

Davis County Hospital
Bloomfield, Iowa

**Financial Statements and
Supplementary Information
June 30, 2014 and 2013**

Together with Independent Auditor's Report

Davis County Hospital

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Davis County Hospital

Officials
June 30, 2014

<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
Kevin Cook	Vice-Chairperson	December 2018
Tami Weillbrenner	Secretary/Treasurer	December 2016
Dan Thompson	Member	December 2018
Janis Wettrich	Member	December 2014
Anne Morgan	Member	December 2014
Russell Jarvis	Member	December 2016
Hospital Officials:		
Mike Trachta	Interim Chief Executive Officer	Indefinite
Kendra Warning	Chief Financial 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 years ended June 30, 2014 and 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 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 audits 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 Hospital'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 Hospital'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 Davis County Hospital as of June 30, 2014 and 2013, and the respective changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014 the Hospital adopted new accounting guidance to reflect the provisions of Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

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 (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 (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 September 29, 2014 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,
September 29, 2014.

Davis County Hospital

Management's Discussion and Analysis June 30, 2014 and 2013

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, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents decreased between 2014 and 2013 by \$845,719 or 17% and increased between 2013 and 2012 by \$28,884 or 1%.
- The Hospital's net position decreased \$1,024,616 or 10% in 2014 and decreased \$1,243,330 or 11% in 2013.
- The Hospital reported an operating loss of \$2,280,288 in 2014 and an operating loss of \$2,221,727 in 2013.

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, deferred outflows, liabilities, and deferred inflows 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, deferred outflows, liabilities, and deferred inflows – 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, 2014 and 2013

The Hospital's Net Position

The Hospital's net position is the difference between its assets, deferred outflows, liabilities, and deferred inflows reported in the statement of net position. The Hospital's net position decreased by \$1,024,616 or 10% in 2014 compared to 2013 and decreased by \$1,243,330 or 11% in 2013 compared to 2012 as shown in Table 1.

	<u>2014</u>	<u>2013 Restated</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets:					
Patient accounts receivable, net	\$ 2,674,320	2,564,639	2,935,055	109,681	4%
Other current assets	7,619,865	7,860,471	12,437,746	(240,606)	-3%
Capital assets, net	11,846,550	12,905,197	15,167,639	(1,058,647)	-8%
Other noncurrent assets	<u>1,271,980</u>	<u>2,163,248</u>	<u>2,509,363</u>	<u>(891,268)</u>	<u>-41%</u>
Total assets	<u>23,412,715</u>	<u>25,493,555</u>	<u>33,049,803</u>	<u>(2,080,840)</u>	<u>-8%</u>
Liabilities:					
Current liabilities	2,973,001	2,892,555	8,124,096	80,446	3%
Other postemployment benefits	338,834	278,095	218,575	60,739	22%
Long-term debt	<u>10,142,500</u>	<u>11,353,873</u>	<u>12,537,413</u>	<u>(1,211,373)</u>	<u>-11%</u>
Total liabilities	<u>13,454,335</u>	<u>14,524,523</u>	<u>20,880,084</u>	<u>(1,070,188)</u>	<u>-7%</u>
Deferred Inflows of Resources,					
Unavailable property tax revenue	<u>1,129,729</u>	<u>1,115,765</u>	<u>1,073,122</u>	<u>13,964</u>	<u>1%</u>
Net Position:					
Net investment in capital assets	460,534	293,852	1,458,186	166,682	57%
Restricted	2,006,650	2,198,411	7,436,102	(191,761)	-9%
Unrestricted	<u>6,361,467</u>	<u>7,361,004</u>	<u>2,202,309</u>	<u>(999,537)</u>	<u>-14%</u>
Total net position	<u>\$ 8,828,651</u>	<u>9,853,267</u>	<u>11,096,597</u>	<u>(1,024,616)</u>	<u>-10%</u>

Year ended June 30, 2014: In fiscal year 2014, the total assets decreased by \$2,080,840 or 8%. This was primarily caused by an increase in accumulated depreciation on capital assets of \$2,380,554. In fiscal year 2014, the total liabilities decreased by \$1,070,188 or 7% mainly due payments made on long-term debt.

Year ended June 30, 2013: In fiscal year 2013, the total assets decreased by \$7,556,248 or 23%. 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 on capital assets of \$2,080,367. In fiscal year 2013, the total liabilities decreased by \$6,355,561 or 30% mainly due to the timing of refunding of the Series 1998 Revenue Bonds.

Davis County Hospital

Management's Discussion and Analysis June 30, 2014 and 2013

Operating Results and Changes in the Hospital's Net Position

In fiscal year 2014 the Hospital's net position decreased by \$1,024,616 and in fiscal year 2013 the Hospital's net position decreased by \$1,243,330 as shown in Table 2. This decrease is made up of several different components.

