds outstanding method.

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue is reported net of provisions for uncollectible accounts.

Operating income: The Hospital distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from the primary purpose of the Hospital, which is to provide medical services to the region. Other operating revenue consists of rental income, grants, cafeteria sales and other miscellaneous services. Operating expenses consist of salaries and wages, employee benefits, purchased services and professional fees, depreciation, interest and supplies and other. All revenue and expenses not meeting these criteria are considered nonoperating.

The Foundation's other operating revenue primarily consists of donations received.

Tax revenue: Property taxes are recognized as assets in the period an enforceable legal claim to the assets arises and are recognized as revenue in the period for which the taxes are levied. Other county tax revenue is recognized as revenue when received by the Hospital. Property taxes that are not available for current year operations are shown as deferred revenue.

Davis County Hospital

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Net assets: Net asset classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints placed on net assets through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt” above.

The Hospital first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Gifts, grants and bequests: Gifts, grants and bequests not designated by donors for specific purposes are reported as nonoperating revenue regardless of the use for which they might be designated by the Governing Board.

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 the 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.

Beginning	Additions	Usage	Ending	Due Within One Year
\$ 412,955	\$ 510,202	\$ (449,000)	\$ 474,157	\$ 474,157

Davis County Hospital

Notes to Basic Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

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. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care for the years ended June 30, 2008 and 2007 was approximately \$57,000 and \$43,000, respectively.

Note 2. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital is designated as a critical access hospital. This designation provides for inpatient and outpatient services to be reimbursed on a cost basis methodology. The Hospital is reimbursed 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. The Hospital's Medicare cost reports have been finalized by the Medicare fiscal intermediary through June 30, 2004.

Medicaid: Inpatient and outpatient services rendered to Medicaid Program beneficiaries are 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 third-party Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been finalized by the Medicaid fiscal intermediary through June 30, 2004.

Approximately 54% and 55% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2008 and 2007, 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.

Net patient service revenue is composed of the following for the years ended June 30, 2008 and 2007:

	2008	2007
Gross patient service revenue	\$ 18,866,192	\$ 16,117,056
Less discounts, allowances and estimated contractual adjustments under third-party reimbursement programs	4,413,250	3,083,077
Less provision for doubtful accounts	297,961	475,929
Net patient service revenue	\$ 14,154,981	\$ 12,558,050

Contractual adjustment expense for the years ended June 30, 2008 and 2007 includes the effect of a change in the estimate of the amount due to third-party payors. The effect of this change in estimate is a decrease in contractual adjustment expense of approximately \$119,000 and none for the years ended June 30, 2008 and 2007, respectively, and is related to retroactive adjustments based on the reopening of cost reports for the years ended June 30, 2004 and 2003.

Davis County Hospital

Notes to Basic Financial Statements

Note 3. Deposits and Investments

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, 2008. The Hospital's deposits in banks as of June 30, 2008 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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 as of June 30, 2008 and 2007. Therefore, they are not subject to interest rate risk and concentration of credit risk.

Summary of carrying values:

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

	2008	2007
Carrying value:		
Deposits	\$ 5,347,509	\$ 3,880,247
Other	952	952
	<u>\$ 5,348,461</u>	<u>\$ 3,881,199</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 1,963,100	\$ 996,014
Assets limited as to use, restricted by bond agreement	333,617	342,654
Certificates of deposit	618,412	589,467
Foundation assets	-	17,543
Assets limited as to use	2,433,332	1,935,521
	<u>\$ 5,348,461</u>	<u>\$ 3,881,199</u>

Davis County Hospital

Notes to Basic Financial Statements

Note 4. Patient Accounts Receivable

Patient accounts receivable as of June 30, 2008 and 2007 consisted of the following:

	2008	2007
Patients	\$ 3,258,183	\$ 3,602,057
Less allowance for doubtful accounts	453,000	845,578
Less estimated third-party contractual adjustments	567,000	396,000
	<u>\$ 2,238,183</u>	<u>\$ 2,360,479</u>

