

# **Davis County Hospital**

Financial Report  
June 30, 2010

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## 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, 2010 and 2009 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, 2010 and 2009, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Davis County Hospital Endowment Foundation were not audited in accordance with *Government Auditing Standards*. 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 Endowment Foundation, a discretely presented component unit, as of June 30, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 11, 2010 and October 21, 2009 for the years ended June 30, 2010 and 2009, 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 pages 28 and 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 11, 2010

## Davis County Hospital

### Management's Discussion and Analysis Years Ended June 30, 2010 and 2009

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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, 2010 and 2009. It should be read in conjunction with the accompanying financial statements of the Hospital.

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 of Bloomfield, Iowa and the surrounding area. 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. Questions about this report and requests for additional financial information should be directed to Hospital Administration by calling (641) 664.2145.

#### Financial Highlights

- Cash and cash equivalents increased between 2010 and 2009 by \$936,050 or 41% and increased between 2009 and 2008 by \$335,275 or 17%.
- The Hospital's net assets increased \$530,808 or 5% in 2010 and increased \$1,796,718 or 21% in 2009.
- The Hospital reported on operating loss of \$19,554 in 2010 and operating income of \$296,669 in 2009.

#### 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, 2010 and 2009

#### **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 \$530,808 or 5% in 2010 over 2009 as shown in Table 1.

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Patient accounts receivable, net	\$ 2,583,896	\$ 2,171,254	\$ 2,238,183
Other current assets	6,079,585	4,441,539	4,025,586
Capital assets, net	15,593,940	8,513,603	8,295,518
Other noncurrent assets	3,214,575	3,241,936	2,501,543
<b>Total assets</b>	<b>\$ 27,471,996</b>	<b>\$ 18,368,332</b>	<b>\$ 17,060,830</b>
Liabilities:			
Current liabilities	\$ 3,832,412	\$ 2,685,259	\$ 2,752,888
Long-term debt	12,925,489	5,499,786	5,921,373
<b>Total liabilities</b>	<b>16,757,901</b>	<b>8,185,045</b>	<b>8,674,261</b>
Net assets:			
Invested in capital assets, net of related debt	2,880,033	2,665,396	1,827,390
Restricted	3,275,497	1,318,608	339,294
Unrestricted	4,558,565	6,199,283	6,219,885
<b>Total net assets</b>	<b>10,714,095</b>	<b>10,183,287</b>	<b>8,386,569</b>
<b>Total liabilities and net assets</b>	<b>\$ 27,471,996</b>	<b>\$ 18,368,332</b>	<b>\$ 17,060,830</b>

Year ended June 30, 2010: In fiscal year 2010, total assets increased by \$9,103,664 or 30%, which was caused primarily by the increase in capital assets of \$7,080,337 due to the renovations to the facility and unspent bond proceeds. In fiscal year 2010, total liabilities increased \$8,572,856 or 105%, which was caused primarily by the increase in debt of \$7,695,665 due to the borrowing of funds to finance the renovations to the facility.

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.

Davis County Hospital

Management's Discussion and Analysis  
Years Ended June 30, 2010 and 2009

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

In 2010, the Hospital's net assets increased by \$530,808 or 5% as shown in Table 2. This increase is made up of several different components.

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

	2010	2009	2008
Operating revenue:			
Net patient service revenue	\$ 16,805,651	\$ 15,884,969	\$ 14,154,981
Other operating revenue	591,903	485,460	395,633
<b>Total operating revenue</b>	<b>17,397,554</b>	16,370,429	14,550,614
Operating expenses:			
Salaries, wages and employee benefits	9,188,572	8,491,512	7,502,286
Medical professional fees	2,512,912	2,352,770	1,591,668
Depreciation and amortization	1,106,110	1,015,309	1,172,213
Other operating expenses	4,609,514	4,214,169	3,841,228
<b>Total operating expenses</b>	<b>17,417,108</b>	16,073,760	14,107,395
<b>Operating income (loss)</b>	<b>(19,554)</b>	296,669	443,219
Nonoperating revenue (expenses):			
County taxes	746,918	707,742	691,825
Interest expense	(344,490)	(332,350)	(357,248)
Interest income	89,936	125,913	153,053
Insurance recoveries, net of impairment loss	-	-	205,926
Noncapital grants and gifts	-	-	2,579
<b>Total nonoperating revenue</b>	<b>492,364</b>	501,305	696,135
<b>Excess revenue over expenses before capital grants and contributions</b>	<b>472,810</b>	797,974	1,139,354
Capital grants and contributions	57,998	998,744	40,179
<b>Increase in net assets</b>	<b>\$ 530,808</b>	\$ 1,796,718	\$ 1,179,533

## Davis County Hospital

### Management's Discussion and Analysis Years Ended June 30, 2010 and 2009

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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 2010 the Hospital reported an operating loss and in 2009 and 2008 the Hospital reported operating income. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating income for 2010 decreased by \$316,223 or 107% as compared to 2009. The primary components causing the decrease in operating income are as follows:

- Although the total operating revenue increased by \$1,027,125 or 6.27%, the total operating expenses increased by \$1,343,248 or 8.36%. These increases in expenses were due to the addition of an internal medicine physician, wage increases, contracted emergency room physician coverage cost and an increase in the volume of more expensive procedures.

