

# **Boone County Hospital**

Accountants' Report and Financial Statements

June 30, 2005 and 2004



**OBoone County Hospital**  
**June 30, 2005 and 2004**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Boone County Hospital  
Boone, Iowa

We have audited the accompanying balance sheets of Boone County Hospital as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boone County Hospital as of June 30, 2005 and 2004, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005, 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* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees  
Boone County Hospital  
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Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri  
August 19, 2005

# **Boone County Hospital**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2005 and 2004**

#### ***Introduction***

This management's discussion and analysis of the financial performance of Boone County Hospital provides an overview of the Hospital's financial activities for the years ended June 30, 2005 and 2004. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### ***Financial Highlights***

- Cash, short-term investments and noncurrent cash and deposits increased in 2005 and 2004 by \$310,000 and \$32,000, or 10% and 1%, respectively.
- The Hospital's net assets increased in each of the past two years with a \$482,000 or 3% increase in 2005 and a \$461,000 or 3% increase in 2004.
- The Hospital reported operating losses of \$139,939 and \$254,749 in 2005 and 2004, respectively.
- The Hospital reported excess of revenues over expenses in both 2005 of \$482,000 and 2004 of \$461,000.
- Net nonoperating revenues decreased by \$94,000 in 2005 and increased by \$61,000 in 2004.

#### ***Using This Annual Report***

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and change in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors and contributors. 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.

#### ***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets***

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting.

Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

### ***The Statement of Cash Flows***

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

### ***The Hospital's Net Assets***

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$482,000 (3%) in 2005 and \$461,000 (3%) in 2004 as shown in Table 1.

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

	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 3,918,049	\$ 4,234,414	\$ 4,419,677
Other current assets	3,869,472	3,331,872	3,356,977
Capital assets, net	13,226,322	13,678,929	13,341,084
Other noncurrent assets	<u>2,046,052</u>	<u>2,042,375</u>	<u>1,957,046</u>
Total assets	<u>\$ 23,059,895</u>	<u>\$ 23,287,590</u>	<u>\$ 23,074,784</u>
<b>Liabilities</b>			
Long-term debt	\$ 4,680,849	\$ 5,407,421	\$ 5,251,804
Other current and noncurrent liabilities	<u>3,660,969</u>	<u>3,644,259</u>	<u>4,048,178</u>
Total liabilities	<u>8,341,818</u>	<u>9,051,680</u>	<u>9,299,982</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	7,922,303	7,637,960	7,648,607
Restricted – expendable for			
Debt service payments	566,966	272,482	260,477
Specific operating activities	18,353	—	—
Restricted – nonexpendable endowment	57,440	57,440	57,440
Unrestricted	<u>6,153,015</u>	<u>6,268,028</u>	<u>5,808,278</u>
Total net assets	<u>14,718,077</u>	<u>14,235,910</u>	<u>13,774,802</u>
Total liabilities and net assets	<u>\$ 23,059,895</u>	<u>\$ 23,287,590</u>	<u>\$ 23,074,784</u>

In 2005, a significant change in net assets was cash as a result of improvements in the collection of accounts receivable. Days in Accounts Receivable decreased in 2005 to 55.8 from 64.4 the previous year.

In 2004, the principal change in total assets was due to increases in capital assets. The Hospital purchased a new CT scanner and ultrasound equipment to improve radiology services at the Hospital. A portion of the assets were financed, which resulted in an increase in long-term debt.

In 2003, a significant change in the Hospital's total assets was due to the activity surrounding the start-up of Boone County Family Medicine Clinics in Boone and Ogden. Those Clinics increased patient accounts receivable and the other current assets of the Hospital. Changes in patient accounts receivable was due to increased volume of services at the Hospital. Although cash and related deposits decreased \$233,000, the Hospital was able to invest in the Clinics, as well as start a Bariatric Surgery program during the year.

