

Davis County Hospital
Bloomfield, Iowa

**Financial Statements and
Supplementary Information
June 30, 2013 and 2012**

Together with Independent Auditor's Report

Davis County Hospital

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Davis County Hospital

Officials
June 30, 2013

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
County Board of Supervisors:		
Matt Greiner	Chairperson	December 2014
Ron Bride	Member	December 2014
Dale Taylor	Member	December 2016
Hospital Board of Trustees:		
Tom Prosapio	Chairperson	December 2016
Janis Wettrich	Vice-Chairperson	December 2014
Tami Weilbrenner	Secretary/Treasurer	December 2016
Dan Thompson	Member	December 2018
Kevin Cook	Member	December 2018
Anne Morgan	Member	December 2014
Russell Jarvis	Member	December 2016
Hospital Officials:		
Deborah Herzberg	Chief Executive Officer	Indefinite
Kendra Warning	Chief Financial Officer	Indefinite
Debra Scott	Chief Operating Officer	Indefinite
Ronda Reimer	Chief Nursing Officer	Indefinite

Independent Auditor's Report

To the Board of Trustees
Davis County Hospital
Bloomfield, Iowa:

Report on the Financial Statements

We have audited the accompanying financial statements of Davis County Hospital (Hospital) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2013, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Hospital, as of and for the year ended June 30, 2012, were audited by other auditors whose report dated November 9, 2012 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (page 4 through 7), the budgetary comparison information (page 27), and the Schedule of Funding Progress for the Retiree Health Plan (page 28) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplementary information in Exhibits 1 – 6 are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information in Exhibits 1 – 6 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in Exhibits 1 – 6 are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,
October 21, 2013.

Davis County Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Davis County Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2013 and 2012 by \$28,884 or 1% and increased between 2012 and 2011 by \$1,127,027 or 30%.
- The Hospital's net position decreased \$1,096,179 or 10% in 2013 and increased \$588,445 or 6% in 2012.
- The Hospital reported an operating loss of \$2,241,702 in 2013 and an operating loss of \$462,733 in 2012.

Using This Annual Report

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

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

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets 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 position and changes in it. The Hospital's total net position – 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 position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

Statement 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.

Davis County Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the statement of net position. The Hospital's net position decreased by \$1,096,179 or 10% in 2013 compared to 2012 and increased by \$588,445 or 6% in 2012 compared to 2011 as shown in Table 1.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Patient accounts receivable, net	\$ 2,564,639	2,935,055	2,380,711
Other current assets	7,860,471	12,437,746	6,501,484
Capital assets, net	12,905,197	15,167,639	17,156,249
Other noncurrent assets	<u>2,310,399</u>	<u>2,509,363</u>	<u>2,627,382</u>
Total assets	<u>25,640,706</u>	<u>33,049,803</u>	<u>28,665,826</u>
Liabilities:			
Current liabilities	4,008,320	9,197,218	4,406,785
Other postemployment benefits	278,095	218,575	183,058
Long-term debt	<u>11,353,873</u>	<u>12,537,413</u>	<u>13,567,831</u>
Total liabilities	<u>15,640,288</u>	<u>21,953,206</u>	<u>18,157,674</u>
Net Position:			
Net investment in capital assets	293,852	1,458,186	2,535,751
Restricted	2,198,411	7,436,102	2,531,251
Unrestricted	<u>7,508,155</u>	<u>2,202,309</u>	<u>5,441,150</u>
Total net position	<u>10,000,418</u>	<u>11,096,597</u>	<u>10,508,152</u>
Total liabilities and net position	<u>\$ 25,640,706</u>	<u>33,049,803</u>	<u>28,665,826</u>

Year ended June 30, 2013: In fiscal year 2013, the total assets decreased by \$7,409,097 or 22%. This was primarily caused by refunding the Series 1998 Revenue Bonds on July 11, 2012, in the amount of \$4,940,000 with proceeds received in fiscal year 2012 prior to year-end and an increase in accumulated depreciation of \$2,080,367. In fiscal year 2013, the total liabilities decreased by \$6,312,918 or 29% mainly due to the timing of refunding of the Series 1998 Revenue Bonds.

Year ended June 30, 2012: In fiscal year 2012, the total assets increased by \$4,383,977 or 15%, which was caused primarily by an increase in patient accounts receivable and the Series 2012 Revenue Bonds proceeds received prior to year-end. Refunding of the Series 1998 Revenue Bonds did not occur until July 11, 2012. In fiscal year 2012, the total liabilities increased by \$3,795,532 or 21% due to the timing of refunding of the Series 1998 Revenue Bonds.

Davis County Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

Operating Results and Changes in the Hospital's Net Position

In fiscal year 2013 the Hospital's net position decreased by \$1,096,179 or 10%, and in fiscal year 2012, the Hospital's net position increased by \$588,445 or 6% as shown in Table 2. This decrease is made up of several different components.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenue:			
Net patient service revenue	\$ 18,426,101	18,438,771	18,442,436
Electronic health record incentive payment	--	1,696,153	--
Other operating revenues	<u>418,439</u>	<u>401,462</u>	<u>381,965</u>
Total operating revenue	<u>18,844,540</u>	<u>20,536,386</u>	<u>18,824,401</u>
Operating Expenses:			
Salaries, wages and employee benefits	9,863,571	9,501,022	9,901,462
Purchased services and professional fees	4,245,253	4,761,197	3,773,143
Depreciation and amortization	2,488,714	2,426,346	1,682,901
Interest	587,715	778,548	734,069
Other operating	<u>3,900,989</u>	<u>3,532,006</u>	<u>3,814,055</u>
Total operating expenses	<u>21,086,242</u>	<u>20,999,119</u>	<u>19,905,630</u>
Operating Loss	<u>(2,241,702)</u>	<u>(462,733)</u>	<u>(1,081,229)</u>
Nonoperating Revenue:			
Property taxes	1,078,684	966,017	757,861
Investment income	<u>47,120</u>	<u>56,348</u>	<u>73,025</u>
Total nonoperating revenue	<u>1,125,804</u>	<u>1,022,365</u>	<u>830,886</u>
Excess of Revenue Over (Under) Expenses Before Capital Grants and Contributions	(1,115,898)	559,632	(250,343)
Capital Grants and Contributions	<u>19,719</u>	<u>28,813</u>	<u>44,400</u>
(Decrease) Increase in Net Position	<u>\$ (1,096,179)</u>	<u>588,445</u>	<u>(205,943)</u>