The operating income for 2009 decreased by \$146,550 or 33% as compared to 2008. The primary components causing the decrease in the operating loss 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.

#### ***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 2010 decreased by \$8,941 or 2% compared to 2009. Nonoperating revenue and expenses 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.

#### ***Capital Grants and Contributions***

During the year ended June 30, 2009, the Hospital received \$366,318 in cash from a donor's estate. In addition, the Hospital recorded a contribution receivable for an additional \$600,000 expected from the estate. During the year ended June 30, 2010, the Hospital received the estimated \$600,000 of cash plus an additional \$26,299 for a total of \$992,617 over the two-year period. The cash is restricted by the donor to be used for capital expenditures.

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

Year ended June 30, 2010: The Hospital's cash increased by \$3,633,777 as compared to 2009. The primary reason for the increase in cash is due to a bond issue to finance a renovation project which increased the Hospital's long term debt and capital assets. Cash received from patients and third parties also increased by \$521,111 or 3.28% as compared to 2009.

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.

## Davis County Hospital

### Management's Discussion and Analysis Years Ended June 30, 2010 and 2009

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

##### **Capital Assets**

June 30, 2010: At the end of 2010, the Hospital had \$15,593,940 invested in capital assets, net of accumulated depreciation, as described in Note 5 to the financial statements. In 2010, the Hospital purchased new capital assets totaling \$8,368,801 consisting primarily of renovations to the facility.

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.

##### **Debt**

June 30, 2010: At June 30, 2010, the Hospital had \$13,543,872 in hospital revenue bonds and capital leases outstanding. The Hospital issued \$7,195,000 of new revenue bonds in 2010 to finance renovations to the facilities.

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.

#### ***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, 2010 and 2009**

<b>Assets</b>	Hospital		Component Unit (Foundation)	
	2010	2009	2010	2009
<b>Current Assets:</b>				
Cash and cash equivalents	<b>\$ 3,234,425</b>	\$ 2,298,375	<b>\$ 41,547</b>	\$ 34,413
Assets limited as to use, restricted by				
bond agreement	<b>970,655</b>	346,329	-	-
Certificates of deposit	<b>657,971</b>	641,615	-	-
Receivables:				
Patient, net	<b>2,583,896</b>	2,171,254	-	-
Property taxes receivable	<b>751,442</b>	743,406	-	-
Other	<b>34,112</b>	20,921	-	-
Inventories	<b>346,898</b>	339,516	-	-
Prepaid expenses	<b>84,082</b>	51,377	-	-
<b>Total current assets</b>	<b>8,663,481</b>	6,612,793	<b>41,547</b>	34,413
<b>Assets Limited as to Use:</b>				
Board-designated for capital acquisitions	<b>752,995</b>	2,205,943	-	-
Restricted by bond agreement	<b>2,276,858</b>	346,329	-	-
Donor restricted	<b>998,639</b>	972,279	<b>60,453</b>	68,567
	<b>4,028,492</b>	3,524,551	<b>60,453</b>	68,567
Less portion required for current liabilities	<b>970,655</b>	346,329	-	-
	<b>3,057,837</b>	3,178,222	<b>60,453</b>	68,567
<b>Capital Assets:</b>				
Nondepreciable	<b>412,397</b>	579,088	-	-
Depreciable, net	<b>15,181,543</b>	7,934,515	-	-
	<b>15,593,940</b>	8,513,603	-	-
Other Assets, deferred financing costs	<b>156,738</b>	63,714	-	-
	<b>\$ 27,471,996</b>	\$ 18,368,332	<b>\$ 102,000</b>	\$ 102,980

See Notes to Basic Financial Statements.

<b>Liabilities and Net Assets</b>	Hospital		Component Unit (Foundation)	
	2010	2009	2010	2009
Current Liabilities:				
Current maturities of long-term debt	\$ 740,300	\$ 406,303	\$ -	\$ -
Accounts payable	846,074	493,613	-	-
Accrued expenses:				
Salaries, wages and payroll taxes	376,284	308,407	-	-
Paid leave	562,293	512,489	-	-
Interest	233,700	106,286	-	-
Other	222,319	14,755	-	-
Estimated amounts due to third-party payors	100,000	100,000	-	-
Deferred revenue for succeeding year property taxes	751,442	743,406	-	-
<b>Total current liabilities</b>	<b>3,832,412</b>	<b>2,685,259</b>	<b>-</b>	<b>-</b>
Other Postemployment Benefits	121,917	57,882	-	-
Long-Term Debt, less current maturities	12,803,572	5,441,904	-	-
<b>Total liabilities</b>	<b>16,757,901</b>	<b>8,185,045</b>	<b>-</b>	<b>-</b>
Commitments and Contingencies (Notes 6 and 7)				
Net Assets:				
Invested in capital assets, net of related debt	2,880,033	2,665,396	-	-
Restricted:				
Restricted by bond agreement	2,276,858	346,329	-	-
Restricted by donor for specific operating activities	998,639	972,279	60,453	68,567
Unrestricted	4,558,565	6,199,283	41,547	34,413
<b>Total net assets</b>	<b>10,714,095</b>	<b>10,183,287</b>	<b>102,000</b>	<b>102,980</b>
	<b>\$ 27,471,996</b>	<b>\$ 18,368,332</b>	<b>\$ 102,000</b>	<b>\$ 102,980</b>