### **Operating Results**

In 2005, the Hospital's Excess of Revenues Over Expenses was \$482,167, as shown in Table 2. This was caused by increased net revenues. The increase in net revenues was offset by increased health claims, which is included in employee benefit expense. This excess is greater than the \$461,108 generated in fiscal year 2004.

**Table 2: Operating Results**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 25,264,189	\$ 23,308,709	\$ 22,212,826
Other operating revenues	<u>1,739,213</u>	<u>1,780,758</u>	<u>1,469,384</u>
Total operating revenues	<u>27,003,402</u>	<u>25,089,467</u>	<u>23,682,210</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	14,771,343	13,386,173	12,681,426
Medical professional fees	2,987,097	3,147,576	2,871,063
Depreciation and amortization	1,393,403	1,282,424	1,176,200
Other operating expenses	<u>7,991,498</u>	<u>7,528,043</u>	<u>7,059,917</u>
Total operating expenses	<u>27,143,341</u>	<u>25,344,216</u>	<u>23,788,606</u>
<b>Operating Loss</b>	<u>(139,939)</u>	<u>(254,749)</u>	<u>(106,396)</u>

	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Nonoperating Revenues (Expenses)</b>			
Non-capital contributions	\$ 33,359	\$ 25,942	\$ —
Interest income	105,900	80,064	91,357
Interest expense	(284,036)	(294,360)	(315,610)
Property tax revenues	<u>766,883</u>	<u>904,211</u>	<u>878,797</u>
Total nonoperating revenues	<u>622,106</u>	<u>715,857</u>	<u>654,544</u>
<b>Excess of Revenues Over Expenses</b>	<u>\$ 482,167</u>	<u>\$ 461,108</u>	<u>\$ 548,148</u>

### ***Operating Loss***

In 2005, the operating loss was less than 2004. The loss improved due to better reimbursement and revenue increases in Emergency Room, Laboratory and Radiology. The Hospital's health insurance costs were higher than anticipated, which accounted for a significant increase in the employee benefit expenses.

In 2004, the increased operating loss was attributed to increases in supply expense and pharmacy drug costs. Professional Fees also increased as the Hospital had to obtain temporary coverage for radiologist services. The Hospital also experienced a 41% increase in insurance expense during the year. Net Patient Service revenue increased in 2004 in radiology, physical therapy and emergency services. Salaries, wages and employee benefits increased \$704,747 or 5% due to overall increases of 4% and payments to physicians.

In 2003, the Hospital experienced a slight reduction in Operating Income. The Hospital received a one time payment related to settlement of a Medicare reimbursement issue from 1995 in the amount of \$491,303, which was recorded in net patient service revenue. One nonrecurring expense related to bond arbitrage expense of \$104,109, which is a one-time payment related to the revenue bonds, was included in Operating Expenses. The Excess of Revenues Over Expenses was \$189,535 (26%) less than FYE 2002. The Hospital experienced significant changes in revenues and expenses leading to the Operating Loss for Fiscal Year End 2003. Most of the fluctuation was due to the start-up of Boone County Family Medicine Clinics in Boone and Ogden. The Clinics, which were staffed with seven physicians and other support staff, began operations August 1, 2002. Operation of the Clinics generated \$2,722,474 in Net Patient Revenue during Fiscal Year End 2003. The Clinics also generated 60% of the total increase in operating expenses. The operating expense increases related to the Clinic were \$2,005,715 in Salary/Benefits; \$297,624 in Purchased Service; \$495,051 in Other Operating Expenses (rent, supplies, etc).

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

The Hospital's Cash increased \$605,000 in 2005 due in part to decreases in accounts receivable. The Hospital expended \$993,000 in cash for capital assets in 2005.

The Hospital's Cash increased slightly in 2004 due to decreases in patient accounts receivable. Cash was expended for capital equipment during the year, which reduced the overall increase. The increase in cash in 2004 was approximately \$109,000.

