

# McGladrey & Pullen

Certified Public Accountants

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 for Davis County Hospital as of and for the years ended June 30, 2009 and 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previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Thank you for the opportunity to serve Davis County Hospital.

*McGladrey & Pullen, LLP*

# Davis County Hospital

Financial Report

06.30.2009

**McGladrey & Pullen**  
Certified Public Accountants

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an affiliation of separate and independent legal entities.

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Trustees  
Davis County Hospital  
Bloomfield, Iowa

We have audited the accompanying balance sheets of Davis County Hospital (Hospital), as of June 30, 2009 and 2008 and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. We have also audited the balance sheets of Davis County Hospital Endowment Foundation (Foundation), a discretely presented component unit, as of June 30, 2009 and 2008, and the related statements of revenue, expenses and changes in net assets and cash flows for the years 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.

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 audit provides a reasonable basis for our opinion.

As explained in Note 11 to the financial statements, Davis County Hospital changes its method of accounting for other postemployment benefits during the year ended June 30, 2009.

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 Endowment Foundation, a discretely presented component unit, as of June 30, 2009 and 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*, we have also issued our reports dated October 21, 2009 and November 4, 2008 for the years ended June 30, 2009 and 2008, respectively, 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 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 29 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.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
October 21, 2009

## Davis County Hospital

### Management's Discussion and Analysis Years Ended June 30, 2009 and 2008

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#### 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, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### Financial Highlights

- Cash and cash equivalents increased between 2009 and 2008 by \$335,275 or 17% and increased between 2008 and 2007 by \$967,086 or 97%.
- The Hospital's net assets increased \$1,796,718 or 21% in 2009 and increased \$1,1179,533 or 16% in 2008.
- The Hospital reported operating income of \$296,669 in 2009 and \$443,219 in 2008. The income in 2009 decreased by \$146,550 or 33% as compared to the operating income reported in 2008 and the operating income in 2008 increased by \$571,609 or 445% over the operating loss reported in 2007.

#### 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, 2009 and 2008

#### **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 \$1,796,718 or 21% in 2009 over 2008 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Assets**

	2009	2008	2007
<b>Assets:</b>			
Patient accounts receivable, net	\$ 2,171,254	\$ 2,238,183	\$ 2,360,479
Other current assets	4,441,539	4,025,586	3,029,702
Capital assets, net	8,513,603	8,295,518	8,926,510
Other noncurrent assets	3,241,936	2,501,543	2,025,773
<b>Total assets</b>	<b>\$ 18,368,332</b>	<b>\$ 17,060,830</b>	<b>\$ 16,342,464</b>
<b>Liabilities:</b>			
Current liabilities	\$ 2,743,141	\$ 2,752,888	\$ 2,648,711
Long-term debt	5,441,904	5,921,373	6,486,717
<b>Total liabilities</b>	<b>8,185,045</b>	<b>8,674,261</b>	<b>9,135,428</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	2,665,396	1,827,390	1,953,044
Restricted	1,318,608	339,294	296,609
Unrestricted	6,199,283	6,219,885	4,957,383
<b>Total net assets</b>	<b>10,183,287</b>	<b>8,386,569</b>	<b>7,207,036</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,368,332</b>	<b>\$ 17,060,830</b>	<b>\$ 16,342,464</b>

Year ended June 30, 2009: In fiscal year 2009, total assets increased by \$1,307,502 or 8%, which was caused primarily by increases in cash and cash equivalents of \$335,275, assets limited as to use of \$757,602 and capital assets of \$218,085.

Year ended June 30, 2008: In fiscal year 2008, total assets increased by \$718,366 or 4%. This increase was due primarily to an increase in cash of \$967,086 and short-term deposits of \$28,945, offset by a decrease of \$630,992 in capital assets as depreciation of capital assets exceeded purchases in 2008.

Davis County Hospital

Management's Discussion and Analysis  
 Years Ended June 30, 2009 and 2008

**Operating Results and Changes in the Hospital's Net Assets**

In 2009, the Hospital's net assets increased by \$1,796,718 or 21% as shown in Table 2. This increase is made up of several different components.

**Table 2: Operating Results and Changes in Net Assets**

	2009	2008	2007
Operating revenue:			
Net patient service revenue	\$ 15,884,969	\$ 14,154,981	\$ 12,558,050
Other operating revenue	485,460	395,633	418,821
<b>Total operating revenue</b>	<b>16,370,429</b>	<b>14,550,614</b>	<b>12,976,871</b>
Operating expenses:			
Salaries, wages and employee benefits	8,491,512	7,502,286	6,899,912
Medical professional fees	2,352,770	1,591,668	1,615,165
Depreciation and amortization	1,015,309	1,172,213	1,257,258
Other operating expenses	4,214,169	3,841,228	3,332,926
<b>Total operating expenses</b>	<b>16,073,760</b>	<b>14,107,395</b>	<b>13,105,261</b>
<b>Operating income (loss)</b>	<b>296,669</b>	<b>443,219</b>	<b>(128,390)</b>
Nonoperating revenue (expenses):			
County taxes	707,742	691,825	686,616
Interest expense	(332,350)	(357,248)	(378,286)
Interest income	125,913	153,053	115,099
Insurance recoveries, net of impairment loss	-	205,926	-
Noncapital grants and gifts	-	2,579	33,137
<b>Total nonoperating revenue</b>	<b>501,305</b>	<b>696,135</b>	<b>456,566</b>
<b>Excess revenue over expenses before capital grants and contributions</b>	<b>797,974</b>	<b>1,139,354</b>	<b>328,176</b>
Capital grants and contributions	998,744	40,179	6,071
<b>Increase in net assets</b>	<b>\$ 1,796,718</b>	<b>\$ 1,179,533</b>	<b>\$ 334,247</b>