**Davis County Hospital**

**Statements of Revenue, Expenses and Changes in Net Assets  
Years Ended June 30, 2010 and 2009**

	Hospital		Component Unit (Foundation)	
	2010	2009	2010	2009
<b>Operating revenue:</b>				
Net patient service revenue	\$ 16,805,651	\$ 15,884,969	\$ -	\$ -
Other	591,903	485,460	27,746	24,812
<b>Total operating revenue</b>	<b>17,397,554</b>	<b>16,370,429</b>	<b>27,746</b>	<b>24,812</b>
<b>Operating expenses:</b>				
Salaries and wages	7,188,468	6,725,012	-	-
Employee benefits	2,000,104	1,766,500	-	-
Purchased services and medical professional fees	2,512,912	2,352,770	-	-
Supplies and other	2,502,344	2,078,049	28,726	11,510
General services	851,437	870,165	-	-
Administrative services	1,159,759	1,167,554	-	-
Depreciation and amortization	1,106,110	1,015,309	-	-
Insurance	95,974	98,401	-	-
<b>Total operating expenses</b>	<b>17,417,108</b>	<b>16,073,760</b>	<b>28,726</b>	<b>11,510</b>
<b>Operating income (loss)</b>	<b>(19,554)</b>	<b>296,669</b>	<b>(980)</b>	<b>13,302</b>
<b>Nonoperating income (expense):</b>				
Tax revenue	746,918	707,742	-	-
Interest income	89,936	125,913	-	-
Interest expense	(344,490)	(332,350)	-	-
<b>Total nonoperating revenue</b>	<b>492,364</b>	<b>501,305</b>	<b>-</b>	<b>-</b>
<b>Excess of revenue over expenses before capital grants and contributions</b>	<b>472,810</b>	<b>797,974</b>	<b>(980)</b>	<b>13,302</b>
Capital grants and contributions	57,998	998,744	-	-
<b>Increase (decrease) in net assets</b>	<b>530,808</b>	<b>1,796,718</b>	<b>(980)</b>	<b>13,302</b>
<b>Net assets:</b>				
Beginning	10,183,287	8,386,569	102,980	89,678
Ending	\$ 10,714,095	\$ 10,183,287	\$ 102,000	\$ 102,980

See Notes to Basic Financial Statements.

## Davis County Hospital

### Statements of Cash Flows Years Ended June 30, 2010 and 2009

	Hospital		Component Unit (Foundation)	
	2010	2009	2010	2009
<b>Cash Flows from Operating Activities:</b>				
Cash received from patients and third parties	\$ 16,393,009	\$ 15,871,898	\$ -	\$ -
Cash paid to suppliers	(6,984,276)	(6,603,764)	(28,726)	(11,510)
Cash paid to employees	(8,799,292)	(8,302,645)	-	-
Other receipts and payments, net	532,398	423,311	27,746	24,812
<b>Net cash provided by (used in) operating activities</b>	<b>1,141,839</b>	<b>1,388,800</b>	<b>(980)</b>	<b>13,302</b>
<b>Cash Flows from Noncapital Financing Activities,</b>				
property taxes received	746,918	707,742	-	-
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Principal payments on long-term debt, including capital lease obligations	(411,032)	(480,267)	-	-
Proceeds from long-term debt	7,105,062	-	-	-
Payments of bond issuance costs	(104,084)	-	-	-
Interest paid on long-term debt	(217,076)	(336,871)	-	-
Proceeds from sale of capital assets	60,000	17,726	-	-
Purchase of capital assets	(7,013,214)	(1,305,707)	-	-
Capital grants and contributions	657,998	398,744	-	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>77,654</b>	<b>(1,706,375)</b>	<b>-</b>	<b>-</b>
<b>Cash Flows from Investing Activities:</b>				
Interest income	89,936	125,913	-	-
Proceeds from (purchases of) assets limited as to use, net	1,577,430	(794,839)	-	-
<b>Net cash provided by (used in) investing activities</b>	<b>1,667,366</b>	<b>(668,926)</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>3,633,777</b>	<b>(278,759)</b>	<b>(980)</b>	<b>13,302</b>
<b>Cash and cash equivalents:</b>				
Beginning, including assets limited as to use Hospital 2010 \$1,319,344; 2009 \$1,933,378; Foundation 2010 \$68,567; 2009 \$65,260	3,617,719	3,896,478	102,980	89,678
Ending, including assets limited as to use Hospital 2010 \$4,017,071; 2009 \$1,319,344; Foundation 2010 \$60,453; 2009 \$68,567	\$ 7,251,496	\$ 3,617,719	\$ 102,000	\$ 102,980

(Continued)