	<u>2014</u>	<u>2013 Restated</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenue:					
Net patient service revenue	\$ 18,281,273	18,426,101	18,438,771	(144,828)	-1%
Electronic health record incentive payment	419,761	--	1,696,153	419,761	100%
Other operating revenues	1,141,673	418,439	401,462	723,234	173%
Total operating revenue	<u>19,842,707</u>	<u>18,844,540</u>	<u>20,536,386</u>	<u>998,167</u>	<u>5%</u>
Operating Expenses:					
Salaries, wages and employee benefits	9,790,146	9,863,571	9,501,022	(73,425)	-1%
Purchased services and professional fees	4,868,339	4,245,253	4,761,197	623,086	15%
Depreciation and amortization	2,528,026	2,468,739	2,426,346	59,287	2%
Interest	544,232	587,715	778,548	(43,483)	-7%
Other operating	4,392,252	3,900,989	3,532,006	491,263	13%
Total operating expenses	<u>22,122,995</u>	<u>21,066,267</u>	<u>20,999,119</u>	<u>1,056,728</u>	<u>5%</u>
Operating Loss	<u>(2,280,288)</u>	<u>(2,221,727)</u>	<u>(462,733)</u>	<u>(58,561)</u>	<u>3%</u>
Nonoperating Revenue:					
Property taxes	1,121,614	1,078,684	966,017	42,930	4%
Investment income	45,503	47,120	56,348	(1,617)	-3%
Total nonoperating revenue	<u>1,167,117</u>	<u>1,125,804</u>	<u>1,022,365</u>	<u>41,313</u>	<u>4%</u>
Excess of Revenue Over (Under) Expenses Before Capital Grants and Contributions	(1,113,171)	(1,095,923)	559,632	(17,248)	2%
Capital Grants and Contributions	<u>88,555</u>	<u>19,719</u>	<u>28,813</u>	<u>68,836</u>	<u>349%</u>
(Decrease) Increase in Net Position	<u>(1,024,616)</u>	<u>(1,076,204)</u>	<u>588,445</u>	<u>51,588</u>	<u>-5%</u>
Net position, beginning of year, as previously reported	9,853,267	11,096,597	10,508,152	(1,243,330)	-11%
Cumulative effect of accounting change	--	(167,126)	--	167,126	-100%
Net position, beginning of year, as rested	<u>9,853,267</u>	<u>10,929,471</u>	<u>10,508,152</u>	<u>(1,076,204)</u>	<u>-10%</u>
Net position, end of year	<u>\$ 8,828,651</u>	<u>9,853,267</u>	<u>11,096,597</u>	<u>(1,024,616)</u>	<u>-10%</u>

Operating Loss

The first component of the overall change in the Hospital's net position is its operating loss, generally the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In 2014 the Hospital reported an operating loss of \$2,280,288 and in 2013 and 2012 the Hospital reported operating losses of \$2,221,727 and \$462,733, respectively. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The primary components causing the increases in operating loss in 2014 and 2013 are as follows:

- In fiscal year 2014, there was \$713,306 in other operating revenue and \$504,519 in other operating revenue associated with the 340B drug pricing program. Additional assets were claimed as Electronic Health Record assets resulting in an incentive of \$419,761 being reported in operating revenue. The positive results from the Medicare incentive and the 340B drug pricing program were offset by increases in purchased services and professional fees of \$623,086 primarily due to added specialty clinic providers, increased emergency room coverage rates, and the accrual of a severance package.

Davis County Hospital

Management's Discussion and Analysis June 30, 2014 and 2013

- In fiscal year 2013, there was depreciation expense for Electronic Health Record assets without incentive monies to help offset the expense as the Medicare incentive of \$1,577,553 was recognized as operating revenue in fiscal year 2012. Also, Medicare reopened prior year cost reports to remove home office costs resulting in \$143,000 of reduced reimbursement in fiscal year 2013.

Nonoperating Revenue

Nonoperating revenue consists primarily of property taxes levied by the Hospital and interest income. Nonoperating income in 2014 increased by \$41,313, or 4%, as compared to 2013. Nonoperating revenue for 2013 increased by \$103,439 or 10% compared to 2012. The increase in 2014 and 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, 2014: The Hospital's combined cash, investments, and assets limited as to use decreased by \$1,020,537 in 2014 as compared to 2013. The primary reason for the decrease is the cash basis purchase of capital assets of \$1,438,023 in 2014 compared to \$153,846 in 2013. 2014 capital asset purchases included Electronic Health Record assets, an ambulance, and an adjacent property.

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 party payors of \$1,496,063, or 8%, as compared to 2012.

Capital Asset and Debt Administration

Capital Assets

June 30, 2014: At the end of fiscal year 2014, the hospital had \$11,846,550 invested in capital assets, net of accumulated depreciation. In fiscal year 2014, the hospital had \$2,495,881 in depreciation expense and purchased \$1,438,023 in new fixed assets. The fixed asset purchases mainly consisted of Electronic Health Record assets, an ambulance, and an adjacent property as noted above.

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 2014 mainly consisted of information technology room remodel, obstetric patient bed, air handler unit repair and software purchases for the electronic health record.

Debt

June 30, 2014: At June 30, 2014, the Hospital had \$11,601,015 in hospital revenue bonds, notes payable and capital leases outstanding. No new debt was issued in 2014.

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.