The Hospital's Cash From Operating Activities has decreased in 2003 by approximately \$1.1 million over the prior year. Approximately \$929,000 of this decrease was attributed to the increase in accounts receivable. Total decrease in cash in 2003 was approximately \$240,000.

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

### **Capital Assets**

At the end of 2005 and 2004, the Hospital had \$13,226,322 and \$13,678,929, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2005, the Hospital added \$926,000 in new capital assets. In 2004, the Hospital added \$1,600,000 in new capital assets. Nearly \$894,000 of the addition was for a new CT scanner and Ultrasound machine, which were financed over five years.

In 2003, the Hospital purchased new capital assets costing \$1,240,833. Of this amount, \$205,062 was acquired through incursion of capital lease obligations.

### **Debt**

At June 30, 2005 and 2004, the Hospital had \$5,389,288 and \$6,087,618, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. The Hospital issued no new debt in 2005. In 2004, the Hospital financed \$894,000 in equipment with a five year note.

## ***Factors Bearing on Boone County Hospital's Future***

At the time these financial statements were prepared and audited, the Hospital was aware of an existing circumstance that could significantly affect its financial health in the future:

- During the year ended June 30, 2005, the Hospital applied for and was deemed a necessary provider by the State of Iowa. This designation enabled the Hospital to seek critical access provider status for the purposes of Medicare reimbursement, if so desired. The Hospital applied for critical access hospital status, was surveyed by the State of Iowa, and has been granted critical access hospital status as of September 1, 2005. Designation as a critical access provider will allow the Hospital to receive reimbursement based on cost for Medicare program beneficiaries. Management anticipates this will increase revenues assuming similar levels of service.

## ***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 telephoning (515) 433-8461.

# Boone County Hospital

## Balance Sheets

June 30, 2005 and 2004

### Assets

	<u>2005</u>	<u>2004</u>
<b>Current Assets</b>		
Cash	\$ 1,752,046	\$ 1,474,432
Short-term deposits	—	25,000
Assets held under indenture agreement – Bond Fund	586,671	294,008
Patient accounts receivable, net of allowance; 2005 – \$1,206,656, 2004 – \$1,249,655	3,918,049	4,234,414
Property tax receivable	799,961	799,372
Supplies	683,105	707,275
Prepaid expenses	<u>47,689</u>	<u>31,785</u>
Total current assets	<u>7,787,521</u>	<u>7,566,286</u>
<b>Noncurrent Cash and Deposits</b>		
Internally designated		
Edward H. Peterson Endowment Fund	247,317	241,859
Capital and other expenditures	1,456,954	1,422,884
Education Fund	6,241	6,900
Externally restricted by donors		
Albert C. Linn Endowment Fund	57,440	57,440
Specific operating activities	<u>18,353</u>	<u>—</u>
	<u>1,786,305</u>	<u>1,729,083</u>
<b>Capital Assets, net of accumulated depreciation</b>	<u>13,226,322</u>	<u>13,678,929</u>
<b>Other Assets</b>		
Deferred financing costs (net of amortization of \$130,397 in 2005 and \$117,028 in 2004)	53,558	66,927
Investment	38,442	30,788
Receivables	130,247	163,077
Other	<u>37,500</u>	<u>52,500</u>
	<u>259,747</u>	<u>313,292</u>
<b>Total Assets</b>	<u>\$ 23,059,895</u>	<u>\$ 23,287,590</u>

## Liabilities and Net Assets

	<u>2005</u>	<u>2004</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 708,439	\$ 680,197
Accounts payable	513,822	546,566
Accrued expenses		
Payroll and related deductions	1,211,394	1,096,848
Health insurance	221,000	169,122
Interest	19,705	21,526
Estimated amounts due to third-party payers	186,648	342,000
Deferred revenue for property taxes	<u>799,961</u>	<u>788,000</u>
Total current liabilities	3,660,969	3,644,259
<b>Long-term Debt</b>	<u>4,680,849</u>	<u>5,407,421</u>
Total liabilities	<u>8,341,818</u>	<u>9,051,680</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	7,922,303	7,637,960
Restricted – expendable for		
Debt service payments	566,966	272,482
Specific operating activities	18,353	—
Restricted – nonexpendable endowment	57,440	57,440
Unrestricted	<u>6,153,015</u>	<u>6,268,028</u>
Total net assets	<u>14,718,077</u>	<u>14,235,910</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 23,059,895</u>	<u>\$ 23,287,590</u>