## Davis County Hospital

### Statements of Cash Flows (Continued) Years Ended June 30, 2010 and 2009

	Hospital		Component Unit (Foundation)	
	2010	2009	2010	2009
Reconciliation of Operating Income (Loss) to Net				
Cash Provided by Operating Activities:				
Operating (loss) income	\$ (19,554)	\$ 296,669	\$ (980)	\$ 13,302
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,106,110	1,015,309	-	-
(Gain) on sale of capital assets	(59,505)	(62,149)	-	-
Changes in assets and liabilities:				
(Increase) decrease in patient accounts receivable, net	(412,642)	66,929	-	-
(Increase) in receivables	(13,191)	(3,194)	-	-
(Increase) in inventories	(7,382)	(8,870)	-	-
(Increase) decrease in prepaid expenses	(32,705)	9,578	-	-
(Decrease) in estimated amounts due to third-party payors	-	(80,000)	-	-
Increase in accounts payable and accrued liabilities	580,708	154,528	-	-
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,141,839</b>	<b>\$ 1,388,800</b>	<b>\$ (980)</b>	<b>\$ 13,302</b>
Supplemental Disclosure of Noncash Investing and Financing Activities:				
Donor restricted contribution receivable	\$ -	\$ 600,000	\$ -	\$ -
Reduction of capital lease obligation related to trade-in of capital assets	-	176,000	-	-
Capital lease obligation incurred for acquisition of capital assets	987,570	-	-	-
Increase in accounts payable related to construction in progress	161,033	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) is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Davis County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients. 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 4.08% and 4.14% of its financial support from property tax revenue in the years ended June 30, 2010 and 2009, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors 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. During the year ended June 30, 2010, the contribution was received, but the proceeds were not expended for the restricted purpose and thus the \$600,000 of cash is included in assets limited as to use as of June 30, 2010.

## 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 2010 and 2009 are summarized as follows:

	2010	2009
Balance, beginning	\$ 512,489	\$ 474,157
Current year additions	825,680	710,104
Current year usage	(775,876)	(671,772)
Balance, ending	<u>\$ 562,293</u>	<u>\$ 512,489</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, 2010 and 2009 was approximately \$75,000 and \$135,000, 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, 2007.

Approximately 55% and 59% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2010 and 2009, 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, 2010 and 2009:

	2010	2009
Gross patient service revenue	\$ 24,075,455	\$ 22,475,501
Less discounts, allowances and estimated contractual adjustments under third-party reimbursement programs	6,507,028	5,861,026
Less provision for doubtful accounts	762,776	729,506
<b>Net patient service revenue</b>	<b>\$ 16,805,651</b>	<b>\$ 15,884,969</b>

Contractual adjustment expense for the years ended June 30, 2010 and 2009 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 \$206,000 and \$174,000 for the years ended June 30, 2010 and 2009, respectively, and is related to retroactive adjustments based on the final settlements of cost reports.

## 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, 2010. The Hospital's deposits in banks as of June 30, 2010 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, 2010 and 2009. 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:

	2010	2009
Carrying value:		
Deposits	\$ 7,919,766	\$ 5,863,589
Other	1,122	952
	<u>\$ 7,920,888</u>	<u>\$ 5,864,541</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 3,234,425	\$ 2,298,375
Assets limited as to use, restricted by bond agreement	2,276,858	346,329
Certificates of deposit	657,971	641,615
Assets limited as to use, board designated and donor restricted	1,751,634	2,578,222
	<u>\$ 7,920,888</u>	<u>\$ 5,864,541</u>

**Davis County Hospital**

**Notes to Basic Financial Statements**

**Note 4. Patient Accounts Receivable**

Patient accounts receivable as of June 30, 2010 and 2009 consisted of the following:

	2010	2009
Patients	\$ 3,653,896	\$ 3,224,254
Less allowance for doubtful accounts	459,000	477,000
Less estimated third-party contractual adjustments	611,000	576,000
	<u>\$ 2,583,896</u>	<u>\$ 2,171,254</u>

**Note 5. Capital Assets**

Capital assets activity as of June 30, 2010 and 2009 is as follows:

	Beginning Balance	Additions	Transfers and Disposals	Ending Balance
	<u>2010</u>			
Capital assets not being depreciated:				
Land	\$ 182,358	\$ 55,828	\$ -	\$ 238,186
Construction in progress	396,730	6,433,976	(6,656,495)	174,211
<b>Total capital assets not being depreciated</b>	<u>579,088</u>	<u>6,489,804</u>	<u>(6,656,495)</u>	<u>412,397</u>
Capital assets being depreciated:				
Land improvements	184,872	1,197,506	-	1,382,378
Buildings	12,944,331	5,511,616	(36,923)	18,419,024
Fixed equipment	1,498,347	105,317	-	1,603,664
Major moveable equipment	4,124,921	1,487,021	(364,824)	5,247,118
<b>Total capital assets being depreciated</b>	<u>18,752,471</u>	<u>8,301,460</u>	<u>(401,747)</u>	<u>26,652,184</u>
Less accumulated depreciation:				
Land improvements	146,928	44,078	-	191,006
Buildings	6,040,915	657,631	(36,398)	6,662,148
Fixed equipment	1,287,096	22,084	-	1,309,180
Major moveable equipment	3,343,017	330,144	(364,854)	3,308,307
<b>Total accumulated depreciation</b>	<u>10,817,956</u>	<u>1,053,937</u>	<u>(401,252)</u>	<u>11,470,641</u>
<b>Total capital assets being depreciated</b>	<u>7,934,515</u>	<u>7,247,523</u>	<u>(495)</u>	<u>15,181,543</u>
<b>Capital assets, net</b>	<u>\$ 8,513,603</u>	<u>\$ 13,737,327</u>	<u>\$ (6,656,990)</u>	<u>\$ 15,593,940</u>