## Davis County Hospital

### Management's Discussion and Analysis Years Ended June 30, 2009 and 2008

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#### ***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 2009 and 2008 the Hospital reported operating income, and in 2007, the Hospital 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 income for 2009 decreased by \$146,550, or 33% as compared to 2008. The primary components causing the decrease in operating income are as follows:

- Although total operating revenue increased by \$1,819,815 or 12.51%, expenses for salaries and benefits, purchased services and supplies increased by \$2,185,058 or 20.35%. These increases in expenses were due to the hiring of physician employees and more expensive procedures being offered at the hospital during 2009.

The operating income for 2008 increased by \$571,609 or 445% as compared to 2007. The primary components causing the decrease in the operating loss 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.

#### ***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 2009 decreased by \$194,830 or 28% compared to 2008. This decrease is primarily due to the insurance recoveries received in the prior year related to the roof damage, which did not occur in 2009. Nonoperating revenue and expenses for 2008 increased by \$239,569 or 52% compared to 2007.

#### ***Contributions***

The Hospital received contributions of \$0 and \$2,579 from various individuals in 2009 and 2008, respectively.

#### ***The Hospital's Cash Flows***

Year ended June 30, 2009: The Hospital's cash decreased by \$278,759 as compared to 2008. The primary reason for the decrease in cash was the decision made by the Hospital to remove approximately \$795,000 from cash and cash equivalents and place it in investments that paid a higher yield. Although cash and cash equivalents decreased for the reason discussed above, the Hospital's total deposits increased by \$516,080 from 2008.

Year ended June 30, 2008: The Hospital's cash in 2008 increased by \$1,395,717 as compared to 2007. The primary reason for the increase in cash in 2008 was due to changes made in billing of patient accounts. 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, 2009 and 2008

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#### ***Capital Asset and Debt Administration***

##### **Capital Assets**

June 30, 2009: At the end of 2009, the Hospital had \$8,513,603 invested in capital assets, net of accumulated depreciation, as described in Note 5 to the financial statements. In 2009, the Hospital purchased new capital assets totaling \$1,305,707.

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 totaling \$573,596.

##### **Debt**

June 30, 2009: At June 30, 2009, the Hospital had \$5,848,207 in hospital revenue bonds, loans and capital lease obligations outstanding. The Hospital issued no new debt in 2009.

June 30, 2008: At June 30, 2008, the Hospital had \$6,495,628 in hospital revenue bonds, loans and capital lease obligations outstanding. 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, 2009 and 2008

Assets	Hospital		Component Unit (Foundation)	
	2009	2008	2009	2008
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 2,298,375	\$ 1,963,100	\$ 34,413	\$ 24,418
Assets limited as to use, restricted by bond agreement	346,329	333,617	-	-
Certificates of deposit	641,615	618,412	-	-
Receivables:				
Patient, net	2,171,254	2,238,183	-	-
Property taxes receivable	743,406	701,129	-	-
Other	20,921	17,727	-	-
Inventories	339,516	330,646	-	-
Prepaid expenses	51,377	60,955	-	-
<b>Total current assets</b>	<b>6,612,793</b>	<b>6,263,769</b>	<b>34,413</b>	<b>24,418</b>
<b>Assets Limited as to Use:</b>				
Board-designated for capital acquisitions	2,205,943	2,427,655	-	-
Restricted by bond agreement	346,329	333,617	-	-
Donor restricted	972,279	5,677	68,567	65,260
	<b>3,524,551</b>	<b>2,766,949</b>	<b>68,567</b>	<b>65,260</b>
Less portion required for current liabilities	346,329	333,617	-	-
	<b>3,178,222</b>	<b>2,433,332</b>	<b>68,567</b>	<b>65,260</b>
<b>Capital Assets:</b>				
Nondepreciable	579,088	242,936	-	-
Depreciable, net	7,934,515	8,052,582	-	-
	<b>8,513,603</b>	<b>8,295,518</b>	<b>-</b>	<b>-</b>
Other Assets, deferred financing costs	63,714	68,211	-	-
	<b>\$ 18,368,332</b>	<b>\$ 17,060,830</b>	<b>\$ 102,980</b>	<b>\$ 89,678</b>

See Notes to Basic Financial Statements.