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, 2014 and 2013

	<u>2014</u>	<u>2013 Restated</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,008,889	4,854,608
Short-term investments	706,899	--
Assets limited as to use or restricted, current portion	760,239	750,688
Receivables -		
Patients, net of allowance for doubtful accounts of \$220,000 in 2014 and \$160,000 in 2013	2,674,320	2,564,639
Succeeding year property taxes receivable	1,129,729	1,115,765
Other	165,929	164,426
Inventories	496,874	468,624
Prepaid expenses	229,420	156,360
Estimated third-party payor settlements	121,886	350,000
Total current assets	<u>10,294,185</u>	<u>10,425,110</u>
Investments	--	697,137
Assets limited as to use or restricted, net of current portion	1,271,980	1,466,111
Capital assets, net	<u>11,846,550</u>	<u>12,905,197</u>
Total assets	<u>23,412,715</u>	<u>25,493,555</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	1,243,516	1,257,472
Accounts payable	517,501	441,890
Accrued salaries, vacation and benefits payable	1,035,256	1,017,275
Accrued interest payable	159,979	164,813
Other accrued expenses	16,749	11,105
Total current liabilities	<u>2,973,001</u>	<u>2,892,555</u>
Long-term liabilities:		
Other postemployment benefits	338,834	278,095
Long-term debt, net of current portion	<u>10,142,500</u>	<u>11,353,873</u>
Total liabilities	<u>13,454,335</u>	<u>14,524,523</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	<u>1,129,729</u>	<u>1,115,765</u>
Commitments and contingencies		
NET POSITION		
Net investment in capital assets	460,534	293,852
Restricted -		
Expendable for debt service	1,488,792	1,471,868
Expendable for specific operating activities	517,858	726,543
Unrestricted	<u>6,361,467</u>	<u>7,361,004</u>
Total net position	<u>\$ 8,828,651</u>	<u>9,853,267</u>

See notes to financial statements

Davis County Hospital

Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> <u>Restated</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 19,123,970	19,033,682
Provision for bad debt	(842,697)	(607,581)
Net patient service revenue	18,281,273	18,426,101
Other operating revenues	1,561,434	418,439
Total operating revenue	<u>19,842,707</u>	<u>18,844,540</u>
OPERATING EXPENSES:		
Salaries and wages	7,537,722	7,696,184
Employee benefits	2,252,424	2,167,387
Purchased services and professional fees	4,868,339	4,245,253
Supplies and other	4,292,374	3,804,541
Depreciation and amortization	2,528,026	2,468,739
Insurance	99,878	96,448
Interest	544,232	587,715
Total operating expenses	<u>22,122,995</u>	<u>21,066,267</u>
OPERATING LOSS	<u>(2,280,288)</u>	<u>(2,221,727)</u>
NONOPERATING REVENUE:		
Property taxes	1,121,614	1,078,684
Investment income	45,503	47,120
Total nonoperating revenue	<u>1,167,117</u>	<u>1,125,804</u>
EXCESS OF REVENUE UNDER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(1,113,171)	(1,095,923)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>88,555</u>	<u>19,719</u>
DECREASE IN NET POSITION	<u>(1,024,616)</u>	<u>(1,076,204)</u>
NET POSITION, beginning of year, as previously reported	9,853,267	11,096,597
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (NOTE 16)	--	(167,126)
NET POSITION, end of year, as restated	<u>9,853,267</u>	<u>10,929,471</u>
NET POSITION, end of year	<u>\$ 8,828,651</u>	<u>9,853,267</u>

See notes to financial statements

Davis County Hospital

Statements of Cash Flows For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> <u>Restated</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 18,399,706	18,321,517
Cash paid for employee salaries and benefits	(9,711,426)	(9,792,913)
Cash paid to suppliers and contractors	(9,282,149)	(8,404,676)
Other receipts and payments, net	<u>1,562,223</u>	<u>456,709</u>
Net cash provided by operating activities	<u>968,354</u>	<u>580,637</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES,		
Property taxes received	<u>1,121,614</u>	<u>1,078,684</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(1,438,023)	(153,846)
Capital grants and contributions	88,555	19,719
Principal payments on long-term debt	(1,257,474)	(6,128,829)
Interest paid on long-term debt	<u>(549,066)</u>	<u>(648,356)</u>
Net cash used in capital and related financing activities	<u>(3,156,008)</u>	<u>(6,911,312)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from investments and assets limited as to use or restricted, net	174,818	5,233,755
Investment income	<u>45,503</u>	<u>47,120</u>
Net cash provided by investing activities	<u>220,321</u>	<u>5,280,875</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(845,719)	28,884
CASH AND CASH EQUIVALENTS - beginning of year	<u>4,854,608</u>	<u>4,825,724</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 4,008,889</u>	<u>4,854,608</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital lease obligation incurred for acquisition of capital assets	<u>\$ --</u>	<u>57,434</u>

See notes to financial statements

Davis County Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u> <u>Restated</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (2,280,288)	(2,221,727)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	2,528,026	2,468,739
Loss on disposal of capital assets	789	38,270
Interest expense	544,232	587,715
(Increase) decrease in current assets -		
Receivables -		
Patients	(109,681)	370,416
Other	(1,503)	(102,660)
Inventories	(28,250)	37,763
Prepaid expenses	(73,060)	8,933
Estimated third-party payor settlements	228,114	(350,000)
Increase (decrease) in liabilities -		
Accounts payable	75,611	(76,064)
Accrued salaries, vacation and benefits payable	17,981	11,138
Other accrued expenses	5,644	(126,406)
Estimated third-party payor settlements	--	(125,000)
Other postemployment benefits	60,739	59,520
Net cash provided by operating activities	<u>\$ 968,354</u>	<u>580,637</u>

See notes to financial statements

Davis County Hospital

Notes to Financial Statements June 30, 2014 and 2013

(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. The Hospital also has related health care ancillary and outpatient services. During 2014, the Hospital discontinued the long-term care program. Prior to this, the Hospital was operating 32 long-term care beds.