Davis County Hospital

Notes to Basic Financial Statements

Note 5. Capital Assets (Continued)

	Beginning Balance	Additions	Transfers and Disposals	Ending Balance
	2009			
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>	<b>242,936</b>	<b>924,468</b>	<b>(588,316)</b>	<b>579,088</b>
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>	<b>18,809,721</b>	<b>1,015,476</b>	<b>(1,072,726)</b>	<b>18,752,471</b>
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>	<b>10,757,139</b>	<b>1,001,873</b>	<b>(941,056)</b>	<b>10,817,956</b>
<b>Total capital assets being depreciated</b>	<b>8,052,582</b>	<b>13,603</b>	<b>(131,670)</b>	<b>7,934,515</b>
<b>Capital assets, net</b>	<b>\$ 8,295,518</b>	<b>\$ 938,071</b>	<b>\$ (719,986)</b>	<b>\$ 8,513,603</b>

## 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, 2010 and 2009 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>2010</b>					
Long-term debt:					
Hospital revenue bonds, Series 1998 (A)	\$ 5,840,000	\$ -	\$ (285,000)	\$ 5,555,000	\$ 300,000
Hospital revenue bonds, Series 2009 (B)	-	7,195,000	-	7,195,000	230,000
Capital lease obligations (C)	134,846	987,570	(126,032)	996,384	210,300
	5,974,846	8,182,570	(411,032)	13,746,384	740,300
Less unamortized bond discount	126,639	89,938	(14,065)	202,512	-
	<b>\$ 5,848,207</b>	<b>\$ 8,092,632</b>	<b>\$ (396,967)</b>	<b>\$ 13,543,872</b>	<b>\$ 740,300</b>
<b>2009</b>					
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	-
	<b>\$ 6,495,628</b>	<b>\$ -</b>	<b>\$ (647,421)</b>	<b>\$ 5,848,207</b>	<b>\$ 406,303</b>

- (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 5.100% 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) Hospital Revenue Bonds, Series 2009, originally aggregating \$7,195,000, were issued by the Hospital to finance building improvements. The bonds are payable through September 1, 2025, with interest coupons payable at March and September 1 at annual rates varying from 3.50% to 6.50%. The Hospital 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.
- (C) At varying rates of imputed interest up to 10.06% maturing through 2015 and collateralized by leased equipment.

The bond agreements require 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 \$1,446,893 and \$346,329 as of June 30, 2010 and 2009, respectively. As of June 30, 2010, there was also approximately \$830,000 of unspent bond proceeds in a project fund to be used for payment of project costs. The Series 1998 and Series 2009 bond agreements also require the Hospital to maintain debt service coverage ratios of at least 1.25 and 1.50, respectively.

**Davis County Hospital**

**Notes to Basic Financial Statements**

**Note 6. Long-Term Debt (Continued)**

The debt service requirements for the Series 1998 and 2009 Hospital revenue bonds as of June 30, 2010, are as follows:

Year ending June 30:	Principal	Interest	Total to Be Paid
2011	\$ 530,000	\$ 719,939	\$ 1,249,939
2012	555,000	696,656	1,251,656
2013	580,000	671,359	1,251,359
2014	605,000	644,499	1,249,499
2015	645,000	615,004	1,260,004
2016-2020	3,945,000	2,512,486	6,457,486
2021-2025	4,710,000	1,208,643	5,918,643
2026	1,180,000	38,350	1,218,350
	<u>\$ 12,750,000</u>	<u>\$ 7,106,936</u>	<u>\$ 19,856,936</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, 2010:

Year ending June 30:	
2011	\$ 250,413
2012	219,167
2013	215,087
2014	215,087
2015	212,573
<b>Total minimum lease payments</b>	<u>1,112,327</u>
Less amount representing interest	115,943
<b>Present value of future minimum payments</b>	<u>\$ 996,384</u>

The following is leased equipment by major class as of June 30, 2010 and 2009:

	2010	2009
Major moveable equipment	\$ 1,797,033	\$ 801,865
Less accumulated depreciation	817,500	763,864
	<u>\$ 979,533</u>	<u>\$ 38,001</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 2010 and 2009 are summarized as follows:

	2010	2009
Balance, beginning	\$ 10,600	\$ 16,000
Current year claims and changes in estimates	41,725	49,700
Claim payments	(35,458)	(55,100)
Balance, ending	<u>\$ 16,867</u>	<u>\$ 10,600</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.