Note 5. Capital Assets

Capital assets activity as of June 30, 2008 and 2007 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
	<u>2008</u>			
Capital assets not being depreciated:				
Land	\$ 71,461	\$ -	\$ -	\$ 71,461
Construction in progress	11,778	159,697	-	171,475
Total capital assets not being depreciated	<u>83,239</u>	<u>159,697</u>	<u>-</u>	<u>242,936</u>
Capital assets being depreciated:				
Land improvements	217,378	6,374	(38,880)	184,872
Buildings	12,391,517	133,878	(57,404)	12,467,991
Fixed equipment	1,515,302	21,146	(5,108)	1,531,340
Major moveable equipment	4,650,045	252,501	(277,028)	4,625,518
Total capital assets being depreciated	<u>18,774,242</u>	<u>413,899</u>	<u>(378,420)</u>	<u>18,809,721</u>
Less accumulated depreciation:				
Land improvements	168,782	6,709	(34,548)	140,943
Buildings	4,896,323	634,179	(23,160)	5,507,342
Fixed equipment	1,371,327	15,101	(5,108)	1,381,320
Major moveable equipment	3,494,539	502,787	(269,792)	3,727,534
Total accumulated depreciation	<u>9,930,971</u>	<u>1,158,776</u>	<u>(332,608)</u>	<u>10,757,139</u>
Total capital assets being depreciated	<u>8,843,271</u>	<u>(744,877)</u>	<u>(45,812)</u>	<u>8,052,582</u>
Capital assets, net	<u>\$ 8,926,510</u>	<u>\$ (585,180)</u>	<u>\$ (45,812)</u>	<u>\$ 8,295,518</u>

Davis County Hospital

Notes to Basic Financial Statements

Note 5. Capital Assets (Continued)

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
	2007				
Capital assets not being depreciated:					
Land	\$ 71,461	\$ -	\$ -	\$ -	\$ 71,461
Construction in progress	20,533	2,842	-	(11,597)	11,778
Total capital assets not being depreciated	91,994	2,842	-	(11,597)	83,239
Capital assets being depreciated:					
Land improvements	217,378	-	-	-	217,378
Buildings	12,384,013	-	(4,093)	11,597	12,391,517
Fixed equipment	1,515,302	-	-	-	1,515,302
Major moveable equipment	4,493,080	167,544	(10,579)	-	4,650,045
Total capital assets being depreciated	18,609,773	167,544	(14,672)	11,597	18,774,242
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 moveable equipment	2,917,368	587,483	(10,312)	-	3,494,539
Total accumulated depreciation	8,701,553	1,243,821	(14,403)	-	9,930,971
Total capital assets being depreciated	9,908,220	(1,076,277)	(269)	11,597	8,843,271
Capital assets, net	\$ 10,000,214	\$ (1,073,435)	\$ (269)	\$ -	\$ 8,926,510

Davis County Hospital

Notes to Basic Financial Statements

Note 6. Long-Term Debt

Long-term debt activity as of and for the years ended June 30, 2008 and 2007 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
2008					
Long-term debt:					
Hospital revenue bonds, Series 1998 (A)	\$ 6,365,000	\$ -	\$ (255,000)	\$ 6,110,000	\$ 270,000
Rural economic loan agreement (B)	64,167	-	(36,667)	27,500	27,500
Capital lease obligations (C)	761,525	-	(267,819)	493,706	276,755
	<u>7,190,692</u>	<u>-</u>	<u>(559,486)</u>	<u>6,631,206</u>	<u>574,255</u>
Less unamortized bond discount	144,517	-	(8,939)	135,578	-
	<u>\$ 7,046,175</u>	<u>\$ -</u>	<u>\$ (550,547)</u>	<u>\$ 6,495,628</u>	<u>\$ 574,255</u>
2007					
Long-term debt:					
Hospital revenue bonds, Series 1998 (A)	\$ 6,610,000	\$ -	\$ (245,000)	\$ 6,365,000	\$ 255,000
Rural economic loan agreement (B)	100,833	-	(36,666)	64,167	36,668
Capital lease obligations (C)	985,387	45,175	(269,037)	761,525	267,790
	<u>7,696,220</u>	<u>45,175</u>	<u>(550,703)</u>	<u>7,190,692</u>	<u>559,458</u>
Less unamortized bond discount	153,457	-	(8,940)	144,517	-
	<u>\$ 7,542,763</u>	<u>\$ 45,175</u>	<u>\$ (541,763)</u>	<u>\$ 7,046,175</u>	<u>\$ 559,458</u>

- (A) Hospital Revenue Bonds, Series 1998, originally aggregating \$8,300,000, were issued by the Hospital to finance building improvements. The bonds are payable through September 1, 2023, with interest coupons payable at March 1 and September 1 at annual rates varying from 4.9% to 5.625%. The bonds maturing on or after September 1, 2009 are subject to redemption by the Hospital on or after September 1, 2008, in whole or part, at a redemption price of 100% of principal plus accrued interest. The Bonds are collateralized by net revenue of the Hospital.
- (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 2009; payable exclusively from net revenue of the Hospital.
- (C) At varying rates of imputed interest from 2.8% to 7.4% maturing through 2012 and collateralized by leased equipment.