**Boone County Hospital**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 26,571,786	\$ 24,462,527
Provision for uncollectible accounts	<u>(1,307,597)</u>	<u>(1,153,818)</u>
Net patient service revenue	25,264,189	23,308,709
Other	<u>1,739,213</u>	<u>1,780,758</u>
	<u>27,003,402</u>	<u>25,089,467</u>
<b>Operating Expenses</b>		
Salaries and wages	11,232,017	10,687,106
Employee benefits	3,539,326	2,699,067
Medical professional fees	2,987,097	3,147,576
Supplies and other	4,911,661	4,604,215
General services	1,066,225	971,939
Administrative services	1,709,673	1,705,189
Insurance	303,939	246,700
Depreciation and amortization	<u>1,393,403</u>	<u>1,282,424</u>
	<u>27,143,341</u>	<u>25,344,216</u>
<b>Operating Loss</b>	<u>(139,939)</u>	<u>(254,749)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Non-capital contributions	33,359	25,942
Interest income	105,900	80,064
Interest expense	(284,036)	(294,360)
Property tax revenue	<u>766,883</u>	<u>904,211</u>
	<u>622,106</u>	<u>715,857</u>
<b>Increase in Net Assets</b>	482,167	461,108
<b>Net Assets, Beginning of the Year</b>	<u>14,235,910</u>	<u>13,774,802</u>
<b>Net Assets, End of the Year</b>	<u>\$ 14,718,077</u>	<u>\$ 14,235,910</u>

**Boone County Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 25,425,202	\$ 23,444,672
Payments to suppliers	(11,060,962)	(10,877,101)
Payments to employees	(14,531,918)	(13,653,152)
Other receipts and payments, net	<u>1,840,649</u>	<u>1,592,114</u>
Net cash provided by operating activities	<u>1,672,971</u>	<u>506,533</u>
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	766,883	904,211
Gifts and grants for other than capital purchases	<u>33,359</u>	<u>25,942</u>
Net cash provided by noncapital financing activities	<u>800,242</u>	<u>930,153</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(992,910)	(649,512)
Proceeds from sale of capital assets	—	2,800
Principal payments on long-term debt	(698,330)	(541,408)
Interest paid on long-term debt	<u>(285,857)</u>	<u>(294,360)</u>
Net cash used in capital and related financing activities	<u>(1,977,097)</u>	<u>(1,482,480)</u>
<b>Investing Activities</b>		
Purchase of certificates of deposit	(1,384,192)	(1,148,560)
Proceeds from sale of certificates of deposit	1,409,560	1,223,560
Income received on deposits	<u>83,065</u>	<u>79,460</u>
Net cash provided by investing activities	<u>108,433</u>	<u>154,460</u>
<b>Increase in Cash</b>	604,549	108,666
<b>Cash, Beginning of Year</b>	<u>1,948,109</u>	<u>1,839,443</u>
<b>Cash, End of Year</b>	<u>\$ 2,552,658</u>	<u>\$ 1,948,109</u>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash	\$ 1,752,046	\$ 1,474,432
Cash in assets held under indenture agreement – Bond Fund	586,671	294,008
Cash and noncurrent cash and deposits		
Internally designated		
Edward H. Peterson Endowment Fund	29,820	25,120
Capital and other expenditures	159,528	147,649
Education Fund	6,240	6,900
Externally restricted		
Specific operating activities	<u>18,353</u>	<u>—</u>
	<u>\$ 2,552,658</u>	<u>\$ 1,948,109</u>