<b>Liabilities and Net Assets</b>	Hospital		Component Unit (Foundation)	
	2009	2008	2009	2008
<b>Current Liabilities:</b>				
Current maturities of long-term debt	\$ 406,303	\$ 574,255	\$ -	\$ -
Accounts payable	493,613	482,031	-	-
Accrued expenses:				
Salaries, wages and payroll taxes	308,407	206,048	-	-
Paid leave	512,489	474,157	-	-
Interest	106,286	110,807	-	-
Other	72,637	24,461	-	-
Estimated amounts due to third-party payors	100,000	180,000	-	-
Deferred revenue for property taxes	743,406	701,129	-	-
<b>Total current liabilities</b>	<b>2,743,141</b>	<b>2,752,888</b>	<b>-</b>	<b>-</b>
Long-Term Debt, less current maturities	5,441,904	5,921,373	-	-
<b>Total liabilities</b>	<b>8,185,045</b>	<b>8,674,261</b>	<b>-</b>	<b>-</b>
Commitments and Contingencies (Notes 6 and 7)				
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	2,665,396	1,827,390	-	-
Restricted:				
Restricted by bond agreement	346,329	333,617	-	-
Restricted by donor for specific operating activities	972,279	5,677	68,567	65,260
Unrestricted	6,199,283	6,219,885	34,413	24,418
<b>Total net assets</b>	<b>10,183,287</b>	<b>8,386,569</b>	<b>102,980</b>	<b>89,678</b>
	<b>\$ 18,368,332</b>	<b>\$ 17,060,830</b>	<b>\$ 102,980</b>	<b>\$ 89,678</b>

## Davis County Hospital

### Statements of Revenue, Expenses and Changes in Net Assets Years Ended June 30, 2009 and 2008

	Hospital		Component Unit (Foundation)	
	2009	2008	2009	2008
Operating revenue:				
Net patient service revenue	\$ 15,884,969	\$ 14,154,981	\$ -	\$ -
Other	485,460	395,633	24,812	150,315
<b>Total operating revenue</b>	<b>16,370,429</b>	<b>14,550,614</b>	<b>24,812</b>	<b>150,315</b>
Operating expenses:				
Salaries and wages	6,725,012	5,990,939	-	-
Employee benefits	1,766,500	1,511,347	-	-
Purchased services and medical professional fees	2,352,770	1,591,668	-	-
Supplies and other	2,078,049	1,643,319	11,510	60,637
General services	870,165	956,627	-	-
Administrative services	1,167,554	1,163,792	-	-
Depreciation and amortization	1,015,309	1,172,213	-	-
Insurance	98,401	77,490	-	-
<b>Total operating expenses</b>	<b>16,073,760</b>	<b>14,107,395</b>	<b>11,510</b>	<b>60,637</b>
<b>Operating income</b>	<b>296,669</b>	<b>443,219</b>	<b>13,302</b>	<b>89,678</b>
Nonoperating income (expense):				
Tax revenue	707,742	691,825	-	-
Interest income	125,913	153,053	-	-
Noncapital grants and contributions	-	2,579	-	-
Insurance recoveries, net of impairment loss of \$16,089	-	205,926	-	-
Interest expense	(332,350)	(357,248)	-	-
<b>Total nonoperating revenue</b>	<b>501,305</b>	<b>696,135</b>	<b>-</b>	<b>-</b>
<b>Excess of revenue over expenses before capital grants and contributions</b>	<b>797,974</b>	<b>1,139,354</b>	<b>13,302</b>	<b>89,678</b>
Capital grants and contributions	998,744	40,179	-	-
<b>Increase in net assets</b>	<b>1,796,718</b>	<b>1,179,533</b>	<b>13,302</b>	<b>89,678</b>
Net assets:				
Beginning	8,386,569	7,207,036	89,678	-
Ending	<b>\$ 10,183,287</b>	<b>\$ 8,386,569</b>	<b>\$ 102,980</b>	<b>\$ 89,678</b>

See Notes to Basic Financial Statements.

## Davis County Hospital

### Statements of Cash Flows Years Ended June 30, 2009 and 2008

	Hospital		Component Unit (Foundation)	
	2009	2008	2009	2008
<b>Cash Flows from Operating Activities:</b>				
Cash received from patients and third parties	\$ 15,871,898	\$ 14,258,838	\$ -	\$ -
Cash paid to suppliers	(6,603,764)	(5,385,888)	(11,510)	(60,637)
Cash paid to employees	(8,302,645)	(7,446,171)	-	-
Other receipts and payments, net	423,311	402,448	24,812	150,315
<b>Net cash provided by operating activities</b>	<b>1,388,800</b>	<b>1,829,227</b>	<b>13,302</b>	<b>89,678</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Property taxes received	707,742	691,825	-	-
Noncapital grants and gifts	-	2,579	-	-
<b>Net cash provided by noncapital financing activities</b>	<b>707,742</b>	<b>694,404</b>	<b>-</b>	<b>-</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Principal payments on long-term debt, including capital lease obligations	(480,267)	(559,486)	-	-
Interest paid on long-term debt	(336,871)	(361,442)	-	-
Proceeds from sale of capital assets	17,726	22,908	-	-
Purchase of capital assets	(1,305,707)	(573,596)	-	-
Proceeds from insurance recovery	-	222,015	-	-
Capital grants and contributions	398,744	40,179	-	-
<b>Net cash (used in) capital and related financing activities</b>	<b>(1,706,375)</b>	<b>(1,209,422)</b>	<b>-</b>	<b>-</b>
<b>Cash Flows from Investing Activities:</b>				
Interest income	125,913	153,053	-	-
Purchases of assets limited as to use and investments	(794,839)	(71,545)	-	-
<b>Net cash provided by (used in) investing activities</b>	<b>(668,926)</b>	<b>81,508</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(278,759)</b>	<b>1,395,717</b>	<b>13,302</b>	<b>89,678</b>
<b>Cash and cash equivalents:</b>				
Beginning, including assets limited as to use Hospital 2009 \$1,319,344; 2008 \$1,504,747; Foundation 2009 \$65,260; 2008 \$17,543	3,896,478	2,500,761	89,678	-
Ending, including assets limited as to use Hospital 2009 \$1,319,344; 2008 \$1,933,378 Foundation 2009 \$68,567; 2008 \$65,260	\$ 3,617,719	\$ 3,896,478	\$ 102,980	\$ 89,678