The bond agreement 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 \$333,617 and \$342,654 as of June 30, 2008 and 2007, respectively. The bond agreement also requires the Hospital to maintain a debt service coverage ratio of at least 1.25.

Davis County Hospital

Notes to Basic Financial Statements

Note 6. Long-Term Debt (Continued)

The debt service requirements for the Hospital revenue bonds as of June 30, 2008, are as follows:

	Principal	Interest	Total to Be Paid
Year ending June 30:			
2009	\$ 270,000	\$ 326,953	\$ 596,953
2010	285,000	315,045	600,045
2011	300,000	301,721	601,721
2012	315,000	287,498	602,498
2013	350,000	278,469	628,469
2014-2018	2,035,000	1,089,668	3,124,668
2019-2023	2,555,000	461,944	3,016,944
	\$ 6,110,000	\$ 3,061,298	\$ 9,171,298

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, 2008:

Year ending June 30:	
2009	\$ 290,225
2010	207,749
2011	9,792
2012	4,079
Total minimum lease payments	511,845
Less amount representing interest	(18,139)
Present value of future minimum payments	\$ 493,706

The following is leased equipment by major class as of June 30, 2008 and 2007:

	2008	2007
Major moveable equipment	\$ 1,431,275	\$ 1,399,689
Less accumulated depreciation	1,181,620	909,602
	\$ 249,655	\$ 490,087

Davis County Hospital

Notes to Basic Financial Statements

Note 7. Contingent Liabilities

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.

Accrued expenses include an accrual for claims that have been incurred, but not reported for self-insured dental and vision benefits. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors. Changes in the balance of claims liabilities during 2008 and 2007 are summarized as follows:

	2008	2007
Balance, beginning	\$ 20,000	\$ 48,000
Current year claims and changes in estimates	588,342	481,987
Claim payments	(604,942)	(509,987)
Balance, ending	<u>\$ 3,400</u>	<u>\$ 20,000</u>

Laws and regulations:

The health care industry is subject to numerous laws and regulations of federal, state and local governments. 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. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. While the Hospital is subject to similar regulatory reviews, management believes the outcome of any such regulatory review will not have a material adverse effect on the Hospital's financial position.

The Hospital has been named as a defendant in various legal actions arising from normal business activities in which damages in various amounts are claimed. The amount of ultimate liability, if any, with respect to such matters cannot be determined, but management believes that any such liability would not have a material effect on the Hospital's financial position.

Regulatory investigations:

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. During fiscal year 2007, the RAC's identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. CMS is in the process of rolling out this program nationally. As such, the Hospital may be subject to such an audit at some time in the future.

Davis County Hospital

Notes to Basic Financial Statements

Note 8. 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.

Plan members are required to contribute 3.9% of their annual covered salaries and the Hospital is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by state statute. The Hospital's contributions to the plan for the years ended June 30, 2008, 2007 and 2006 were approximately \$347,000, \$303,000 and \$316,000, respectively.

Note 9. Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization to provide network administration and support services. Administration and support services fees of \$ 190,000 and \$173,000 were incurred for the years ended June 30, 2008 and 2007, respectively.

Note 10. Commitments

The Hospital has entered into a contract relating to the replacement of the majority of its roof. The total cost is estimated to be approximately \$310,000 and the project is expected to be completed during fiscal year ending June 30, 2009. This project cost will be paid for with insurance proceeds received and cash from board restricted fund.

Note 11. Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements

The Hospital adopted the following Statements during the year ended June 30, 2008:

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes uniform financial reporting standards for other postemployment benefit plans (OPEB plans) and supersedes existing guidance. This Statement had no effect on the financial statements.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for a government that pledges or commits future cash flows from a specific revenue source. In addition, this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues. The adoption of this Statement had no impact on the basic financial statements.

Davis County Hospital

Notes to Basic Financial Statements

Note 11. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements (Continued)

GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statement Nos. 25 and 27*. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This Statement had no effect on the financial statements.