##### **Healthcare reform:**

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade

##### **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.

## Davis County Hospital

### Notes to Basic Financial Statements

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#### 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 4.30% of their annual covered salaries and the Hospital is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by state statute. The Hospital's contributions to the plan for the years ended June 30, 2010, 2009 and 2008 were approximately \$458,000, \$405,000 and \$347,000, respectively.

#### Note 9. Other Postemployment Benefits (OPEB)

##### Plan description and funding policy:

The Hospital sponsors a postretirement 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 for 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 during the years ended June 30, 2010 and 2009.

##### Annual OPEB cost and net OPEB obligation:

The Hospital's annual other postemployment 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:

	2010	2009
Annual required contribution	\$ 62,588	\$ 57,882
Interest on net OPEB obligation	1,447	-
<b>Annual OPEB cost (expense)</b>	<b>64,035</b>	<b>57,882</b>
Contributions made	-	-
<b>Increase in net OPEB obligation</b>	<b>64,035</b>	<b>57,882</b>
Net OPEB obligation, beginning of year	57,882	-
Net OPEB obligation, end of year	<u>\$ 121,917</u>	<u>\$ 57,882</u>

## Davis County Hospital

### Notes to Basic Financial Statements

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#### Note 9. Other Postemployment Benefits (OPEB) (Continued)

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for fiscal year 2010 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:			
2010	\$ 64,035	- %	\$ 121,917
2009	57,882	-	57,882

#### Funded status and funding progress:

As of July 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$696,571 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$696,571. The covered payroll was \$6,524,202 and the ratio of the UAAL to the covered payroll was 10.7%. The results of the July 1, 2008 valuation were rolled forward to June 30, 2010.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

#### 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.

## Davis County Hospital

### Notes to Basic Financial Statements

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#### **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 \$229,000 and \$215,000 were incurred for the years ended June 30, 2010 and 2009, respectively.

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

The Hospital implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*; GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*; and GASB Statement No. 58, *Accounting for Financial Reporting for Chapter 9 Bankruptcies*, during the year ended June 30, 2010. The adoption of these Statements had no material effect on the financial statements.

As of June 30, 2010, the GASB had issued the following Statement not yet implemented by the Hospital. The Statement which might impact the Hospital is as follows:

GASB Statement No. 59, *Financial Instruments Omnibus*, issued June 2010, will be effective for the Hospital beginning with its year ending June 30, 2011. This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investment pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investment pools, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The Hospital's management has not yet determined the effect this Statement 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, 2010:

	Actual	Variance	Budget
Amount to be raised by taxation	\$ 746,918	\$ (3,988)	\$ 750,906
Other revenue (receipts)	17,545,488	(128,321)	17,673,809
<b>Total revenue (receipts)</b>	<u>18,292,406</u>	<u>(132,309)</u>	<u>18,424,715</u>
Expenses (disbursements)	<u>17,761,598</u>	<u>(11,858)</u>	<u>17,773,456</u>
<b>Change in net assets</b>	530,808	<u><u>\$ (120,451)</u></u>	<u><u>\$ 651,259</u></u>
Net assets:			
Beginning	<u>10,183,287</u>		
Ending	<u><u>\$ 10,714,095</u></u>		

**Davis County Hospital**

**Required Supplementary Information, Other Postemployment Benefit Plan  
Year Ended June 30, 2010**

**Schedule of Funding Progress**

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over-funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
<b>2010</b>	7/1/2008	\$ -	\$ 696,571	\$ 696,571	- %	\$ 6,524,202	10.68%
<b>2009</b>	7/1/2008	-	696,571	696,571	-	5,908,802	11.79

NOTE: Fiscal year 2009 is the transition year for GASB Statement No. 45

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2008. Additional information follows:

1. The cost method used to determine the ARC is the Frozen Entry Age Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions are as follows: health care cost trend rates of 6%; discount rate of 2.5%.
4. The amortization method is open period, level dollar basis.

**Davis County Hospital**

**Net Patient Service Revenue**

**Years Ended June 30, 2010 and 2009**

	2010		
	Inpatient	Outpatient	Total
Daily patient services:			
Medical and surgical	\$ 883,155	\$ 461,605	\$ 1,344,760
Swing-bed	401,700	-	401,700
	<u>1,284,855</u>	<u>461,605</u>	<u>1,746,460</u>
Nursing services:			
Operating and recovery rooms	983,190	1,522,504	2,505,694
Emergency room	11,205	2,628,311	2,639,516
	<u>994,395</u>	<u>4,150,815</u>	<u>5,145,210</u>
Other professional services:			
Laboratory	480,236	2,870,548	3,350,784
Central services and supplies	74,389	57,268	131,657
Electrocardiology	23,916	114,832	138,748
Radiology	448,823	3,809,491	4,258,314
Ambulance services	-	609,491	609,491
Labor and delivery	72,381	19,955	92,336
Cardiac rehabilitation	-	-	-
Pharmacy	737,871	2,248,454	2,986,325
Home health	-	169,719	169,719
Anesthesiology	45,050	195,670	240,720
Respiratory therapy	378,704	108,979	487,683
Physical therapy	269,420	881,327	1,150,747
Speech therapy	7,456	5,308	12,764
Electroencephalography	-	1,389	1,389
Long-term care	1,589,226	-	1,589,226
Nursery	62,931	-	62,931
Outpatient clinic	-	1,975,636	1,975,636
	<u>4,190,403</u>	<u>13,068,067</u>	<u>17,258,470</u>
	<u>\$ 6,469,653</u>	<u>\$ 17,680,487</u>	24,150,140
Less charity care			74,685
<b>Gross patient service revenue</b>			<u>24,075,455</u>
Contractual adjustments			<u>6,507,028</u>
			<u>17,568,427</u>
Provision for uncollectible accounts			762,776
<b>Net patient service revenue</b>			<u><u>\$ 16,805,651</u></u>