(Continued)

**Davis County Hospital**

**Statements of Cash Flows (Continued)  
Years Ended June 30, 2009 and 2008**

	Hospital		Component Unit (Foundation)	
	2009	2008	2009	2008
<b>Reconciliation of Operating Income to Net</b>				
Cash Provided by Operating Activities:				
Operating income	\$ 296,669	\$ 443,219	\$ 13,302	\$ 89,678
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	1,015,309	1,172,213	-	-
Loss (gain) on sale of capital assets	(62,149)	6,815	-	-
Changes in assets and liabilities:				
Decrease in patient accounts receivable, net	66,929	122,296	-	-
(Increase) decrease in receivables	(3,194)	15,852	-	-
(Increase) decrease in inventories	(8,870)	3,082	-	-
(Increase) decrease in prepaid expenses	9,578	(12,498)	-	-
(Decrease) in estimated amounts due to third-party payors	(80,000)	(18,439)	-	-
Increase in accounts payable and accrued liabilities	154,528	96,687	-	-
	\$ 1,388,800	\$ 1,829,227	\$ 13,302	\$ 89,678

**Supplemental Disclosure of Noncash Inventory and Financing Activities**

Donor restricted contribution receivable	\$ 600,000	\$ -	\$ -	\$ -
Reduction of capital lease obligation related to trade-in of capital assets	176,000	-	-	-
Increase in accounts payable related to construction in progress	45,921	-	-	-

See Notes to Basic Financial Statements.

## Davis County Hospital

### Notes to Basic Financial Statements

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#### 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

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#### 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 4.14% and 4.48% of its financial support from property tax revenue in the years ended June 30, 2009 and 2008, 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. Assets limited as to use as of June 30, 2009 also includes a \$600,000 contribution due from a donor's estate which is to be used for capital expenditures.

## Davis County Hospital

### Notes to Basic Financial Statements

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#### 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

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#### 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. Changes in the balance of compensated absences during 2009 and 2008 are summarized as follows:

	2009	2008
Balance, beginning	\$ 474,157	\$ 412,955
Current year additions	710,104	510,202
Current year usage	(671,772)	(449,000)
Balance, ending	<u>\$ 512,489</u>	<u>\$ 474,157</u>

Charity care: The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. 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, 2009 and 2008 was approximately \$135,000 and \$57,000, respectively.

## Davis County Hospital

### Notes to Basic Financial Statements

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#### 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, 2008.

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, 2008.

Approximately 59% and 54% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2009 and 2008, 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, 2009 and 2008:

	2009	2008
Gross patient service revenue	\$ 22,610,190	\$ 18,866,192
Less discounts, allowances and estimated contractual adjustments under third-party reimbursement programs	5,995,715	4,413,250
Less provision for doubtful accounts	729,506	297,961
<b>Net patient service revenue</b>	<b>\$ 15,884,969</b>	<b>\$ 14,154,981</b>

Contractual adjustment expense for the years ended June 30, 2009 and 2008 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 \$174,000 and \$293,000 for the years ended June 30, 2009 and 2008, 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

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#### 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, 2009. The Hospital's deposits in banks as of June 30, 2009 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, 2009 and 2008. 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:

	2009	2008
Carrying value:		
Deposits	\$ 5,863,589	\$ 5,347,509
Other	952	952
	<u>\$ 5,864,541</u>	<u>\$ 5,348,461</u>

Included in the following balance sheet captions:

Cash and cash equivalents	\$ 2,298,375	\$ 1,963,100
Assets limited as to use, restricted by bond agreement	346,329	333,617
Certificates of deposit	641,615	618,412
Assets limited as to use	2,578,222	2,433,332
	<u>\$ 5,864,541</u>	<u>\$ 5,348,461</u>

**Davis County Hospital**

**Notes to Basic Financial Statements**

**Note 4. Patient Accounts Receivable**

Patient accounts receivable as of June 30, 2009 and 2008 consisted of the following:

	2009	2008
Patients	\$ 3,224,254	\$ 3,258,183
Less allowance for doubtful accounts	477,000	453,000
Less estimated third-party contractual adjustments	576,000	567,000
	<u>\$ 2,171,254</u>	<u>\$ 2,238,183</u>

**Note 5. Capital Assets**

Capital assets activity as of June 30, 2009 and 2008 is as follows:

	Beginning Balance	Additions	Transfers and Disposals	Ending Balance
	<u>2009</u>			
Capital assets not being depreciated:				
Land	\$ 71,461	\$ 110,897	\$ -	\$ 182,358
Construction in progress	171,475	813,571	(588,316)	396,730
<b>Total capital assets not being depreciated</b>	<u>242,936</u>	<u>924,468</u>	<u>(588,316)</u>	<u>579,088</u>
Capital assets being depreciated:				
Land improvements	184,872	-	-	184,872
Buildings	12,467,991	610,335	(133,995)	12,944,331
Fixed equipment	1,531,340	81,680	(114,673)	1,498,347
Major moveable equipment	4,625,518	323,461	(824,058)	4,124,921
<b>Total capital assets being depreciated</b>	<u>18,809,721</u>	<u>1,015,476</u>	<u>(1,072,726)</u>	<u>18,752,471</u>
Less accumulated depreciation:				
Land improvements	140,943	5,985	-	146,928
Buildings	5,507,342	667,568	(133,995)	6,040,915
Fixed equipment	1,381,320	20,449	(114,673)	1,287,096
Major moveable equipment	3,727,534	307,871	(692,388)	3,343,017
<b>Total accumulated depreciation</b>	<u>10,757,139</u>	<u>1,001,873</u>	<u>(941,056)</u>	<u>10,817,956</u>
<b>Total capital assets being depreciated</b>	<u>8,052,582</u>	<u>13,603</u>	<u>(131,670)</u>	<u>7,934,515</u>
<b>Capital assets, net</b>	<u>\$ 8,295,518</u>	<u>\$ 938,071</u>	<u>\$ (719,986)</u>	<u>\$ 8,513,603</u>

Davis County Hospital

Notes to Basic Financial Statements

**Note 5. Capital Assets (Continued)**

	Beginning Balance	Additions	Transfers and Disposals	Ending Balance
	2008			
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	83,239	159,697	-	242,936
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	18,774,242	413,899	(378,420)	18,809,721
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	9,930,971	1,158,776	(332,608)	10,757,139
Total capital assets being depreciated	8,843,271	(744,877)	(45,812)	8,052,582
Capital assets, net	\$ 8,926,510	\$ (585,180)	\$ (45,812)	\$ 8,295,518

## 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, 2009 and 2008 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
2009					
Long-term debt:					
Hospital revenue bonds, Series 1998 (A)	\$ 6,110,000	\$ -	\$ (270,000)	\$ 5,840,000	\$ 285,000
Rural economic loan agreement (B)	27,500	-	(27,500)	-	-
Capital lease obligations (C)	493,706	-	(358,860)	134,846	121,303
	6,631,206	-	(656,360)	5,974,846	406,303
Less unamortized bond discount	135,578	-	(8,939)	126,639	-
	<u>\$ 6,495,628</u>	<u>\$ -</u>	<u>\$ (647,421)</u>	<u>\$ 5,848,207</u>	<u>\$ 406,303</u>
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
	7,190,692	-	(559,486)	6,631,206	574,255
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>

- (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 5.050% 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; paid in full in March 2009.
- (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 \$346,329 and \$333,617 as of June 30, 2009 and 2008, 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)**

**Subsequent event and commitment:**

Subsequent to June 30, 2009, the Hospital issued Series 2009 Revenue Bonds of \$7,195,000 to finance construction and the renovation of existing space in the Hospital. The bonds mature in September 2025 with interest payable semi-annually at a variable coupon rate. The Hospital has pledged to the owners of the Bonds all of its rights, title and interest in and to the net revenues from the Hospital on a parity basis with the Series 1998 Bonds, and funds held under the Indenture, in order to secure the payment of the Bonds. As of June 30, 2009, the Hospital has entered into construction commitments with remaining commitments totaling approximately \$6,781,000 related to these projects.

The debt service requirements for the Series 1998 Hospital revenue bonds as of June 30, 2009, are as follows:

	Principal	Interest	Total to Be Paid
Year ending June 30:			
2010	\$ 285,000	\$ 341,434	\$ 626,434
2011	300,000	326,981	626,981
2012	315,000	311,636	626,636
2013	325,000	295,384	620,384
2014	350,000	278,469	628,469
2015-2019	2,035,000	1,089,668	3,124,668
2020-2024	2,230,000	640,238	2,870,238
	<u>\$ 5,840,000</u>	<u>\$ 3,283,810</u>	<u>\$ 9,123,810</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, 2009:

Year ending June 30:	
2010	\$ 125,024
2011	9,792
2012	4,080
<b>Total minimum lease payments</b>	<u>138,896</u>
Less amount representing interest	4,050
<b>Present value of future minimum payments</b>	<u>\$ 134,846</u>

The following is leased equipment by major class as of June 30, 2009 and 2008:

	2009	2008
Major moveable equipment	\$ 801,865	\$ 1,431,275
Less accumulated depreciation	763,864	1,181,620
	<u>\$ 38,001</u>	<u>\$ 249,655</u>

## Davis County Hospital

### Notes to Basic Financial Statements

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#### 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.

##### Self-insurance:

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 2009 and 2008 are summarized as follows:

	2009	2008
Balance, beginning	\$ 16,000	\$ 21,100
Current year claims and changes in estimates	49,700	42,300
Claim payments	(55,100)	(47,400)
Balance, ending	<u>\$ 10,600</u>	<u>\$ 16,000</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.

## Davis County Hospital

### Notes to Basic Financial Statements

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#### **Note 7. Contingent Liabilities (Continued)**

##### **CMS RAC Program:**

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. The final impact of this program cannot be quantified at this time.

##### **Current economic conditions:**

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Hospital's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

#### **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 4.10% of their annual covered salaries and the Hospital is required to contribute 6.35% of annual covered payroll. Contribution requirements are established by state statute. The Hospital's contributions to the plan for the years ended June 30, 2009, 2008 and 2007 were approximately \$405,000, \$347,000 and \$303,000, respectively.