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 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.

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.

Davis County Hospital

Notes to Financial Statements June 30, 2014 and 2013

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 basic financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. 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(S).

H. Deferred Inflows of Resources

Deferred inflows of resources consist of succeeding year property taxes receivable which will not be recognized as revenue until the year for which it is levied. It 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

Notes to Financial Statements June 30, 2014 and 2013

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, 2014 and 2013.

K. Investments

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue under 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 under 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 2014 and 2013, 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 under 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, 2014 and 2013

M. 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, 2014 and 2013 was \$444,067 and \$539,548, respectively.

N. 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.

O. 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.

P. 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.

Q. 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 nonoperating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

R. 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.

S. 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 health care 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.

Davis County Hospital

Notes to Financial Statements June 30, 2014 and 2013

T. *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.

U. *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.

V. *Change in Accounting Principle*

During 2014, the Hospital has adopted the provisions of GASB Statement No. 65, which requires reclassification of certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources on the statement of net position. GASB 65 also requires recognition of certain items previously reported as assets and liabilities as outflows of resources or inflows of resources on the statement of revenue, expenses and changes in net position. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The cumulative effect of the accounting change in connection with the implementation of GASB 65 was a reduction of \$167,126 in net position as of the beginning of 2013 (see Note 16).

W. *Subsequent Events*

The Hospital considered events occurring through September 29, 2014 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) **Cash and Investments, Including Assets Limited as to Use or Restricted**

The Hospital's deposits in banks at June 30, 2014 and 2013 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.

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.

The weighted average duration of securities invested in certificate of deposits was 15 months as of June 30, 2014

Davis County Hospital

Notes to Financial Statements June 30, 2014 and 2013

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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Investments (Long-term and Short-term):		
Operating reserves –		
Certificates of deposit	\$ <u>706,899</u>	<u>697,137</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for capital improvements –		
Cash and cash equivalents	<u>25,569</u>	<u>18,389</u>
Under Hospital revenue bonds, Series 2009 and 2012 –		
Debt service reserve fund:		
Cash and cash equivalents	22,397	12,682
Certificates of deposit	<u>724,325</u>	<u>719,500</u>
	746,722	732,182
Interest fund – Cash and cash equivalents	162,199	169,475
Bond sinking fund – Cash and cash equivalents	579,816	570,158
Debt service refunding account –		
Cash and cash equivalents	<u>55</u>	<u>53</u>
Total under hospital revenue bonds	<u>1,488,792</u>	<u>1,471,868</u>
By Donor:		
Cash and cash equivalents	<u>517,858</u>	<u>726,543</u>
Total assets limited as to use or restricted	2,032,219	2,216,799
Less amounts required to meet current obligations	<u>760,239</u>	<u>750,688</u>
Long-term portion	\$ <u>1,271,980</u>	<u>1,466,111</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest income	\$ <u>45,403</u>	<u>47,120</u>

(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, 2012.

Davis County Hospital

Notes to Financial Statements June 30, 2014 and 2013

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.

Commercial - 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>2014</u>	<u>2013</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 5,277,247	5,657,122
Outpatient	20,108,362	18,184,043
Long-term care	975,715	1,941,559
Clinic	2,226,170	2,102,090
Public and home health	107,826	148,582
Total gross patient service revenue	<u>28,695,320</u>	<u>28,033,396</u>
Deductions from patient service revenue:		
Medicare	4,289,298	4,681,350
Medicaid	1,408,627	887,222
Other payors	3,723,821	3,252,743
Charity care	149,604	178,399
Total deductions from patient service revenue	<u>9,571,350</u>	<u>8,999,714</u>
Net patient service revenue before provision for bad debt	<u>\$ 19,123,970</u>	<u>19,033,682</u>

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 accounted for approximately 50% and 13%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2014 and approximately 48% and 13%, respectively for the year ended June 30, 2013. 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. In 2014 and 2013, net patient service revenue increased approximately \$150,000 and \$343,000, respectively, due to removal of allowances previously estimated that are no longer necessary and as a result of final settlements of years that are no longer subject to audits, reviews, and investigations.