As of April 30, 2008, the Governmental Accounting Standards Board (GASB) had issued the following Statements not yet implemented by the Hospital. The Statements which might impact the Hospital are as follows:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*, issued June 2004, will be effective for the Hospital beginning with its year ending June 30, 2009. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for the Hospital beginning with its year ending June 30, 2009. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This Statement requires the government to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued July 2007, will be effective for the Hospital beginning with its year ending June 30, 2010. This Statement provides guidance regarding how to identify, account for and report intangible assets. The new Statement characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, issued November 2007, will be effective for the Hospital beginning with its year ending June 30, 2009. This Statement establishes consistent standards for the reporting of land and other real estate held as investments. Endowments were previously required to report their land and other real estate held for investment purposes at historical cost. However, such investments are reported at fair value by similar entities, such as pension plans. The Statement requires endowments to report land and other real estate investments at fair value. The changes in the fair value are to be reported as investment income.

Davis County Hospital

Notes to Basic Financial Statements

Note 11. New Governmental Accounting Standards Board (GASB) Statements and Pending Pronouncements (Continued)

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for the Hospital beginning with its year ending June 30, 2010. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements.

The Hospital's management has not yet determined the effect these Statements will have on the Hospital's financial statements.

Davis County Hospital

Required Supplementary Information
Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget 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 comparison to budget for the year ended June 30, 2008:

	Actual	Variance	Budget
Amount to be raised by taxation	\$ 691,825	\$ 6,022	\$ 685,803
Other revenue (receipts)	14,952,351	1,502,212	13,450,139
Total revenue (receipts)	15,644,176	1,508,234	14,135,942
Expenses (disbursements)	14,464,643	388,643	14,076,000
Change in net assets	1,179,533	\$ 1,119,591	\$ 59,942
Net assets:			
Beginning	7,207,036		
Ending	<u>\$ 8,386,569</u>		

Davis County Hospital

Net Patient Service Revenue
Years Ended June 30, 2008 and 2007

	2008		
	Inpatient	Outpatient	Total
Daily patient services:			
Medical and surgical	\$ 1,366,487	\$ -	\$ 1,366,487
Swing-bed	571,263	-	571,263
	<u>1,937,750</u>	<u>-</u>	<u>1,937,750</u>
Nursing services:			
Operating and recovery rooms	188,898	1,473,629	1,662,527
Emergency room	67,120	1,974,963	2,042,083
	<u>256,018</u>	<u>3,448,592</u>	<u>3,704,610</u>
Other professional services:			
Laboratory	433,350	2,115,966	2,549,316
Central services and supplies	82,224	79,264	161,488
Electrocardiology	20,406	145,676	166,082
Radiology	465,840	2,956,019	3,421,859
Ambulance services	7,418	508,332	515,750
Labor and delivery	83,249	28,697	111,946
Cardiac rehabilitation	-	24,449	24,449
Pharmacy	859,801	1,099,952	1,959,753
Home health	-	152,725	152,725
Anesthesiology	34,889	161,084	195,973
Respiratory therapy	468,503	64,788	533,291
Physical therapy	333,345	749,160	1,082,505
Speech therapy	9,562	37,807	47,369
Electroencephalography	277	2,795	3,072
Long-term care	1,383,840	-	1,383,840
Nursery	76,572	-	76,572
Outpatient clinic	-	837,842	837,842
	<u>4,259,276</u>	<u>8,964,556</u>	<u>13,223,832</u>
Gross patient service revenue	<u>\$ 6,453,044</u>	<u>\$ 12,413,148</u>	18,866,192
Contractual adjustments			<u>4,413,250</u>
Net patient service revenue before provision for uncollectible accounts			14,452,942
Provision for uncollectible accounts			<u>297,961</u>
Net patient service revenue			<u>\$ 14,154,981</u>

2007

Inpatient	Outpatient	Total
\$ 1,170,402	\$ -	\$ 1,170,402
434,432	-	434,432
<u>1,604,834</u>	<u>-</u>	<u>1,604,834</u>

297,243	1,248,602	1,545,845
63,787	1,145,002	1,208,789
<u>361,030</u>	<u>2,393,604</u>	<u>2,754,634</u>