**Davis County Hospital**

**Notes to Basic Financial Statements**

**Note 9. Other Post Employment Benefits (OPEB)**

**Plan description and funding policy:**

The Hospital sponsors a post-retirement medical plan that provides post-termination medical insurance coverage for the participant and the participant's family through age 65. The employees eligible under this policy are all employees who terminate employment at or after age 62 with at least 4 years of service. Prior to the participants' age 65, the coverage shall be insured coverage providing a level of benefits reasonably comparable to the standard medical coverage the Hospital provides to all full-time employees. The plan coverage terminates upon the participant reaching Medicare eligibility (age 65).

The Hospital pays for all or a portion of active employees' coverage. The amount depends on whether single or family coverage is elected. Upon retirement, the retired participant continuing their coverage pays the premium including any increase in single premium after retirement. The required contribution is based on projects pay-as-you-go financing requirements. The Hospital made no contributions to the plan. The participating retirees contributed \$51,639 to the plan.

**Annual OPEB cost and net OPEB obligation:**

The Hospital's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for the year, the amount actuarially contributed to the plan, and changes in the Hospital's annual OPEB obligation:

Annual required contribution	\$ 109,521
Interest on net OPEB obligation	-
<b>Annual OPEB cost (expense)</b>	<u>109,521</u>
Contributions made	<u>51,639</u>
<b>Increase in net OPEB obligation</b>	<u>57,882</u>
Net OPEB obligation, July 1, 2008	-
Net OPEB obligation, June 30, 2009	<u><u>\$ 57,882</u></u>

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for fiscal year 2009 is as follows. This is the transition year of GASB Statement No. 45.

	Annual OPEB Cost	Percent of Annual OPEB Cost Contributed	Net OPEB Obligation
Fiscal year ended, June 30, 2009	\$ 109,521	47.2%	\$ 57,882

**Davis County Hospital**

**Notes to Basic Financial Statements**

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**Note 9. Other Post Employment Benefits (OPEB) (Continued)**

**Funded status and funding progress:**

OPEB Obligations under GASB Statement No. 45 as of July 1, 2008 the most recent actuarial valuation date:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>
July 1, 2008	\$ -	\$ 696,571	\$ 696,571	\$ -

**Actuarial methods and assumptions:**

The actuarial calculations are performed in accordance with the Frozen Entry Age Actuarial Cost Method as allowed under GASB Statement No. 45. The excess of the AAL over the actuarial value of plan assets is the Unfunded Actuarial Accrued Liability. The Unfunded Actuarial Accrued Liability is amortized over a maximum of 30 years in level dollar amounts on an open period amortization basis. The sum of the normal cost and the amortization of the unfunded actuarial accrued liability is the annual required contribution, which with interest at the valuation date, determines the annual OPEB cost.

**Economic cost assumptions:**

The rate at which projected cash flows are to be discounted is 2.5% based on estimated long-term investment return on the investments that are expected to be used to finance the payment of benefits.

Actuarial calculations reflect a long-term perspective that involves estimates of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**Note 10. 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 \$215,000 and \$190,000 were incurred for the years ended June 30, 2009 and 2008, respectively.

## Davis County Hospital

### Notes to Basic Financial Statements

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

The Hospital adopted the following pronouncements during the year ended June 30, 2009:

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other*. 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. As a result, the Hospital has recorded a liability of approximately \$58,000 and added footnote disclosures pertaining to the plan as reflected in Note 9.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, 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. This Statement had no effect on the financial statements.

GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, 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. This statement had no effect on the financial statements.

As of June 30, 2009, 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. 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. 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.

## Davis County Hospital

### Notes to Basic Financial Statements

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

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued March 2009, will be effective for the Hospital beginning with its year ending June 30, 2010. This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints.

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

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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, 2009:

	Actual	Variance	Budget
Amount to be raised by taxation	\$ 707,742	\$ 16,978	\$ 690,764
Other revenue (receipts)	17,495,086	1,921,099	15,573,987
<b>Total revenue (receipts)</b>	<b>18,202,828</b>	<b>1,938,077</b>	<b>16,264,751</b>
Expenses (disbursements)	16,406,110	979,130	15,426,980
<b>Change in net assets</b>	<b>1,796,718</b>	<b>\$ 958,947</b>	<b>\$ 837,771</b>
Net assets:			
Beginning	8,386,569		
Ending	<u>\$ 10,183,287</u>		