Operating Loss

The first component of the overall change in the Hospital's net position 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 2013 the Hospital reported operating loss of \$2,241,702 and in 2012 and 2011 the Hospital reported operating losses of \$462,733 and \$1,081,229, respectively. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The Hospital's operating loss for 2013 increased by \$1,778,969 or 384%, as compared to 2012. The primary components causing the increase in operating loss are as follows:

- In fiscal year 2013, there was depreciation expense for Electronic Health Record (EHR) assets without incentive monies to help offset the expense as the Medicare incentive of \$1,577,553 was recognized as income in fiscal year 2012. Also, Medicare reopened prior year cost reports to remove home office costs resulting in \$143,000 of added expense in fiscal year 2013.
- The total operating revenue decreased in 2013 by \$1,691,846 or 8%, as compared to fiscal year 2012, and the total operating expenses increased by \$87,123 or 0.4%. The decrease in revenue was mainly due to receiving \$1,696,153 from Medicare and Medicaid for an electronic health record incentive in fiscal year 2012. The increase in expenses was mainly due to an increase in surgical implantable supply expenses and the addition of another provider clinic.

Davis County Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

Nonoperating Revenue

Nonoperating revenue consists primarily of property taxes levied by the Hospital and interest income. Nonoperating income in 2013 increased by \$103,439, or 10%, as compared to 2012. Nonoperating revenue for 2012 increased by \$191,479 or 23% compared to 2011. The increase in 2013 is primarily due to the Hospital's increased tax revenue due to an increase in property valuations.

The Hospital's Cash Flows

Year ended June 30, 2013: The Hospital's combined cash, investments, and assets limited as to use decreased by \$5,024,871 in 2013 as compared to 2012. The primary reasons for the decrease is the refunding of the 1998 Series Revenue Bonds with the 2012 Series Revenue Bonds received in fiscal year 2012 prior to year end and a decrease in cash received from patient and third parties of \$1,496,063, or 8%, as compared to FY 2012.

Year ended June 30, 2012: The Hospital's combined cash, investments, and assets limited as to use increased by \$5,573,873 in 2012 as compared to 2011. The primary reasons for the increase is the timing of receiving funds from the 2012 Series Revenue Bonds and the refunding of the 1998 Series Revenue Bonds and cash received from patients and third parties increased by \$1,383,958 or 8% as compared to 2011.

Capital Asset and Debt Administration

Capital Assets

June 30, 2013: At the end of fiscal year 2013, the hospital had \$12,905,197 invested in capital assets, net of accumulated depreciation. In fiscal year 2013, the hospital had \$2,436,348 in depreciation expense and only purchased \$212,200 in new fixed assets. The fixed asset purchases in fiscal year 2013 mainly consisted of information technology room remodel, obstetric patient bed, air handler unit repair and software purchases for the electronic health record.

June 30, 2012: At the end of fiscal year 2012, the Hospital had \$15,167,639 invested in capital assets, net of accumulated depreciation. In 2012, the Hospital purchased new capital assets totaling \$415,532 consisting primarily of additional items relating to the electronic medical record system, laboratory remodeling, and replacing the dietary terrazzo flooring.

Debt

June 30, 2013: At June 30, 2013, the Hospital had \$12,858,489 in hospital revenue bonds, notes payable and capital leases outstanding. The Hospital entered into a new debt obligation for the purchase of cardiac monitoring equipment in the amount of \$57,434 in fiscal year 2013. The Hospital had debt reduction of \$6,128,829 during fiscal year 2013, which includes the refunding of the 1998 Series Revenue Bonds in the amount of \$4,940,000.

June 30, 2012: At June 30, 2012, the Hospital had \$18,929,884 in hospital revenue bonds, notes payable and capital leases outstanding. The Hospital entered into new debt obligations for the 2012 Series Revenue Bonds in the amount of \$5,160,000 which were used to refund the 1998 Series Revenue Bonds in July 2012.

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

Statements of Net Position June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,854,608	4,825,724
Assets limited as to use or restricted, current portion	750,688	5,805,454
Receivables -		
Patients, net of contractual adjustments and estimated uncollectible accounts of \$160,000 in 2013 and \$331,000 in 2012	2,564,639	2,935,055
Succeeding year property taxes receivable	1,115,765	1,073,122
Other	164,426	61,766
Inventories	468,624	506,387
Prepaid expenses	156,360	165,293
Estimated third-party payor settlements	350,000	--
Total current assets	<u>10,425,110</u>	<u>15,372,801</u>
Investments	697,137	684,850
Assets limited as to use or restricted, net of current portion	1,466,111	1,657,387
Capital assets, net	12,905,197	15,167,639
Deferred financing costs, net	147,151	167,126
Total assets	<u>\$ 25,640,706</u>	<u>33,049,803</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 1,257,472	6,112,040
Accounts payable	441,890	517,954
Accrued salaries, vacation and benefits payable	1,017,275	1,006,137
Accrued interest payable	164,813	225,454
Other accrued expenses	11,105	137,511
Estimated third-party payor settlements	--	125,000
Deferred revenue for succeeding year property taxes	1,115,765	1,073,122
Total current liabilities	<u>4,008,320</u>	<u>9,197,218</u>
Other postemployment benefits	278,095	218,575
Long-term debt, net of current portion	11,353,873	12,537,413
Total liabilities	<u>15,640,288</u>	<u>21,953,206</u>
Commitments and contingencies		
NET POSITION		
Net investment in capital assets	293,852	1,458,186
Restricted -		
Expendable for debt service	1,471,868	6,551,045
Expendable for specific operating activities	726,543	885,057
Unrestricted	7,508,155	2,202,309
Total net position	<u>10,000,418</u>	<u>11,096,597</u>
Total liabilities and net position	<u>\$ 25,640,706</u>	<u>33,049,803</u>