Davis County Hospital

Notes to Financial Statements June 30, 2014 and 2013

(4) Other Operating Revenue

Other operating revenue for the years ended June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Public health grant revenue:		
Davis County	\$ 39,308	25,342
Other funding	48,270	75,006
340B drug revenue	689,450	--
EHR incentive	419,761	--
Cafeteria	112,014	102,484
Grant revenue	90,610	44,058
Rent income	31,957	8,560
Ambulance subsidy, Davis County	25,000	25,000
Contracted physician services	4,320	61,920
Contributions	--	45,125
Catholic Health Initiative subsidy	27,252	39,112
Insurance proceeds	--	21,481
Loss on disposal of capital assets	(789)	(38,270)
Other operating revenue	50,425	8,621
	<u>\$ 1,537,578</u>	<u>418,439</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 incentive 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. Amounts due from Medicare for EHR qualifying assets at June 30, 2014 and 2013 were approximately \$629,591 and \$-0-, respectively. These have been recognized in the statements of net position and are included in estimated third-party payor settlements. The incentive amount is computed using several elements, one of which includes using the value of undepreciated assets required to implement the EHR system. The Hospital has elected to record \$301,161 and \$-0- for the years ending June 30, 2014 and 2013, respectively, of the incentive payment as other operating revenue in the period earned, and defer the remaining amount of the receivable related to future Medicare reimbursement. In addition, the Iowa Department of Health and Human Services provides EHR incentive payments that will be earned and received through various payments through 2014. A payment of \$118,600 was received during the period ended June 30, 2014 with remaining payments to follow in subsequent years. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

(5) Composition of Patient Receivables

Patient receivables as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Patient receivables	\$ 3,698,320	3,637,639
Less estimated third-party contractual adjustments	(804,000)	(913,000)
Less allowance for doubtful accounts	(220,000)	(160,000)
	<u>\$ 2,674,320</u>	<u>2,564,639</u>

Davis County Hospital

Notes to Financial Statements June 30, 2014 and 2013

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>2014</u>	<u>2013</u>
Medicare	39%	41%
Medicaid	13	9
BCBS	17	16
Other third-party payors	14	12
Private payors	17	22
	<u>100%</u>	<u>100%</u>

(6) Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013 were as follows:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 236,064	--	--	236,064
Construction in progress	154,871	1,053,236	(1,083,185)	124,922
Total capital assets, not being depreciated	<u>390,935</u>	<u>1,053,236</u>	<u>(1,083,185)</u>	<u>360,986</u>
Capital assets, being depreciated:				
Land improvements	1,560,861	--	--	1,560,861
Buildings and fixed equipment	19,608,001	189,690	171,193	19,968,884
Major moveable equipment	8,232,071	195,097	795,876	9,223,044
Total capital assets, being depreciated	<u>29,400,933</u>	<u>384,787</u>	<u>967,069</u>	<u>30,752,789</u>
Less accumulated depreciation:				
Land improvements	449,106	116,600	--	565,706
Buildings and fixed equipment	10,413,127	980,157	(2,783)	11,390,501
Major moveable equipment	6,024,438	1,399,124	(112,544)	7,311,018
Total accumulated depreciation	<u>16,886,671</u>	<u>2,495,881</u>	<u>(115,327)</u>	<u>19,267,225</u>
Total capital assets, being depreciated, net	<u>12,514,262</u>	<u>(2,111,094)</u>	<u>1,082,396</u>	<u>11,485,564</u>
Total capital assets, net	<u>\$ 12,905,197</u>	<u>(1,057,858)</u>	<u>(789)</u>	<u>11,846,550</u>

Davis County Hospital

Notes to Financial Statements June 30, 2014 and 2013

	<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>

Depreciation expense for the years ending June 30, 2014 and 2013 amounted to \$2,495,881 and \$2,436,348, respectively.

Included in construction in progress at June 30, 2014 are costs primarily related to the transfer switch project and the EHR documentation system project. The transfer switch project is expected to be completed in fiscal year 2015 at an estimated cost of \$140,000, which will be funded through operations. The EHR documentation system was put in service subsequent to year-end at an approximate cost of \$180,000 funded through operations.

(7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2014 and 2013 consisted of the following:

	<u>June 30, 2013</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2014</u>	<u>Due Within One Year</u>
Hospital revenue bonds, Series 2009 (A)	\$ 6,470,000	--	(255,000)	6,215,000	280,000
Hospital revenue bonds, Series 2012 (B)	4,775,000	--	(430,000)	4,345,000	420,000
Total bonds payable	<u>11,245,000</u>	<u>--</u>	<u>(685,000)</u>	<u>10,560,000</u>	<u>700,000</u>
Note payable, finance company (D)	930,948	--	(310,856)	620,092	329,995
Note payable, finance company (E)	280,000	--	(40,000)	240,000	40,000
Total notes payable	<u>1,210,948</u>	<u>--</u>	<u>(350,856)</u>	<u>860,092</u>	<u>369,995</u>
Capital lease obligations (F)	402,541	--	(221,618)	180,923	173,521
	12,858,489	--	(1,257,474)	11,601,015	1,243,516
Less: Unamortized bond discount	(117,195)	--	12,880	(104,315)	--
Less: Unamortized deferred loss	(129,949)	--	19,265	(110,684)	--
	<u>\$ 12,611,345</u>	<u>--</u>	<u>(1,225,329)</u>	<u>11,386,016</u>	<u>1,243,516</u>

Davis County Hospital

Notes to Financial Statements June 30, 2014 and 2013

	June 30, 2012	Borrowings	Payments	June 30, 2013	Due Within One Year
Hospital revenue bonds, Series 2009 (A)	\$ 6,725,000	--	(255,000)	6,470,000	255,000
Hospital revenue bonds, Series 2012 (B)	5,160,000	--	(385,000)	4,775,000	430,000
Hospital revenue bonds, Series 1998 (C)	4,940,000	--	(4,940,000)	--	--
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>