2009		
Inpatient	Outpatient	Total
\$ 1,220,491	\$ 75,922	\$ 1,296,413
654,640	-	654,640
<u>1,875,131</u>	<u>75,922</u>	<u>1,951,053</u>
835,604	1,372,654	2,208,258
46,419	2,421,284	2,467,703
<u>882,023</u>	<u>3,793,938</u>	<u>4,675,961</u>
632,952	2,589,854	3,222,806
95,092	63,680	158,772
32,844	143,085	175,929
505,849	3,538,710	4,044,559
-	514,076	514,076
73,318	39,651	112,969
-	35,455	35,455
1,050,714	1,618,812	2,669,526
-	163,414	163,414
52,876	167,602	220,478
540,531	70,328	610,859
354,702	784,515	1,139,217
12,537	7,979	20,516
-	3,526	3,526
1,483,617	-	1,483,617
66,056	-	66,056
-	1,341,401	1,341,401
<u>4,901,088</u>	<u>11,082,088</u>	<u>15,983,176</u>
<u>\$ 7,658,242</u>	<u>\$ 14,951,948</u>	22,610,190
		134,689
		<u>22,475,501</u>
		<u>5,861,026</u>
		16,614,475
		<u>729,506</u>
		<u><u>\$ 15,884,969</u></u>

**Davis County Hospital**

**Other Revenue**

**Years Ended June 30, 2010 and 2009**

	<b>2010</b>	2009
Revenue for expenses of Home Health Care:		
Davis County	\$ 74,360	\$ 67,044
Iowa Department of Public Health	44,278	17,618
Other funding	116,249	116,113
Ambulance subsidy, Davis County	25,000	25,000
Cafeteria	71,756	65,923
Sale of supplies and drugs	612	6,173
Rent income	31,808	35,964
Purchase discounts	2,210	1,161
Other funding	166,125	88,326
Gain on disposal of capital assets	59,505	62,138
	<b>\$ 591,903</b>	<b>\$ 485,460</b>

**Davis County Hospital**

**Operating Expenses**

**Years Ended June 30, 2010 and 2009**

	2010		
	Salaries	Other	Total
<b>Nursing services:</b>			
Medical and surgical	\$ 922,209	\$ 93,533	\$ 1,015,742
Emergency room	713,864	662,122	1,375,986
Operating and recovery rooms	202,684	340,621	543,305
Nursing administration	91,637	1,604	93,241
	<u>1,930,394</u>	<u>1,097,880</u>	<u>3,028,274</u>
<b>Other professional services:</b>			
Laboratory	134,723	652,006	786,729
Central services and supplies	-	159,468	159,468
Radiology	267,293	646,234	913,527
Ambulance	112,889	61,167	174,056
Obstetrics, labor and delivery	42,518	12,732	55,250
Cardiac rehabilitation	-	-	-
Pharmacy	143,416	776,628	920,044
Home health	251,302	63,665	314,967
Anesthesiology	-	179,003	179,003
Respiratory therapy	126,252	52,651	178,903
Physical therapy	-	531,772	531,772
Speech therapy	-	9,508	9,508
Electroencephalography	-	288	288
Nursery	8,263	-	8,263
Clinic	1,255,185	577,202	1,832,387
Nursing home	648,846	75,456	724,302
Medical records and library	214,241	119,903	334,144
	<u>3,204,928</u>	<u>3,917,683</u>	<u>7,122,611</u>
<b>General services:</b>			
Operation of plant	312,575	444,613	757,188
Dietary	299,702	237,802	537,504
Housekeeping	31,714	71,719	103,433
Environmental services	275,639	96,996	372,635
	<u>919,630</u>	<u>851,130</u>	<u>1,770,760</u>
Administrative services	1,133,516	1,159,759	2,293,275
Employee benefits	-	2,000,104	2,000,104
Depreciation and amortization	-	1,106,110	1,106,110
Insurance	-	95,974	95,974
	<u>\$ 7,188,468</u>	<u>\$ 10,228,640</u>	<u>\$ 17,417,108</u>

2009		
Salaries	Other	Total
\$ 889,691	\$ 134,553	\$ 1,024,244
689,002	497,431	1,186,433
198,971	255,514	454,485
89,835	1,951	91,786
<u>1,867,499</u>	<u>889,449</u>	<u>2,756,948</u>