See notes to financial statements

Davis County Hospital

Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 19,033,682	19,269,401
Provision for bad debts	<u>(607,581)</u>	<u>(830,630)</u>
Net patient service revenue	18,426,101	18,438,771
Other operating revenues	<u>418,439</u>	<u>2,097,615</u>
Total operating revenue	<u>18,844,540</u>	<u>20,536,386</u>
OPERATING EXPENSES:		
Salaries and wages	7,696,184	7,393,757
Employee benefits	2,167,387	2,107,265
Purchased services and professional fees	4,245,253	4,761,197
Supplies and other	3,804,541	3,412,272
Depreciation and amortization	2,488,714	2,426,346
Insurance	96,448	119,734
Interest	<u>587,715</u>	<u>778,548</u>
Total operating expenses	<u>21,086,242</u>	<u>20,999,119</u>
OPERATING LOSS	<u>(2,241,702)</u>	<u>(462,733)</u>
NONOPERATING REVENUE:		
Property taxes	1,078,684	966,017
Investment income	<u>47,120</u>	<u>56,348</u>
Total nonoperating revenue	<u>1,125,804</u>	<u>1,022,365</u>
EXCESS OF REVENUE OVER (UNDER) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(1,115,898)	559,632
CAPITAL GRANTS AND CONTRIBUTIONS	<u>19,719</u>	<u>28,813</u>
INCREASE (DECREASE) IN NET POSITION	(1,096,179)	588,445
NET POSITION, beginning of year	<u>11,096,597</u>	<u>10,508,152</u>
NET POSITION, end of year	<u>\$ 10,000,418</u>	<u>11,096,597</u>

See notes to financial statements

Davis County Hospital

Statements of Cash Flows For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 18,321,517	19,817,580
Cash paid for employee salaries and benefits	(9,792,913)	(9,456,822)
Cash paid to suppliers and contractors	(8,404,676)	(8,984,327)
Other receipts and payments, net	456,709	400,609
	<u>580,637</u>	<u>1,777,040</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes received	1,078,684	966,017
	<u>1,078,684</u>	<u>966,017</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(153,846)	(415,530)
Proceeds on sale of capital assets	--	5,461
Capital grants and contributions	19,719	28,813
Proceeds from issuance of long-term debt	--	5,103,240
Principal payments on long-term debt	(6,128,829)	(1,038,595)
Payment of bond issuance costs	--	(85,187)
Interest paid on long-term debt	(648,356)	(810,615)
	<u>(6,911,312)</u>	<u>2,787,587</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from (deposits to) assets limited as to use or restricted, net	5,233,755	(4,459,965)
Investment income	47,120	56,348
	<u>5,280,875</u>	<u>(4,403,617)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,884	1,127,027
CASH AND CASH EQUIVALENTS - Beginning of year	<u>4,825,724</u>	<u>3,698,697</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 4,854,608</u>	<u>4,825,724</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital lease obligation incurred for acquisition of capital assets	57,434	--

See notes to financial statements

Davis County Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (2,241,702)	(462,733)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	2,488,714	2,426,346
(Gain) loss on disposal of capital assets	38,270	(853)
Interest expense	587,715	778,548
(Increase) decrease in current assets -		
Receivables -		
Patients	370,416	(554,344)
Other	(102,660)	15,567
Inventories	37,763	(138,906)
Prepaid expenses	8,933	(79,927)
Estimated third-party payor settlements	(350,000)	112,000
Increase (decrease) in liabilities -		
Accounts payable	(76,064)	(602,766)
Accrued salaries, vacation and benefits payable	11,138	8,683
Other accrued expenses	(126,406)	114,908
Estimated third-party payor settlements	(125,000)	125,000
Other postemployment benefits	59,520	35,517
Net cash provided by operating activities	\$ <u>580,637</u>	<u>1,777,040</u>

See notes to financial statements

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

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

Davis County Hospital (Hospital) is a Critical Access Hospital, organized under Chapter 347 of the Code of Iowa, governed by a 7 member Board of Trustees, which is elected by the voters of Davis County, The Hospital is a Critical Access Hospital with 25 acute-care beds and 32 long-term care beds. The Hospital also has related health care ancillary and outpatient services.

The following is a description of the reporting entity and a summary of significant accounting policies of the Hospital. These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

For financial reporting purposes, Davis County Hospital has included all the funds of the Hospital, specifically all assets, liabilities, revenue and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. Davis County Hospital has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

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

C. *Basis of Presentation*

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

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

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Restricted – Expendable – This component of net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position resources not meeting the definition of the preceding categories. Unrestricted net positions often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Hospital's financial statements are presented on the accrual basis of accounting. Revenue is recognized when earned, expenses are recognized when incurred.

E. Use of Estimates

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

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees and under note agreements.

G. Patient Receivables, Net

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Hospital provides an allowance for uncollectible self-pay and miscellaneous commercial insurance accounts based on the allowance method. Patients are not required to provide collateral for services rendered. The allowance is estimated based on past experience and on analysis of current accounts receivable collectability. Accounts are considered delinquent based on passage of a specified period of time and consideration of payment history. Accounts deemed uncollectible are written off and charged to the allowance in the year they are deemed uncollectible.

The Hospital also maintains a charity care policy as described in Note 1(T).

H. Succeeding Year Property Tax Receivable

Succeeding year property taxes receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property taxes 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 that fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year.

Davis County Hospital

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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 taxes receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

I. Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

J. Assets Limited as to Use or Restricted

Assets limited as to use or restricted primarily include assets held by trustees under general obligation bond agreements; funds the Hospital's Board of Trustees has set aside for future capital improvements; as required under Series 2009 and 2012 Hospital Revenue Bonds; and contributions restricted by donors. Amounts required to meet current liabilities of the Hospital have been included in current assets in the statements of net position at June 30, 2013 and 2012.

K. Investments

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses before capital grants and contributions unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses before capital grants and contributions unless the investments are trading securities. Periodically the Hospital reviews its investments to determine whether any unrealized losses are other than temporary. During 2013 and 2012, there were no investment declines that were determined to be other than temporary.

L. Capital Assets, Net

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	10 to 25 years
Buildings and building improvements	5 to 40 years
Equipment, computers and furniture	3 to 20 years

The Hospital's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses before capital grants and contributions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

M. Deferred Financing Costs

Deferred financing costs related to the issuance of the long-term debt are being amortized over the life of the related debt under the effective interest method for the Series 1999 and 2012 bonds. Amortization expense of \$19,078 and \$12,283 for fiscal year 2013 and 2012, respectively, is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net position.

N. 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. Paid Time Off (PTO) vests bi-weekly and may be carried forward by an employee in an amount not to exceed 520 hours for management and 480 for staff. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued PTO payable at June 30, 2013 and 2012 was \$539,548 and \$561,048, respectively.