- (A) 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 4.300% to 6.500%. Semi-annual principal payments are due in amounts ranging from \$230,000 to \$1,180,000 through September 2025.
- (B) Hospital Revenue Bonds, Series 2012. The proceeds of these bonds were used to refund the Series 1998 bonds (C). The Series 2012 bonds bear interest at rates ranging from 1.200% to 4.000%. Annual principal payments are due in amounts ranging from \$385,000 to \$490,000 through September 2023.
- (C) 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 bore 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 (B).
- (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, 2014 and 2013

A summary of the Hospital's future principal and interest payments as of June 30, 2014 is as follows:

Year Ending	Bonds and Notes Payable		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 1,069,995	499,579	173,521	4,372	1,243,516	503,951
2016	1,014,266	461,455	7,402	103	1,021,668	461,558
2017	815,831	429,304	--	--	815,831	429,304
2018	810,000	403,463	--	--	810,000	403,463
2019	840,000	374,600	--	--	840,000	374,600
2020-2024	4,580,000	1,309,410	--	--	4,580,000	1,309,410
2025-2026	2,290,000	150,410	--	--	2,290,000	150,410
	<u>\$ 11,420,092</u>	<u>3,628,221</u>	<u>180,923</u>	<u>4,475</u>	<u>11,601,015</u>	<u>3,632,696</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, 2014, 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 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.

(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, 2014 and 2013

Plan members are required to contribute 5.95% and 5.78% of their annual salary and the Hospital is required to contribute 8.93% and 8.67% of annual covered payroll for the years ended June 30, 2014 and 2013, respectively. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were approximately \$634,000, \$630,000, and \$568,000, respectively, equal to the required contributions for each year.

(10) 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, 2014 and 2013.

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>2014</u>	<u>2013</u>
Annual required contribution	\$ 90,018	87,935
Adjustment to ARC	(20,328)	(19,408)
Interest on net OPEB obligation	<u>6,952</u>	<u>5,464</u>
Annual OPEB expense	76,642	73,991
Implicit contributions	<u>(15,903)</u>	<u>(14,471)</u>
Increase in net OPEB obligation	60,739	59,520
Net OPEB obligation, beginning of year	<u>278,095</u>	<u>218,575</u>
Net OPEB obligation, end of year	<u>\$ 338,834</u>	<u>278,095</u>

The Hospital's annual OPEB cost, the percentage of annual OPEB contributed to the plan, and the net OPEB obligations for fiscal year 2014 are summarized as follows:

Davis County Hospital

Notes to Financial Statements June 30, 2014 and 2013

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percent of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 60,740	--	338,834
2013	59,520	--	278,095
2012	35,517	--	218,575
2011	62,588	--	183,058
2010	62,588	--	120,470
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, 2014, 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, 2014, 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 \$36,768 and \$51,342 as of June 30, 2014 and 2013, respectively.

Davis County Hospital

Notes to Financial Statements June 30, 2014 and 2013

(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, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Assets and net assets (unaudited)	\$ <u>123,404</u>	<u>118,409</u>

The Hospital received \$13,944 and \$4,507 from the Foundation during the years ended June 30, 2014 and 2013, respectively, for purchase of medical equipment and for operating purposes.

(13) Management Services and Affiliation Agreement

The Hospital is a provider of health care 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 \$441,756 and \$255,929 were incurred for the years ended June 30, 2014 and 2013, respectively.

(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) Significant 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

Notes to Financial Statements June 30, 2014 and 2013

(16) Change in Accounting Principle

In accordance with GASB Statement No. 65, which was adopted effective July 1, 2012, the Hospital restated the ending net position at June 30, 2012 and depreciation expense for the year ended June 30, 2013, in connection with unamortized bond issuance costs. According to GASB 65, debt issuance costs are recognized as expenses in the period incurred, rather than as deferred costs and subsequently amortized.

<u>Description</u>	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>Restated Balance</u>
Deferred financing costs, net	\$ 147,151	(147,151)	--
Depreciation and amortization expense	2,488,714	(19,975)	2,468,739
Decrease in net position	(1,096,179)	19,975	(1,076,204)
Net position, June 30, 2012	11,096,597	(167,126)	10,929,471

Davis County Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Accrual Basis) June 30, 2014

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, 2014, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Budgeted Accrual Amounts	Variance Favorable (Unfavorable)
Estimated amount raised by taxation	\$ 1,121,614	1,103,729	17,885
Estimated other revenues	19,976,765	23,452,469	(3,475,704)
	21,098,379	24,556,198	(3,457,819)
Expenses	22,122,995	22,482,753	359,758
Net	(1,024,616)	2,073,445	(3,098,061)
Balance, beginning of year	9,853,267	12,985,846	
Balance, end of year	\$ 8,828,651	15,059,291	

See accompanying independent auditor's report

Davis County Hospital

**Schedule of Funding Progress for the Retiree Health Plan
June 30, 2014**

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]
2014	07/01/2011	\$ --	\$ 450,329	\$ 450,329	-- %	\$ 7,067,142	6.37%
2013	07/01/2011	--	450,329	450,329	--	7,067,142	6.37%
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%