360,912	1,900,475	2,261,387
151,137	195,863	347,000
15,682	95,287	110,969
77,154	3,200,970	3,278,124
5,543	375,918	381,461
35,868	10,423	46,291
-	7,455	7,455
796,293	994,411	1,790,704
-	122,954	122,954
32,937	125,574	158,511
459,853	136,192	596,045
233,236	891,239	1,124,475
7,365	18,328	25,693
793	2,112	2,905
1,281,684	-	1,281,684
64,917	-	64,917
-	157,013	157,013
<u>3,523,374</u>	<u>8,234,214</u>	<u>11,757,588</u>

<u>\$ 5,489,238</u>	<u>\$ 10,627,818</u>	16,117,056
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3,083,077

13,033,979

475,929

\$ 12,558,050

Davis County Hospital

Other Revenue

Years Ended June 30, 2008 and 2007

	2008	2007
Revenue for expenses of Home Health Care:		
Davis County	\$ 42,101	\$ 35,995
Iowa Department of Public Health	27,589	42,244
Other funding	133,371	119,913
Ambulance subsidy, Davis County	25,000	25,000
Cafeteria	66,600	79,036
Sale of supplies and drugs	4,637	9,944
Rent income	43,006	51,160
Purchase discounts	2,203	5,880
Other funding	55,233	39,751
Gain (loss) on disposal of property and equipment	(4,107)	9,898
	<u>\$ 395,633</u>	<u>\$ 418,821</u>

Davis County Hospital

Operating Expenses
Years Ended June 30, 2008 and 2007

	2008		
	Salaries	Other	Total
Nursing services:			
Medical and surgical	\$ 1,024,025	\$ 165,408	\$ 1,189,433
Emergency room	661,063	309,663	970,726
Operating and recovery rooms	31,998	138,283	170,281
Nursing administration	68,481	26,313	94,794
	<u>1,785,567</u>	<u>639,667</u>	<u>2,425,234</u>
Other professional services:			
Laboratory	194,455	379,465	573,920
Central services and supplies	-	228,855	228,855
Radiology	215,201	373,662	588,863
Ambulance	108,507	49,286	157,793
Obstetrics, labor and delivery	61,973	10,293	72,266
Cardiac rehabilitation	39,574	9,671	49,245
Pharmacy	141,536	472,491	614,027
Home health	244,399	61,316	305,715
Anesthesiology	-	142,036	142,036
Respiratory therapy	129,773	67,825	197,598
Physical therapy	5,603	500,546	506,149
Speech therapy	-	27,443	27,443
Electroencephalography	-	864	864
Nursery	9,778	147	9,925
Clinic	284,966	75,939	360,905
Nursing home	724,042	52,380	776,422
Medical records and library	135,931	143,101	279,032
	<u>2,295,738</u>	<u>2,595,320</u>	<u>4,891,058</u>
General services:			
Operation of plant	203,226	507,834	711,060
Dietary	266,763	282,625	549,388
Housekeeping	19,893	75,766	95,659
Environmental services	251,727	90,402	342,129
	<u>741,609</u>	<u>956,627</u>	<u>1,698,236</u>
Administrative services	1,168,025	1,163,792	2,331,817
Employee benefits	-	1,511,347	1,511,347
Depreciation and amortization	-	1,172,213	1,172,213
Insurance	-	77,490	77,490
	<u>\$ 5,990,939</u>	<u>\$ 8,116,456</u>	<u>\$ 14,107,395</u>

2007		
Salaries	Other	Total
\$ 792,649	\$ 44,206	\$ 836,855
488,956	276,176	765,132
186,710	84,226	270,936
104,830	19,541	124,371
<u>1,573,145</u>	<u>424,149</u>	<u>1,997,294</u>

173,583	358,133	531,716
-	138,612	138,612
211,531	413,574	625,105
268,320	39,222	307,542
103,906	8,453	112,359
34,978	6,619	41,597
139,340	439,689	579,029
217,896	46,171	264,067
-	161,978	161,978
112,320	68,123	180,443
33,460	504,972	538,432
-	19,619	19,619
-	960	960
379	-	379
140,058	106,856	246,914
725,426	48,992	774,418
101,017	84,239	185,256
<u>2,262,214</u>	<u>2,446,212</u>	<u>4,708,426</u>

195,530	469,008	664,538
245,546	290,582	536,128
20,414	75,652	96,066
220,423	72,819	293,242
<u>681,913</u>	<u>908,061</u>	<u>1,589,974</u>