O. Self-Insured Employee Dental and Vision Benefits

The estimated losses from self-insured claims, including incurred but unreported claims, are accrued as the losses occur.

P. Income Taxes

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Davis, Iowa. As such, the Hospital is exempt from paying income taxes. However, the Hospital is subject to federal income tax on any unrelated business income tax.

Q. Fair Value of Financial Instruments

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use or restricted, receivables, and current liabilities approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities. The carrying value of long-term debt approximates fair value since the interest rates closely reflect current market rates.

R. Statements of Revenues, Expenses and Changes in Net Position

For the purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included as non-operating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

S. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

T. 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.

The Hospital is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Hospital provides a variety of community health services at or below cost.

U. Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

V. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

W. Change in Accounting Principle

During 2013, the Hospital has adopted the provisions of GASB Statement No. 63. GASB Statements No. 63 required additional changes such as now referring to "Net Assets" as "Net Position" on the statements of net position.

X. Subsequent Events

The Hospital considered events occurring through October 21, 2013 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Deposits and Investments, Including Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

The Hospital manages the following risks in accordance with their formal investment policy:

Interest Rate Risk: The Hospital's investment policy allows for the investment of funds with varying maturities as a means for meeting short and long-term cash requirements and managing its exposure to fair value losses arising from changes in interest rates.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. The Hospital's investment policy for custodial credit risk mirrors requirements set forth by the Code of Iowa.

The composition of investments, including assets limited as to use or restricted as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Investments:		
Operating reserves –		
Certificates of deposit	\$ <u>697,137</u>	<u>684,850</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for capital improvements –		
Cash and cash equivalents	<u>18,389</u>	<u>26,739</u>
Under Hospital revenue bonds, Series 2009 and 2012 –		
Debt service reserve fund:		
Cash and cash equivalents	12,682	--
Certificates of deposit	<u>719,500</u>	<u>719,500</u>
	<u>732,182</u>	<u>719,500</u>
Interest fund – Cash and cash equivalents	169,475	148,576
Bond sinking fund – Cash and cash equivalents	570,158	580,627
Cost of issuance fund – Cash and cash equivalents	--	63,828
Debt service refunding account –		
Cash and cash equivalents	<u>52</u>	<u>5,038,514</u>
Total under hospital revenue bonds	<u>1,471,867</u>	<u>6,551,045</u>
By donor:		
Cash and cash equivalents	<u>726,543</u>	<u>885,057</u>
Total assets limited as to use or restricted	2,216,799	7,462,841
Less amounts required to meet current obligations	<u>750,688</u>	<u>5,805,454</u>
Long-term portion	\$ <u>1,466,111</u>	<u>1,657,387</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Interest income	\$ <u>47,120</u>	<u>56,348</u>

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

(3) Net Patient Service Revenue

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

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient non-acute services and certain outpatient services and rural health clinic services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. The Hospital is reimbursed on a prospectively determined rate per episode for home care services rendered to Medicare beneficiaries. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. The "American Taxpayer Relief Act of 2012" postponed sequestration for two months. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, will incur a two percent reduction in Medicare payment.

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. Long-term care services are reimbursed at a prospectively determined rate per day of care. These rates vary accordingly to a patient classification system. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. This basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

The following illustrates the Hospital's gross patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 5,657,122	5,842,285
Outpatient	18,184,043	17,549,021
Long-term care	1,941,559	1,811,598
Clinic	2,102,090	1,680,447
Home health	148,582	188,986
Total gross patient service revenue	<u>28,033,396</u>	<u>27,072,337</u>
Deductions from patient service revenue:		
Medicare	4,681,350	3,915,289
Medicaid	887,222	1,227,777
Other payors	3,252,743	2,596,135
Charity care	178,399	63,735
Total deductions from patient service revenue	<u>8,999,714</u>	<u>7,802,936</u>
Net patient service revenue before provision for bad debt	<u>\$ 19,033,682</u>	<u>19,269,401</u>

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 48% and 14%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2013 compared to 48% for Medicare and 12% for Medicaid in 2012. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2013 and 2012 net patient service revenue increased approximately \$235,000 and the 2012 net patient service revenue decreased approximately \$71,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years no longer subject to audits, review, and investigations.

(4) Other Operating Revenue

Other operating revenue for the years ended June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Home health grant revenue:		
Davis County	\$ 25,342	12,795
Iowa Department of Public Health	--	63,440
Other funding	75,006	77,367
Cafeteria	102,484	109,469
Contracted physician services	61,920	64,800
Contributions	45,125	--
Grant revenue	44,058	12,685
Catholic Health Initiative subsidy	39,112	--
Ambulance subsidy, Davis County	25,000	25,000
Insurance proceeds	21,481	--
EHR incentive	--	1,696,153
Dietary consultant services	3,060	7,710
Rent income	8,560	2,046
Gain (loss) on disposal of capital assets	(38,270)	853
Other operating revenue	<u>5,561</u>	<u>25,297</u>
	<u>\$ 418,439</u>	<u>2,097,615</u>

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2012, the Hospital qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2016. The incentive amount is computed using several elements, one of which includes using the value of un-depreciated assets required to implement the EHR system. The Hospital has elected to record \$1,696,153 of the Medicare and Medicaid incentive payments in 2012 as other operating revenue in the period earned.