199,287	527,597	726,884
-	182,427	182,427
240,485	521,585	762,070
109,828	49,409	159,237
42,087	11,788	53,875
36,183	10,541	46,724
151,435	626,648	778,083
252,817	74,650	327,467
-	161,338	161,338
140,613	64,605	205,218
-	525,040	525,040
-	13,614	13,614
-	768	768
8,785	-	8,785
863,403	595,133	1,458,536
676,573	60,691	737,264
167,699	94,533	262,232
<u>2,889,195</u>	<u>3,520,367</u>	<u>6,409,562</u>

305,417	457,992	763,409
291,528	274,843	566,371
26,386	72,768	99,154
281,544	85,565	367,109
<u>904,875</u>	<u>891,168</u>	<u>1,796,043</u>

1,063,443	1,167,554	2,230,997
-	1,766,500	1,766,500
-	1,015,309	1,015,309
-	98,401	98,401
<u>\$ 6,725,012</u>	<u>\$ 9,348,748</u>	<u>\$ 16,073,760</u>

**Davis County Hospital**

**Patient Receivables and Allowance for Uncollectible Accounts  
Years Ended June 30, 2010 and 2009**

<b>Patient Receivables</b>	<b>2010</b>	<b>Percent to Total</b>	<b>2009</b>	<b>Percent to Total</b>
Days since discharge:				
0 - 60	\$ 2,461,187	67.36%	\$ 2,018,771	62.61%
61 - 120	414,120	11.33%	353,545	10.97%
121 - 180	241,539	6.61%	265,865	8.25%
181 and over	537,050	14.70%	586,073	18.17%
	<u>3,653,896</u>	<u>100.00%</u>	<u>3,224,254</u>	<u>100.00%</u>
Less contractual allowances	<u>611,000</u>		<u>576,000</u>	
	<u>3,042,896</u>		<u>2,648,254</u>	
Less allowance for uncollectible accounts	<u>459,000</u>		<u>477,000</u>	
	<u>\$ 2,583,896</u>		<u>\$ 2,171,254</u>	

**Allowance for Uncollectible Accounts**

Balance, beginning	\$ 477,000	\$ 453,000
Provision for year	762,776	729,506
Recoveries of accounts previously written off	113,400	94,899
	<u>1,353,176</u>	<u>1,277,405</u>
Less accounts written off	<u>894,176</u>	<u>800,405</u>
Balance, ending	<u>\$ 459,000</u>	<u>\$ 477,000</u>

**Davis County Hospital**

**Inventories and Prepaid Expenses  
Years Ended June 30, 2010 and 2009**

<b>Inventories</b>	<b>2010</b>	<b>2009</b>
Central stores	\$ 62,943	\$ 50,776
Pharmacy	129,588	132,738
Dietary	12,880	13,116
Office supplies	9,962	11,656
Floor supplies	125,538	124,887
Fuel oil	5,987	6,343
	<u>\$ 346,898</u>	<u>\$ 339,516</u>

**Prepaid Expenses**

Insurance	\$ 22,117	\$ 13,308
Service contracts	27,418	21,574
Dues	8,451	8,310
Maintenance and other	26,096	8,185
	<u>\$ 84,082</u>	<u>\$ 51,377</u>

## Davis County Hospital

### Officials

Year Ended June 30, 2010

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 Augspurger	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, 2010 and 2009  
(Unaudited)**

	<b>2010</b>	2009
Patient days, exclusive of swing-bed:		
Medicare	<b>855</b>	1,406
Medicaid	<b>103</b>	117
Private and other	<b>482</b>	560
	<b>1,440</b>	2,083
Medicare and Medicaid percent	<b>67.0%</b>	73.0%
Percent of occupancy, acute	<b>16.0%</b>	23.0%
Discharges, exclusive of swing-bed:		
Medicare	<b>266</b>	403
Medicaid	<b>45</b>	58
Private and other	<b>168</b>	201
	<b>479</b>	662
Average length of stay in days	<b>3.0</b>	3.2

## Davis County Hospital

### Insurance Coverage Year Ended June 30, 2010 (Unaudited)

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Regent Insurance Company (expires June 16, 2011):	
Building and contents, fire and extended coverage (100% co-insurance, replacement cost) (all locations)	\$34,972,931/\$5,000
Earthquake (expires June 16, 2011)	\$34,972,931/\$50,000
Flood (expires June 16, 2011)	\$5,000,000/\$50,000
Blanket earnings and expense (expires June 16, 2011)	\$4,319,106
Accounts receivable (expires June 16, 2011)	\$250,000
General Liability - PIC Wisconsin (expires June 16, 2011)	\$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
Boiler (included in property coverage)	
Comprehensive accident coverage	
Mechanical breakdown limit	
Federal Insurance Company (policy expiration June 16, 2011)	\$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, 2011)	
Workers' compensation	Statutory
Petroleum Marketers Mutual Storage Tank (expires March 25, 2011)	
Financial responsibility program (release/aggregate)	\$500,000/\$1,000,000 \$10,000 deductible