**Davis County Hospital**

**Net Patient Service Revenue  
Years Ended June 30, 2009 and 2008**

	2009		
	Inpatient	Outpatient	Total
Daily patient services:			
Medical and surgical	\$ 1,220,491	\$ 75,922	\$ 1,296,413
Swing-bed	654,640	-	654,640
	<u>1,875,131</u>	<u>75,922</u>	<u>1,951,053</u>
Nursing services:			
Operating and recovery rooms	835,604	1,372,654	2,208,258
Emergency room	46,419	2,421,284	2,467,703
	<u>882,023</u>	<u>3,793,938</u>	<u>4,675,961</u>
Other professional services:			
Laboratory	632,952	2,589,854	3,222,806
Central services and supplies	95,092	63,680	158,772
Electrocardiology	32,844	143,085	175,929
Radiology	505,849	3,538,710	4,044,559
Ambulance services	-	514,076	514,076
Labor and delivery	73,318	39,651	112,969
Cardiac rehabilitation	-	35,455	35,455
Pharmacy	1,050,714	1,618,812	2,669,526
Home health	-	163,414	163,414
Anesthesiology	52,876	167,602	220,478
Respiratory therapy	540,531	70,328	610,859
Physical therapy	354,702	784,515	1,139,217
Speech therapy	12,537	7,979	20,516
Electroencephalography	-	3,526	3,526
Long-term care	1,483,617	-	1,483,617
Nursery	66,056	-	66,056
Outpatient clinic	-	1,341,401	1,341,401
	<u>4,901,088</u>	<u>11,082,088</u>	<u>15,983,176</u>
<b>Gross patient service revenue</b>	<u><b>\$ 7,658,242</b></u>	<u><b>\$ 14,951,948</b></u>	<b>22,610,190</b>
Contractual adjustments			<u>5,995,715</u>
<b>Net patient service revenue before provision for uncollectible accounts</b>			<b>16,614,475</b>
Provision for uncollectible accounts			<u>729,506</u>
<b>Net patient service revenue</b>			<u><b>\$ 15,884,969</b></u>

2008

Inpatient	Outpatient	Total
\$ 1,366,487	\$ -	\$ 1,366,487
571,263	-	571,263
<u>1,937,750</u>	<u>-</u>	<u>1,937,750</u>

188,898	1,473,629	1,662,527
67,120	1,974,963	2,042,083
<u>256,018</u>	<u>3,448,592</u>	<u>3,704,610</u>

433,350	2,115,966	2,549,316
82,224	79,264	161,488
20,406	145,676	166,082
465,840	2,956,019	3,421,859
7,418	508,332	515,750
83,249	28,697	111,946
-	24,449	24,449
859,801	1,099,952	1,959,753
-	152,725	152,725
34,889	161,084	195,973
468,503	64,788	533,291
333,345	749,160	1,082,505
9,562	37,807	47,369
277	2,795	3,072
1,383,840	-	1,383,840
76,572	-	76,572
-	837,842	837,842
<u>4,259,276</u>	<u>8,964,556</u>	<u>13,223,832</u>

<u>\$ 6,453,044</u>	<u>\$ 12,413,148</u>	18,866,192
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4,413,250

14,452,942

297,961

\$ 14,154,981

**Davis County Hospital**

**Other Revenue**

**Years Ended June 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
Revenue for expenses of Home Health Care:		
Davis County	\$ 67,044	\$ 42,101
Iowa Department of Public Health	17,618	27,589
Other funding	116,113	133,371
Ambulance subsidy, Davis County	25,000	25,000
Cafeteria	65,923	66,600
Sale of supplies and drugs	6,173	4,637
Rent income	35,964	43,006
Purchase discounts	1,161	2,203
Other funding	88,326	55,233
Gain (loss) on disposal of property and equipment	62,138	(4,107)
	<u>\$ 485,460</u>	<u>\$ 395,633</u>

**Davis County Hospital**

**Operating Expenses  
Years Ended June 30, 2009 and 2008**

	2009		Total
	Salaries	Other	
<b>Nursing services:</b>			
Medical and surgical	\$ 889,691	\$ 134,553	\$ 1,024,244
Emergency room	689,002	497,431	1,186,433
Operating and recovery rooms	198,971	255,514	454,485
Nursing administration	89,835	1,951	91,786
	<b>1,867,499</b>	<b>889,449</b>	<b>2,756,948</b>
<b>Other professional services:</b>			
Laboratory	199,287	527,597	726,884
Central services and supplies	-	182,427	182,427
Radiology	240,485	521,585	762,070
Ambulance	109,828	49,409	159,237
Obstetrics, labor and delivery	42,087	11,788	53,875
Cardiac rehabilitation	36,183	10,541	46,724
Pharmacy	151,435	626,648	778,083
Home health	252,817	74,650	327,467
Anesthesiology	-	161,338	161,338
Respiratory therapy	140,613	64,605	205,218
Physical therapy	-	525,040	525,040
Speech therapy	-	13,614	13,614
Electroencephalography	-	768	768
Nursery	8,785	-	8,785
Clinic	863,403	595,133	1,458,536
Nursing home	676,573	60,691	737,264
Medical records and library	167,699	94,533	262,232
	<b>2,889,195</b>	<b>3,520,367</b>	<b>6,409,562</b>
<b>General services:</b>			
Operation of plant	305,417	457,992	763,409
Dietary	291,528	274,843	566,371
Housekeeping	26,386	72,768	99,154
Environmental services	281,544	85,565	367,109
	<b>904,875</b>	<b>891,168</b>	<b>1,796,043</b>
Administrative services	1,063,443	1,167,554	2,230,997
Employee benefits	-	1,766,500	1,766,500
Depreciation and amortization	-	1,015,309	1,015,309
Insurance	-	98,401	98,401
	<b>\$ 6,725,012</b>	<b>\$ 9,348,748</b>	<b>\$ 16,073,760</b>

2008		
Salaries	Other	Total
\$ 1,024,025	\$ 165,408	\$ 1,189,433
661,063	309,663	970,726
31,998	138,283	170,281
68,481	26,313	94,794
<u>1,785,567</u>	<u>639,667</u>	<u>2,425,234</u>