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

(5) Composition of Patient Receivables

Patient receivables as of June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Patient receivables	\$ 3,637,639	4,221,055
Less estimated third-party contractual adjustments	(913,000)	(955,000)
Less allowance for doubtful accounts	<u>(160,000)</u>	<u>(331,000)</u>
	<u>\$ 2,564,639</u>	<u>2,935,055</u>

The Hospital is located in Bloomfield, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2013</u>	<u>2012</u>
Medicare	41%	31%
Medicaid	9	13
BCBS	16	18
Other third-party payors	12	16
Private payors	<u>22</u>	<u>21</u>
	<u>100%</u>	<u>100%</u>

(6) Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012 were as follows:

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 210,577	--	25,487	236,064
Construction in progress	64,973	173,769	(83,871)	154,871
Total capital assets, not being depreciated	<u>275,550</u>	<u>173,769</u>	<u>(58,384)</u>	<u>390,935</u>
Capital assets, being depreciated:				
Land improvements	1,554,265	--	6,596	1,560,861
Buildings and fixed equipment	19,755,046	5,757	(152,802)	19,608,001
Major moveable equipment	8,389,082	32,674	(189,685)	8,232,071
Total capital assets, being depreciated	<u>29,698,393</u>	<u>38,431</u>	<u>(335,891)</u>	<u>29,400,933</u>
Less accumulated depreciation:				
Land improvements	345,335	115,723	(11,952)	449,106
Buildings and fixed equipment	9,590,045	979,069	(155,987)	10,413,127
Major moveable equipment	4,870,924	1,341,556	(188,042)	6,024,438
Total accumulated depreciation	<u>14,806,304</u>	<u>2,436,348</u>	<u>(355,981)</u>	<u>16,886,671</u>
Total capital assets, being depreciated, net	<u>14,892,089</u>	<u>(2,397,917)</u>	<u>20,090</u>	<u>12,514,262</u>
Total capital assets, net	<u>\$ 15,167,639</u>	<u>(2,224,148)</u>	<u>(38,294)</u>	<u>12,905,197</u>

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

	June 30, 2011	Additions	Transfers and Disposals	June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 215,184	1	(4,608)	210,577
Construction in progress	109,308	356,266	(400,601)	64,973
Total capital assets, not being depreciated	<u>324,492</u>	<u>356,267</u>	<u>(405,209)</u>	<u>275,550</u>
Capital assets, being depreciated:				
Land improvements	1,566,142	(11,877)	--	1,554,265
Buildings and fixed equipment	19,698,741	(31,934)	88,239	19,755,046
Major moveable equipment	7,973,644	103,076	312,362	8,389,082
Total capital assets, being depreciated	<u>29,238,527</u>	<u>59,265</u>	<u>400,601</u>	<u>29,698,393</u>
Less accumulated depreciation:				
Land improvements	227,563	117,772	--	345,335
Buildings and fixed equipment	8,604,893	985,152	--	9,590,045
Major moveable equipment	3,574,315	1,296,609	--	4,870,924
Total accumulated depreciation	<u>12,406,771</u>	<u>2,399,533</u>	<u>--</u>	<u>14,806,304</u>
Total capital assets, being depreciated, net	<u>16,831,756</u>	<u>(2,340,268)</u>	<u>400,601</u>	<u>14,892,089</u>
Total capital assets, net	<u>\$ 17,156,248</u>	<u>(1,984,001)</u>	<u>(4,608)</u>	<u>15,167,639</u>

Depreciation expense for the years ending June 30, 2013 and 2012 amounted to \$2,436,348 and \$2,399,533, respectively.

Construction in progress at June 30, 2013 consists of costs of relating to lab equipment, which was put into operations subsequent to year-end, and costs relating to preliminary stages of physicians clinic remodeling project. The project is part of master facility plan that is still in the planning phase.

(7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2013 and 2012 consisted of the following:

	June 30, 2012	Borrowings	Payments	June 30, 2013	Due Within One Year
Hospital revenue bonds, Series 1998 (A)	\$ 4,940,000	--	(4,940,000)	--	--
Hospital revenue bonds, Series 2009 (B)	6,725,000	--	(255,000)	6,470,000	255,000
Hospital revenue bonds, Series 2012 (C)	5,160,000	--	(385,000)	4,775,000	430,000
Total bonds payable	<u>16,825,000</u>	<u>--</u>	<u>(5,580,000)</u>	<u>11,245,000</u>	<u>685,000</u>
Note payable, finance company (D)	1,223,773	--	(292,825)	930,948	310,855
Note payable, finance company (E)	320,000	--	(40,000)	280,000	40,000
Total notes payable	<u>1,543,773</u>	<u>--</u>	<u>(332,825)</u>	<u>1,210,948</u>	<u>350,855</u>
Capital lease obligations (F)	561,111	57,434	(216,004)	402,541	221,617
	18,929,884	57,434	(6,128,829)	12,858,489	1,257,472
Less: Unamortized bond discount	(130,388)	--	13,193	(117,195)	--
Less: Unamortized deferred loss	(150,043)	--	20,094	(129,949)	--
	<u>\$ 18,649,453</u>	<u>57,434</u>	<u>(6,095,542)</u>	<u>12,611,345</u>	<u>1,257,472</u>

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

	June 30, 2011	Borrowings	Payments	June 30, 2012	Due Within One Year
Hospital revenue bonds, Series 1998 (A)	\$ 5,255,000	--	(315,000)	4,940,000	4,940,000
Hospital revenue bonds, Series 2009 (B)	6,965,000	--	(240,000)	6,725,000	255,000
Hospital revenue bonds, Series 2012 (C)	--	5,160,000	--	5,160,000	385,000
Total bonds payable	<u>12,220,000</u>	<u>5,160,000</u>	<u>(555,000)</u>	<u>16,825,000</u>	<u>5,580,000</u>
Note payable, finance company (D)	1,473,036	--	(249,263)	1,223,773	292,825
Note payable, finance company (E)	360,000	--	(40,000)	320,000	40,000
Total notes payable	<u>1,833,036</u>	<u>--</u>	<u>(289,263)</u>	<u>1,543,773</u>	<u>332,825</u>
Capital lease obligations (F)	755,443	--	(194,332)	561,111	199,215
	14,808,479	5,160,000	(1,038,595)	18,929,884	6,112,040
Less: Unamortized bond discount	(187,981)	(56,760)	114,353	(130,388)	--
Less: Unamortized deferred loss	--	(150,043)	--	(150,043)	--
	<u>\$ 14,620,498</u>	<u>4,953,197</u>	<u>(924,242)</u>	<u>18,649,453</u>	<u>6,112,040</u>