See accompanying independent auditor's report

Patient Service Revenue
For the Years Ended June 30, 2014 and 2013

	2014			2013		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
NURSING SERVICES:						
Long term care	\$ 975,715	--	975,715	1,941,559	--	1,941,559
Acute patients	649,217	--	649,217	668,585	--	668,585
Swing-bed	472,138	--	472,138	379,504	--	379,504
Observation	--	191,669	191,669	--	190,817	190,817
Nursery	55,574	295	55,869	54,273	1,080	55,353
	<u>2,152,644</u>	<u>191,964</u>	<u>2,344,608</u>	<u>3,043,921</u>	<u>191,897</u>	<u>3,235,818</u>
OTHER PROFESSIONAL SERVICES:						
Operating room	1,861,612	3,166,902	5,028,514	2,313,262	2,709,857	5,023,119
Radiology	252,363	4,953,308	5,205,671	304,140	4,405,865	4,710,005
Laboratory	322,987	3,133,590	3,456,577	318,562	2,790,094	3,108,656
Emergency room	8,932	3,208,565	3,217,497	4,333	3,043,405	3,047,738
Drugs	857,431	2,180,600	3,038,031	780,698	1,779,467	2,560,165
Clinic	--	2,226,170	2,226,170	--	2,102,090	2,102,090
Physical therapy	366,036	1,362,979	1,729,015	344,968	1,291,385	1,636,353
Respiratory therapy	227,879	617,213	845,092	275,252	557,150	832,402
Ambulance	--	678,610	678,610	5,722	637,216	642,938
Intravenous therapy	--	328,042	328,042	--	481,168	481,168
Anesthesiology	82,017	213,543	295,560	72,923	195,688	268,611
Public health and home health	--	107,826	107,826	--	148,582	148,582
Medical supplies	37,222	39,083	76,305	50,803	69,335	120,138
Delivery and labor room	79,302	24,526	103,828	79,612	24,027	103,639
Speech therapy	4,537	9,437	13,974	4,485	7,489	11,974
	<u>4,100,318</u>	<u>22,250,394</u>	<u>26,350,712</u>	<u>4,554,760</u>	<u>20,242,818</u>	<u>24,797,578</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>6,252,962</u>	<u>22,442,358</u>	28,695,320	<u>7,598,681</u>	<u>20,434,715</u>	28,033,396
DEDUCTIONS FROM GROSS PATIENT SERVICE REVENUE:						
Medicare and Medicaid			(5,697,925)			(5,568,572)
Other adjustments			(3,723,821)			(3,252,743)
Charity care			(149,604)			(178,399)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			19,123,970			19,033,682
Provision for bad debt			(842,697)			(607,581)
NET PATIENT SERVICE REVENUE			\$ <u>18,281,273</u>			<u>18,426,101</u>

See accompanying independent auditor's report

**Other Operating Revenue
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Public health grant revenue:		
Davis County	\$ 39,308	25,342
Other funding	48,270	75,006
340B drug revenue	689,450	--
EHR incentive	419,761	--
Cafeteria	112,014	102,484
Grant revenue	90,610	44,058
Rent income	31,957	8,560
Ambulance subsidy, Davis County	25,000	25,000
Contracted physician services	4,320	61,920
Contributions	--	45,125
Catholic Health Initiative subsidy	27,252	39,112
Insurance proceeds	--	21,481
Loss on disposal of capital assets	(789)	(38,270)
Other operating revenue	<u>50,425</u>	<u>8,621</u>
	<u>\$ 1,537,578</u>	<u>418,439</u>