**Boone County Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (139,939)	\$ (254,749)
Items not requiring (providing) cash		
Loss on sale of capital assets	124	8,106
Depreciation	1,378,403	1,267,424
Amortization	28,369	29,632
Accrued self-insurance	51,878	(110,878)
Changes in		
Patient and other receivables	316,365	185,263
Supplies	24,170	(64,590)
Prepaid expenses	(15,904)	(6,492)
Accounts payable and accrued expenses	160,164	(408,751)
Estimated amounts due to third-party payers	(155,352)	(49,300)
Other	24,693	(89,132)
Net cash provided by operating activities	\$ 1,672,971	\$ 506,533
<b>Supplemental Cash Flows Information</b>		
Notes payable obligation incurred for capital asset	\$ —	\$ 893,885
Capital asset acquisitions included in accounts payable	5,788	72,778

# **Boone County Hospital**

## **Notes to Financial Statements**

### **June 30, 2005 and 2004**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

Boone County Hospital is a county public hospital under Chapter 347 of the Code of Iowa. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Boone County area. The Hospital is exempt from income taxes as a political subdivision of the State of Iowa.

##### ***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

##### ***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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### ***Risk Management***

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters except employee health and dental benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***Noncurrent Cash and Deposits***

Noncurrent cash and deposits include (1) assets permanently and temporarily restricted by donors, (2) assets restricted under indenture agreements (in current assets) (3) internally designated as unrestricted assets set aside by the Board of Trustees for the Edward H. Peterson Endowment Fund and the Education Fund, and (4) internally designated unrestricted assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

***Supplies***

All supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital.

Land improvements	15 to 20 years
Buildings, improvements and fixed equipment	20 to 40 years
Major moveable equipment, computers and furniture	3 to 7 years

# **Boone County Hospital**

## **Notes to Financial Statements**

### **June 30, 2005 and 2004**

#### ***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

#### ***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$212,772 and \$131,619 for 2005 and 2004, respectively.

#### ***Property Taxes***

The Hospital received approximately 3% and 4% of its financial support from property tax revenues in the years ended June 30, 2005 and 2004, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

#### ***Net Assets***

Net assets of the Hospital are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted unexpendable and expendable net assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital. Restricted expendable net assets include amounts as required by the revenue bond indentures. Restricted net

# **Boone County Hospital**

## **Notes to Financial Statements**

### **June 30, 2005 and 2004**

assets are reduced by any liabilities payable from restricted assets. Restricted nonexpendable net assets equal the principal portion of permanent endowments. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

#### ***Restricted Nonexpendable Net Assets***

The restricted net assets include the Albert C. Linn Endowment Fund. This fund was established by resolution of the Board of Trustees, December 19, 1996, in the amount of \$57,440. The original assets of the fund were acquired from the estate of Albert C. Linn, whose will provided that they were to be used by the Hospital to create an endowment fund, the principal to be invested and retained intact and the income only to be used as directed by the Board of Trustees.

#### ***Compensated Absences***

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

#### ***Deferred Financing Costs***

Costs incurred in connection with issuance of the revenue bonds have been deferred and are being amortized to expense over the life of the bonds using the bonds outstanding method.

#### ***Medical Malpractice Coverage and Claims***

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The cost of the coverage is accrued over the coverage period and includes both the minimum premium plus any estimated additional costs related to claims during the period. Adjustments of estimated to actual expenses after the policy terms are included in the period such adjustments are determined.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 2: Net Patient Service Revenue**

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- **Medicare.** Inpatient acute care services and substantially all outpatient services rendered to Medicare Program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient swingbed services are paid at prospectively determined per diem rates that are based on the patient's acuity. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary.
- **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries are reimbursed based upon prospectively determined rates.