- (A) The Hospital issued \$8,300,000 of Hospital Revenue Bonds, Series 1998. The proceeds of these bonds were used to finance Hospital building improvements. The Series 1998 bonds bear interest at rates ranging from 5.100% to 5.625%. During the fiscal year ending June 30, 2013, these bonds were paid in full through proceeds from the Series 2012 bonds (C).
- (B) The Hospital issued \$7,195,000 of Hospital Revenue Bonds, Series 2009. The proceeds of these bonds were used to finance Hospital building improvements. The Series 2009 bonds bear interest at rates ranging from 3.500% to 6.500%. Semi-annual principal payments are due in amounts ranging from \$230,000 to \$1,180,000 through September 2025.
- (C) Hospital Revenue Bonds, Series 2012. The proceeds of these bonds were used to refund the Series 1998 bonds. The Series 2009 bonds bear interest at rates ranging from 0.800% to 4.000%. Annual principal payments are due in amounts ranging from \$385,000 to \$490,000 through September 2023.
- (D) Promissory note payable, 5.99%, secured by equipment, payable in monthly installments of \$29,848, including interest, through June 2016.
- (E) Promissory note payable, 0%, to Citizens Mutual Telephone Cooperative, secured by equipment, payable in annual installments of \$40,000, through December 2020.
- (F) Capital lease obligations, at varying rates of imputed interest from 5.568% to 10.065%, collateralized by leased equipment with a cost of \$1,016,300 and a net book value of \$423,311, payable in lease specific monthly or quarterly installments, including interest, maturing at various times from December 2013 through November 2015.

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

A summary of the Hospital's future principal and interest payments as of June 30, 2013 is as follows:

Year Ending	Bonds and Notes Payable		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 1,035,855	534,509	221,617	14,559	1,257,472	549,068
2015	1,069,995	499,579	173,521	4,372	1,243,516	503,951
2016	1,014,266	461,455	7,403	103	1,021,669	461,558
2017	815,832	429,304	--	--	815,832	429,304
2018	810,000	403,463	--	--	810,000	403,463
2019-2023	4,425,000	1,421,290	--	--	4,425,000	1,421,290
2024-2028	3,285,000	413,290	--	--	3,285,000	413,290
	<u>\$ 12,455,948</u>	<u>4,162,890</u>	<u>402,541</u>	<u>19,034</u>	<u>12,858,489</u>	<u>4,181,924</u>

Under the terms of the Series 2009 and Series 2012 Hospital Revenue Bonds trust indentures, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use or restricted in the accompanying financial statements. The terms of the trust indentures contain affirmative and negative covenants, requiring, among other things, certain periodic reporting, compliance items, financial covenants and restrictions on additional borrowings. The trust indenture contains affirmative covenants that require the Hospital to maintain days cash on hand of not less than 60 days and a minimum debt service coverage ratio of not less than 1.25 to 1.00. At June 30, 2013, the Hospital did not meet the minimum debt service coverage ratio.

Based upon not meeting the minimum debt service coverage ratio, the trust indenture requires the Hospital to retain an independent consultant to make recommendations with respect to the rates, fees and charges of the Hospital and methods of operation and other factors affecting its financial condition in order to increase their minimum debt service coverage ratio to 1.25 to 1.00. So long as the Hospital retains an independent consultant and complies with their recommendations and the minimum debt service coverage ratio is not less than 1.00, then no event of default shall have occurred, so long as all required payments are being made.

(8) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$2,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare 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.

(9) Pension Plan

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

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

Plan members are required to contribute 5.78% and 5.38% of their annual salary and the Hospital is required to contribute 8.67% and 8.07% of annual covered payroll for the years ended June 30, 2013 and 2012, respectively. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were approximately \$630,000, \$568,000, and \$518,000, respectively, equal to the required contributions for each year.

(11) Other Postemployment Benefits (OPEB)

Plan Description – The Hospital sponsors a postretirement medical plan that provides post-termination medical insurance coverage for the participant and the participant's family through the age of 65. The employees eligible under this policy are all employees who terminate employment at or after age 60 with at least 7 consecutive 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).

Funding Policy – 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 Hospital is currently using a pay-as-you-go method of benefit financing. The Hospital made no contributions to the plan during the years ended June 30, 2013 and 2012.

Annual OPEB Cost and Net OPEB Obligation – The Hospital's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Hospital, an amount actuarially determined in accordance with 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 expense for the year, the amount actuarially contributed to the plan, and changes in the Hospital's annual OPEB obligation:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 87,935	81,382
Adjustment to ARC	(19,408)	(39,293)
Interest on net OPEB obligation	<u>5,464</u>	<u>4,576</u>
Annual OPEB expense	73,991	46,665
Implicit contributions	<u>(14,471)</u>	<u>(11,148)</u>
Increase in net OPEB obligation	59,520	35,517
Net OPEB obligation, beginning of year	<u>218,575</u>	<u>183,058</u>
Net OPEB obligation, end of year	<u>\$ 278,095</u>	<u>218,575</u>

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

The Hospital's annual OPEB cost, the percentage of annual OPEB contributed to the plan, and the net OPEB obligations for fiscal year 2013 is as follows. The year ended June 30, 2009 was the transition year:

<u>Year Ending</u>		<u>Annual OPEB Cost</u>	<u>Percent of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$	73,991	--	278,095
2012		46,665	--	218,575
2011		61,141	--	183,058
2010		64,035	--	121,917
2009		57,882	--	57,882

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$450,329, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$450,329. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$7,100,000 and the ratio of the UAAL to covered payroll was 6.65%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions - 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 assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2011 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the Hospital's funding policy. The projected annual health cost trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

The UAAL is being amortized in level dollar amounts on an open basis over 30 years.

(11) **Self-Funded Insurance**

The Hospital has established a self-funded employee dental and vision insurance fund. All employees' payroll withholdings for dental and vision insurance and the Hospital's contributions are deposited into a separate depository account. Under the self-insured plan, the Hospital pays claims from this fund, up to certain limits, and carries stop loss insurance for claims in excess of the limits. Stop-loss coverage is provided through a commercial insurance company. The Hospital incurred dental and vision insurance expenses of \$51,342 and \$59,902 as of June 30, 2013 and 2012, respectively.

Davis County Hospital

Notes to Financial Statements June 30, 2013 and 2012

(12) Foundation

Davis County Hospital Endowment Foundation (Foundation) was established to raise funds exclusively for the benefit of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore the Foundation is not reported as a component unit of the Hospital.

A summary of the Foundation's assets, liabilities and net assets as of June 30, 2013 and 2012 follows:

	<u>(Unaudited)</u>	
	<u>2013</u>	<u>2012</u>
Assets	\$ <u>118,409</u>	<u>105,550</u>
Net assets	\$ <u>118,409</u>	<u>105,550</u>

The Hospital received \$4,507 and \$17,187 from the Foundation during the years ended June 30, 2013 and 2012, respectively, for purchase of medical equipment and for operating purposes.