See accompanying independent auditor's report

**Departmental Expenses
For the Years Ended June 30, 2014 and 2013**

	2014			2013		
	Salaries	Other	Total	Salaries	Other	Total
NURSING SERVICES:						
Acute patients	\$ 841,096	230,657	1,071,753	839,795	212,315	1,052,110
Nursery	13,819	60	13,879	10,969	1,749	12,718
Long term care	479,826	137,936	617,762	697,267	192,324	889,591
	<u>1,334,741</u>	<u>368,653</u>	<u>1,703,394</u>	<u>1,548,031</u>	<u>406,388</u>	<u>1,954,419</u>
OTHER PROFESSIONAL SERVICES:						
Operating room	402,257	836,195	1,238,452	424,530	939,126	1,363,656
Delivery and labor room	9,051	1,210	10,261	9,217	2,714	11,931
Anesthesiology	--	188,479	188,479	--	191,573	191,573
Radiology	270,837	649,769	920,606	256,219	570,556	826,775
Laboratory	244,933	502,882	747,815	234,855	508,563	743,418
Respiratory therapy	108,199	106,528	214,727	114,620	122,753	237,373
Physical therapy	7,953	519,163	527,116	8,687	509,466	518,153
Speech therapy	--	5,425	5,425	--	5,315	5,315
Medical supplies	--	66,368	66,368	--	35,149	35,149
Central supply	85,681	21,866	107,547	91,692	23,631	115,323
Drugs	--	1,183,305	1,183,305	--	576,226	576,226
Pharmacy	187,706	55,149	242,855	181,098	51,643	232,741
Ambulance	112,220	93,179	205,399	93,687	76,622	170,309
Emergency room	572,068	1,431,771	2,003,839	609,552	1,154,708	1,764,260
Public health	135,749	53,820	189,569	164,223	65,453	229,676
Clinic	1,515,818	699,984	2,215,802	1,357,216	694,198	2,051,414
	<u>3,652,472</u>	<u>6,415,093</u>	<u>10,067,565</u>	<u>3,545,596</u>	<u>5,527,696</u>	<u>9,073,292</u>
GENERAL SERVICES:						
Plant operations	219,898	549,349	769,247	244,989	551,146	796,135
Dietary	217,872	437,101	654,973	234,666	445,231	679,897
Housekeeping	288,821	122,925	411,746	258,436	228,014	486,450
Laundry	27,266	61,481	88,747	24,599	77,907	102,506
	<u>753,857</u>	<u>1,170,856</u>	<u>1,924,713</u>	<u>762,690</u>	<u>1,302,298</u>	<u>2,064,988</u>
ADMINISTRATIVE SERVICES:						
Administrative	653,279	1,441,777	2,095,056	629,066	1,163,114	1,792,180
Employee benefits	--	1,046,642	1,046,642	--	974,041	974,041
Information technology	279,210	613,194	892,404	272,000	627,450	899,450
Patient financial services	493,801	225,657	719,458	489,579	195,486	685,065
Medical records	284,671	86,776	371,447	322,824	85,137	407,961
Nursing administration	85,691	144,367	230,058	126,398	32,019	158,417
	<u>1,796,652</u>	<u>3,558,413</u>	<u>5,355,065</u>	<u>1,839,867</u>	<u>3,077,247</u>	<u>4,917,114</u>
NONDEPARTMENTAL:						
Depreciation and amortization	--	2,528,026	2,528,026	--	2,468,739	2,468,739
Interest	--	544,232	544,232	--	587,715	587,715
	<u>--</u>	<u>3,072,258</u>	<u>3,072,258</u>	<u>--</u>	<u>3,056,454</u>	<u>3,056,454</u>
TOTAL EXPENSES	\$ 7,537,722	14,585,273	22,122,995	7,696,184	13,370,083	21,066,267

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
June 30, 2014 and 2013**

ANALYSIS OF AGING:

Days Since Discharge	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
0-30	\$ 2,042,604	55.23 %	1,714,590	47.13 %
31-60	463,813	12.54	561,928	15.45
61-90	261,854	7.08	468,198	12.87
91-120	264,843	7.16	225,823	6.21
121 and over	<u>665,207</u>	<u>17.99</u>	<u>667,100</u>	<u>18.34</u>
	3,698,320	100.00 %	3,637,639	100.00 %
Less:				
Allowance for doubtful accounts	(220,000)		(160,000)	
Allowance for contractual adjustments	<u>(804,000)</u>		<u>(913,000)</u>	
	<u>\$ 2,674,320</u>		<u>2,564,639</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ (160,000)		(331,000)	
Provision of uncollectible accounts	(842,697)		(607,581)	
Recoveries of accounts previously written off	(250,757)		(241,621)	
Accounts written off	<u>1,033,454</u>		<u>1,020,202</u>	
Balance, end of year	<u>\$ (220,000)</u>		<u>(160,000)</u>	

See accompanying independent auditor's report

Inventory/Prepaid Expenses
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
INVENTORY:		
Central supply	\$ 241,595	230,905
Pharmacy	214,021	192,593
Laboratory	14,051	18,701
Dietary	17,616	16,574
Fuel oil	6,561	9,851
Office supply	<u>3,030</u>	<u>--</u>
	<u>\$ 496,874</u>	<u>468,624</u>
PREPAID EXPENSES:		
Insurance	\$ 27,574	11,141
Service contracts	169,545	102,164
Dues	10,417	9,597
Maintenance and other	<u>21,884</u>	<u>33,458</u>
	<u>\$ 229,420</u>	<u>156,360</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Patient days:		
Adult and pediatric -		
Medicare	522	502
All other	253	305
Swing-bed -		
Skilled	622	577
Intermediate	54	19
Newborn	41	50
Long-term care	5,143	10,728
Total	<u>6,635</u>	<u>12,181</u>
Patient discharges:		
Hospital adult and pediatric -		
Medicare	164	162
All other	96	112
Total	<u>260</u>	<u>274</u>
Average length of stay (based on discharge days):		
Hospital adult and pediatric -		
Medicare	3.2 days	3.1 days
All other	2.6 days	2.7 days
Surgical procedures	466	493
Emergency room visits	3,140	3,416
Number of employees - full-time equivalents	151.04	161.78

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, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated September 29, 2014.

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, 2014 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,
September 29, 2014.

Davis County Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2014

Part I: Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were identified by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-14 *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-14** 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, 2014.
- III-B-14** Certified Budget: Hospital disbursements during the year ended June 30, 2014 did not exceed amounts budgeted.
- III-C-14** 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-14** Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-E-14** 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-14** Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-G-14** 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-14** 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, 2014

This audit was performed by:

Randy D. Hoffman, FHFMA, CPA, Partner

Jeremy J. Behrens, FHFMA, CPA, Senior Manager

Samantha J. Schuett, CPA, In-Charge

Bryce A. Arp, Staff