1,024,275	1,043,132	2,067,407
-	1,358,365	1,358,365
-	1,257,258	1,257,258
-	126,537	126,537
<u>\$ 5,541,547</u>	<u>\$ 7,563,714</u>	<u>\$ 13,105,261</u>

Davis County Hospital

Patient Receivables and Allowance for Uncollectible Accounts
 Years Ended June 30, 2008 and 2007

Patient Receivables	2008	Percent to Total	2007	Percent to Total
Days since discharge:				
0 - 60	\$ 1,997,052	61%	\$ 1,880,670	52%
61 - 120	459,897	14%	621,828	17
121 - 180	257,411	8%	347,952	10
181 and over	543,823	17%	751,607	21
	3,258,183	100%	3,602,057	100%
Less contractual allowances	567,000		396,000	
	2,691,183		3,206,057	
Less allowance for uncollectible accounts	453,000		845,578	
	\$ 2,238,183		\$ 2,360,479	

Allowance for Uncollectible Accounts

Balance, beginning	\$ 845,578	\$ 968,000
Provision for year	297,961	475,929
Recoveries of accounts previously written off	109,945	139,518
	1,253,484	1,583,447
Less accounts written off	800,484	737,869
Balance, ending	\$ 453,000	\$ 845,578

Davis County Hospital

Inventories and Prepaid Expenses
Years Ended June 30, 2008 and 2007

<u>Inventories</u>	<u>2008</u>	<u>2007</u>
Central stores	\$ 71,258	\$ 57,426
Pharmacy	108,057	122,676
Dietary	15,070	11,501
Office supplies	11,095	10,665
Floor supplies	118,534	123,836
Fuel oil	6,632	7,624
	<u>\$ 330,646</u>	<u>\$ 333,728</u>

<u>Prepaid Expenses</u>		
Insurance	\$ 5,614	\$ 16,761
Service contracts	44,233	22,958
Dues	8,008	8,178
Maintenance and other	3,100	560
	<u>\$ 60,955</u>	<u>\$ 48,457</u>

Davis County Hospital

Officials

Year Ended June 30, 2008

Name	Title	Term Expires
Board of Trustees		
Leon Wilkinson	Chairperson	2008
Kevin Cook	Vice-Chairperson	2012
Anne Morgan	Secretary/Treasurer	
Pat Van Arkel	Member	2010
JoAnn Augspurger	Member	2010
Russell Jarvis	Member	2010
Janis Wetterich	Member	2010

Hospital Officials

Deborah Herzbreg	Chief Executive Officer
Gary Foll	Chief Financial Officer
Debra Scott	Chief Operating Officer
Sally Bachman	Chief Nursing Officer

Davis County Hospital

Financial and Statistical Data
Years Ended June 30, 2008 and 2007

	2008	2007
Patient days, exclusive of swing-bed:		
Medicare	1,235	1,366
Medicaid	118	240
Private and other	522	560
	<u>1,875</u>	<u>2,166</u>
Medicare and Medicaid percent	<u>72.0%</u>	<u>74.1%</u>
Percent of occupancy, acute	<u>20.0%</u>	<u>23.7%</u>
Discharges, exclusive of swing-bed:		
Medicare	324	352
Medicaid	53	92
Private and other	188	211
	<u>565</u>	<u>655</u>
Average length of stay in days	<u>3.3</u>	<u>3.3</u>

Davis County Hospital

Insurance Coverage Year Ended June 30, 2008

Regent Insurance Company (expires June 16, 2009):	
Building and contents, fire and extended coverage (100% co-insurance, replacement cost) (all locations)	\$25,755,410/\$5,000
Earthquake (expires June 16, 2009)	\$25,339,845/\$50,000
Blanket earnings and expense (expires June 16, 2009)	\$4,319,106
Accounts receivable (expires June 16, 2009)	\$250,000
General Liability - PIC Wisconsin (expires June 16, 2009)	\$1,000,000/\$3,000,000
Healthcare facility medical professional liability - PIC Wisc.	\$1,000,000/\$3,000,000
Owned automobiles - Regent Insurance Co. (expires June 16, 2009)	
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, 2009)	\$1,000,000
Directors' 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, 2009)	
Workers' compensation	Statutory
Petroleum Marketers Mutual Storage Tank (expires March 25, 2009)	
Financial responsibility program (release/aggregate)	\$500,000/\$1,000,000 \$10,000 deductible