(13) Management Services and Affiliation Agreement

The Hospital is a provider of healthcare services as a Critical Access Hospital. On November 1, 2012, the Hospital entered into a management services and affiliation agreement with Mercy Health Network, Inc. Administration and support services fees of \$255,929 were incurred for the year ended June 30, 2013.

(14) Contingencies

The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

(15) Sufficient Estimates and Concentrations

Current Economic Conditions

The current protracted economic environment continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in 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 rising unemployment rates, have made it difficult for certain 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 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

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Accrual Basis) June 30, 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2013, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Budgeted Accrual Amounts	Variance Favorable (Unfavorable)
Estimated amount raised by taxation	\$ 1,078,684	1,060,707	17,977
Estimated other revenues	<u>18,911,379</u>	<u>21,398,867</u>	<u>(2,487,488)</u>
	19,990,063	22,459,574	(2,469,511)
Expenses	<u>21,086,242</u>	<u>22,459,494</u>	<u>1,373,252</u>
Net	(1,096,179)	80	<u><u>(1,096,259)</u></u>
Balance, beginning of year	<u>11,096,597</u>	<u>10,553,011</u>	
Balance, end of year	\$ <u><u>10,000,418</u></u>	<u><u>10,553,091</u></u>	

See accompanying independent auditor's report

Davis County Hospital

**Schedule of Funding Progress for the Retiree Health Plan
June 30, 2013**

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 % of Covered Payroll [(b-a)/c]
2013	07/01/2011	\$ --	\$ 470,308	\$ 470,308	-- %	\$ 7,067,142	6.65%
2012	07/01/2011	--	470,308	470,308	--	7,026,972	6.69%
2011	07/01/2008	--	696,571	696,571	--	7,115,857	9.79%
2010	07/01/2008	--	696,571	696,571	--	6,524,202	10.68%
2009	07/01/2008	--	696,571	696,571	--	5,908,802	11.79%

See accompanying independent auditor's report

**Patient Service Revenue
For the Years Ended June 30, 2013 and 2012**

	2013			2012		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
NURSING SERVICES:						
Long term care	\$ 1,940,287	1,272	1,941,559	1,809,723	1,875	1,811,598
Acute patients	668,585	--	668,585	844,280	--	844,280
Swing-bed	379,504	--	379,504	617,032	--	617,032
Observation	--	190,817	190,817	--	187,112	187,112
Nursery	54,273	1,080	55,353	56,263	514	56,777
	<u>3,042,649</u>	<u>193,169</u>	<u>3,235,818</u>	<u>3,327,298</u>	<u>189,501</u>	<u>3,516,799</u>
OTHER PROFESSIONAL SERVICES:						
Operating room	2,313,262	2,709,857	5,023,119	1,524,905	2,629,050	4,153,955
Radiology	304,140	4,405,865	4,710,005	392,842	4,641,859	5,034,701
Laboratory	318,562	2,790,094	3,108,656	381,749	2,480,523	2,862,272
Emergency room	4,333	3,043,405	3,047,738	3,717	3,062,666	3,066,383
Drugs	780,698	1,779,467	2,560,165	1,083,539	1,849,929	2,933,468
Clinic	--	2,102,090	2,102,090	--	1,680,447	1,680,447
Physical therapy	344,968	1,291,385	1,636,353	312,013	868,443	1,180,456
Respiratory therapy	275,252	557,150	832,402	410,825	541,551	952,376
Ambulance	5,722	637,216	642,938	32	617,379	617,411
Intravenous therapy	--	481,168	481,168	--	336,479	336,479
Anesthesiology	72,923	195,688	268,611	84,396	181,883	266,279
Home health	--	148,582	148,582	--	188,986	188,986
Medical supplies	50,803	69,335	120,138	59,503	98,536	158,039
Delivery and labor room	79,612	24,027	103,639	64,197	41,736	105,933
Speech therapy	4,485	7,489	11,974	6,992	11,361	18,353
	<u>4,554,760</u>	<u>20,242,818</u>	<u>24,797,578</u>	<u>4,324,710</u>	<u>19,230,828</u>	<u>23,555,538</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>7,597,409</u>	<u>20,435,987</u>	28,033,396	<u>7,652,008</u>	<u>19,420,329</u>	27,072,337
DEDUCTIONS FROM PATIENT SERVICE REVENUE:						
Medicare and Medicaid			(5,568,572)			(5,143,065)
Other adjustments			(3,252,743)			(2,596,136)
Charity care			(178,399)			(63,735)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			19,033,682			19,269,401
Provision for bad debts			(607,581)			(830,630)
NET PATIENT SERVICE REVENUE			\$ <u>18,426,101</u>			<u>18,438,771</u>

See accompanying independent auditor's report

**Other Operating Revenue
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Home health grant revenue:		
Davis County	\$ 25,342	12,795
Iowa Department of Public Health	--	63,440
Other funding	75,006	77,367
Cafeteria	102,484	109,469
Contracted physician services	61,920	64,800
Contributions	45,125	--
Grant revenue	44,058	12,685
Catholic Health Initiative subsidy	39,112	--
Ambulance subsidy, Davis County	25,000	25,000
Insurance proceeds	21,481	--
EHR incentive	--	1,696,153
Dietary consultant services	3,060	7,710
Rent income	8,560	2,046
Gain (loss) on disposal of capital assets	(38,270)	853
Other operating revenue	<u>5,561</u>	<u>25,297</u>
	<u>\$ 418,439</u>	<u>2,097,615</u>