194,455	379,465	573,920
-	228,855	228,855
215,201	373,662	588,863
108,507	49,286	157,793
61,973	10,293	72,266
39,574	9,671	49,245
141,536	472,491	614,027
244,399	61,316	305,715
-	142,036	142,036
129,773	67,825	197,598
5,603	500,546	506,149
-	27,443	27,443
-	864	864
9,778	147	9,925
284,966	75,939	360,905
724,042	52,380	776,422
135,931	143,101	279,032
<u>2,295,738</u>	<u>2,595,320</u>	<u>4,891,058</u>

203,226	507,834	711,060
266,763	282,625	549,388
19,893	75,766	95,659
251,727	90,402	342,129
<u>741,609</u>	<u>956,627</u>	<u>1,698,236</u>

1,168,025	1,163,792	2,331,817
-	1,511,347	1,511,347
-	1,172,213	1,172,213
-	77,490	77,490
<u>\$ 5,990,939</u>	<u>\$ 8,116,456</u>	<u>\$ 14,107,395</u>

**Davis County Hospital**

**Patient Receivables and Allowance for Uncollectible Accounts  
Years Ended June 30, 2009 and 2008**

<b>Patient Receivables</b>	<b>2009</b>	<b>Percent to Total</b>	<b>2008</b>	<b>Percent to Total</b>
Days since discharge:				
0 - 60	\$ 2,018,771	62.61%	\$ 1,997,052	61%
61 - 120	353,545	10.97%	459,897	14%
121 - 180	265,865	8.25%	257,411	8%
181 and over	586,073	18.18%	543,823	17%
	<u>3,224,254</u>	<u>100.00%</u>	<u>3,258,183</u>	<u>100%</u>
Less contractual allowances	<u>576,000</u>		<u>567,000</u>	
	<u>2,648,254</u>		<u>2,691,183</u>	
Less allowance for uncollectible accounts	<u>477,000</u>		<u>453,000</u>	
	<u>\$ 2,171,254</u>		<u>\$ 2,238,183</u>	

**Allowance for Uncollectible Accounts**

Balance, beginning	\$ 453,000	\$ 845,578
Provision for year	729,506	297,961
Recoveries of accounts previously written off	<u>94,899</u>	<u>109,945</u>
	<u>1,277,405</u>	<u>1,253,484</u>
Less accounts written off	<u>800,405</u>	<u>800,484</u>
Balance, ending	<u>\$ 477,000</u>	<u>\$ 453,000</u>

**Davis County Hospital**

**Inventories and Prepaid Expenses  
Years Ended June 30, 2009 and 2008**

<b>Inventories</b>	<b>2009</b>	<b>2008</b>
Central stores	\$ 50,776	\$ 71,258
Pharmacy	132,738	108,057
Dietary	13,116	15,070
Office supplies	11,656	11,095
Floor supplies	124,887	118,534
Fuel oil	6,343	6,632
	<u>\$ 339,516</u>	<u>\$ 330,646</u>

**Prepaid Expenses**

Insurance	\$ 13,308	\$ 5,614
Service contracts	21,574	44,233
Dues	8,310	8,008
Maintenance and other	8,185	3,100
	<u>\$ 51,377</u>	<u>\$ 60,955</u>

## Davis County Hospital

### Officials

Year Ended June 30, 2009

Name	Title	Term Expires
<b>Board of Trustees</b>		
Anne Morgan	Chairperson	2014
Kevin Cook	Vice-Chairperson	2012
Janis Wetterich	Secretary/Treasurer	2014
Pat Van Arkel	Member	2010
JoAnn Augspurgen	Member	2010
Tom Prosapio	Member	2010
Leon Wilkinson	Member	2012

### Hospital Officials

Deborah Herzberg	Chief Executive Officer
Gary Foll	Chief Financial Officer
Debra Scott	Chief Operating Officer
Sally Bachman	Chief Nursing Officer
Karoleen (Charlie) Hammel	Director of Organizational Excellence/Quality

**Davis County Hospital**

**Financial and Statistical Data  
Years Ended June 30, 2009 and 2008  
(Unaudited)**

	<b>2009</b>	2008
Patient days, exclusive of swing-bed:		
Medicare	<b>1,406</b>	1,235
Medicaid	<b>117</b>	118
Private and other	<b>560</b>	522
	<b>2,083</b>	1,875
Medicare and Medicaid percent	<b>73.0%</b>	72.0%
Percent of occupancy, acute	<b>23.0%</b>	20.0%
Discharges, exclusive of swing-bed:		
Medicare	<b>403</b>	324
Medicaid	<b>58</b>	53
Private and other	<b>201</b>	188
	<b>662</b>	565
Average length of stay in days	<b>3.2</b>	3.3

## Davis County Hospital

### Insurance Coverage Year Ended June 30, 2009 (Unaudited)

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Regent Insurance Company (expires June 16, 2010):	
Building and contents, fire and extended coverage (100% co-insurance, replacement cost) (all locations)	\$26,244,225/\$5,000
Earthquake (expires June 16, 2010)	\$25,277,625/\$50,000
Blanket earnings and expense (expires June 16, 2010)	\$4,319,106
Accounts receivable (expires June 16, 2010)	\$250,000
General Liability - PIC Wisconsin (expires June 16, 2010)	\$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, 2010)	
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, 2010)	\$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, 2010)	
Workers' compensation	Statutory
Petroleum Marketers Mutual Storage Tank (expires March 25, 2010)	
Financial responsibility program (release/aggregate)	\$500,000/\$1,000,000 \$10,000 deductible