See accompanying independent auditor's report

Departmental Expenses
For the Years Ended June 30, 2013 and 2012

	2013			2012		
	Salaries	Other	Total	Salaries	Other	Total
NURSING SERVICES:						
Acute patients	\$ 839,795	212,450	1,052,245	926,663	289,102	1,215,765
Nursery	10,969	1,749	12,718	7,949	1,287	9,236
Long term care	697,267	192,324	889,591	670,354	188,038	858,392
	<u>1,548,031</u>	<u>406,523</u>	<u>1,954,554</u>	<u>1,604,966</u>	<u>478,427</u>	<u>2,083,393</u>
OTHER PROFESSIONAL SERVICES:						
Operating room	424,530	939,126	1,363,656	472,242	673,010	1,145,252
Delivery and labor room	9,217	2,714	11,931	3,653	374	4,027
Anesthesiology	--	191,573	191,573	--	196,046	196,046
Radiology	256,219	570,556	826,775	264,118	632,604	896,722
Laboratory	234,855	508,563	743,418	228,627	480,383	709,010
Respiratory therapy	114,620	122,753	237,373	99,383	119,642	219,025
Physical therapy	8,687	509,466	518,153	7,857	509,834	517,691
Speech therapy	--	5,315	5,315	--	8,012	8,012
Medical supplies	--	35,149	35,149	--	75,487	75,487
Central supply	91,692	23,631	115,323	95,671	22,621	118,292
Drugs	--	576,226	576,226	--	596,703	596,703
Pharmacy	181,098	51,643	232,741	166,685	71,997	238,682
Ambulance	93,687	76,622	170,309	92,728	48,572	141,300
Emergency room	609,552	1,154,708	1,764,260	580,651	1,192,698	1,773,349
Home health	164,223	65,453	229,676	248,112	99,557	347,669
Clinic	1,357,216	694,198	2,051,414	1,141,415	634,984	1,776,399
	<u>3,545,596</u>	<u>5,527,696</u>	<u>9,073,292</u>	<u>3,401,142</u>	<u>5,362,524</u>	<u>8,763,666</u>
GENERAL SERVICES:						
Plant operations	244,989	551,146	796,135	260,092	579,577	839,669
Dietary	234,666	445,231	679,897	214,883	560,874	775,757
Housekeeping	258,436	228,014	486,450	221,797	265,275	487,072
Laundry	24,599	77,907	102,506	23,769	82,449	106,218
	<u>762,690</u>	<u>1,302,298</u>	<u>2,064,988</u>	<u>720,541</u>	<u>1,488,175</u>	<u>2,208,716</u>
ADMINISTRATIVE SERVICES						
Administrative	629,066	1,162,979	1,792,045	714,691	1,098,539	1,813,230
Employee benefits	--	974,041	974,041	--	992,593	992,593
Information technology	272,000	627,450	899,450	77,745	620,820	698,565
Patient financial services	489,579	195,486	685,065	455,320	245,007	700,327
Medical records	322,824	85,137	407,961	299,064	80,870	379,934
Nursing administration	126,398	32,019	158,417	120,288	33,513	153,801
	<u>1,839,867</u>	<u>3,077,112</u>	<u>4,916,979</u>	<u>1,667,108</u>	<u>3,071,342</u>	<u>4,738,450</u>
NONDEPARTMENTAL:						
Depreciation and amortization	--	2,488,714	2,488,714	--	2,426,346	2,426,346
Interest	--	587,715	587,715	--	778,548	778,548
	<u>--</u>	<u>3,076,429</u>	<u>3,076,429</u>	<u>--</u>	<u>3,204,894</u>	<u>3,204,894</u>
TOTAL EXPENSES	\$ <u>7,696,184</u>	<u>13,390,058</u>	<u>21,086,242</u>	<u>7,393,757</u>	<u>13,605,362</u>	<u>20,999,119</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
June 30, 2013 and 2012**

ANALYSIS OF AGING:

Days Since Discharge	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
0-30	\$ 1,714,590	47.13 %	1,852,865	43.90 %
31-60	561,928	15.45	537,661	12.74
61-90	468,198	12.87	375,650	8.90
91-120	225,823	6.21	212,010	5.02
121 and over	667,101	18.34	1,242,869	29.44
	<u>3,637,639</u>	<u>100.00 %</u>	<u>4,221,055</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(160,000)		(331,000)	
Allowance for contractual adjustments	<u>(913,000)</u>		<u>(955,000)</u>	
	<u>\$ 2,564,639</u>		<u>2,935,055</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ (331,000)		(382,000)	
Provision of uncollectible accounts	607,581		830,630	
Recoveries of accounts previously written off	241,621		160,895	
Accounts written off	<u>(1,020,202)</u>		<u>(1,042,525)</u>	
Balance, end of year	<u>\$ (160,000)</u>		<u>(331,000)</u>	

See accompanying independent auditor's report

Inventory/Prepaid Expenses
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
INVENTORY:		
Central supply	\$ 230,905	285,379
Pharmacy	192,593	176,654
Laboratory	18,701	18,621
Dietary	16,574	14,827
Fuel oil	<u>9,851</u>	<u>10,906</u>
	<u>\$ 468,624</u>	<u>506,387</u>
PREPAID EXPENSES:		
Insurance	\$ 11,141	16,472
Service contracts	102,164	102,827
Dues	9,597	10,570
Maintenance and other	<u>33,458</u>	<u>35,424</u>
	<u>\$ 156,360</u>	<u>165,293</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Patient days:		
Adult and pediatric -		
Medicare	502	722
All other	305	437
Swing-bed -		
Skilled	577	1,004
Intermediate	19	27
Newborn	50	58
Long-term care	10,728	10,563
Total	<u>12,162</u>	<u>12,811</u>
Patient discharges:		
Hospital adult and pediatric -		
Medicare	162	225
All other	112	154
Total	<u>274</u>	<u>379</u>
Average length of stay (based on discharge days):		
Hospital adult and pediatric -		
Medicare	3.1	3.2
All other	2.7	2.8
Surgical procedures	493	467
Emergency room visits	3,416	3,493
Number of employees - full-time equivalents	161.78	157.67

See accompanying independent auditor's report

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

To the Board of Trustees
Davis County Hospital
Bloomfield, IA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Davis County Hospital (Hospital) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Seim Johnson, LLP

Omaha, Nebraska,
October 21, 2013.

Davis County Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Part II: Findings Related to the Financial Statements

II-A-13 *Internal control deficiencies:*

No matters were reported.

Instances of Non-Compliance:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-13 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2013.

III-B-13 Certified Budget: Hospital disbursements during the year ended June 30, 2013 did not exceed amounts budgeted.

III-C-13 Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-13 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

III-E-13 Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

III-F-13 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-13 Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

III-H-13 Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Davis County Hospital

**Audit Staff
For the Year Ended June 30, 2013**

This audit was performed by:

Randy D. Hoffman, FHFMA, CPA, Partner

Darren R. Osten, FHFMA, CPA, Partner

Jeremy J. Behrens, FHFMA, CPA, Senior Manager

Samantha J. Schuett, CPA, In-Charge