Approximately 58% and 57% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2005 and 2004, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

**Note 3: Concentration of Credit Risk**

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2005 and 2004 was:

	<b>2005</b>	<b>2004</b>
Medicare and Medicaid	\$ 1,166,392	\$ 1,144,771
Other third-party payers	1,843,964	2,119,626
Patients	1,819,640	1,883,740
Clinics	<u>294,709</u>	<u>335,932</u>
	5,124,705	5,484,069
Less allowances for uncollectible accounts	<u>1,206,656</u>	<u>1,249,655</u>
	<u>\$ 3,918,049</u>	<u>\$ 4,234,414</u>

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 4: Deposits, Investments and Investment Income**

***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2005 and 2004. The Hospital's deposits in banks at June 30, 2005 and 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

***Investments***

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2005 and 2004.

***Summary of Carrying Value***

The carrying value of deposits included in the balance sheets is as follows:

	<b>2005</b>	<b>2004</b>
Deposits	\$ 4,108,643	\$ 3,513,054
Accrued interest receivable	16,379	9,469
	\$ 4,125,022	\$ 3,522,523
Included in the following balance sheet captions		
Cash	\$ 1,752,046	\$ 1,474,432
Short-term investments	—	25,000
Assets held under indenture agreement – Bond Fund	586,671	294,008
Noncurrent cash and deposits	1,786,305	1,729,083
	\$ 4,125,022	\$ 3,522,523

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 5: Capital Assets**

Capital asset additions, retirements, and balances for the years ended June 30, 2005 and 2004, were as follows:

<b>2005</b>	<b>Balance June 30, 2004</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2005</b>
Land and improvements	\$ 678,080	\$ —	\$ —	\$ —	\$ 678,080
Buildings and improvements	12,801,668	179,970	—	361,313	13,342,951
Equipment	12,618,867	146,898	(97,250)	203,887	12,872,402
Construction in progress	<u>—</u>	<u>599,052</u>	<u>—</u>	<u>(565,200)</u>	<u>33,852</u>
	<u>26,098,615</u>	<u>925,920</u>	<u>(97,250)</u>	<u>0</u>	<u>26,927,285</u>
Less accumulated depreciation for					
Land and improvements	(130,089)	(7,906)	—	—	(137,995)
Buildings and improvements	(3,399,151)	(540,682)	—	—	(3,939,833)
Equipment	<u>(8,890,446)</u>	<u>(829,815)</u>	<u>97,126</u>	<u>—</u>	<u>(9,623,135)</u>
	<u>(12,419,686)</u>	<u>(1,378,403)</u>	<u>97,126</u>	<u>—</u>	<u>(13,700,963)</u>
	<u>\$ 13,678,929</u>	<u>\$ (452,483)</u>	<u>\$ (124)</u>	<u>\$ 0</u>	<u>\$ 13,226,322</u>
<b>2004</b>	<b>Balance June 30, 2003</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2004</b>
Land and improvements	\$ 676,368	\$ 1,712	\$ —	\$ —	\$ 678,080
Buildings and improvements	12,604,304	17,406	(1,502)	181,460	12,801,668
Equipment	11,508,795	1,420,060	(315,625)	5,637	12,618,867
Construction in progress	<u>10,100</u>	<u>176,997</u>	<u>—</u>	<u>(187,097)</u>	<u>—</u>
	<u>24,799,567</u>	<u>1,616,175</u>	<u>(317,127)</u>	<u>0</u>	<u>26,098,615</u>
Less accumulated depreciation for					
Land and improvements	(120,950)	(9,139)	—	—	(130,089)
Buildings and improvements	(2,890,370)	(509,582)	801	—	(3,399,151)
Equipment	<u>(8,447,163)</u>	<u>(748,703)</u>	<u>305,420</u>	<u>—</u>	<u>(8,890,446)</u>
	<u>(11,458,483)</u>	<u>(1,267,424)</u>	<u>306,221</u>	<u>—</u>	<u>(12,419,686)</u>
	<u>\$ 13,341,084</u>	<u>\$ 348,751</u>	<u>\$ (10,906)</u>	<u>\$ 0</u>	<u>\$ 13,678,929</u>

Construction in progress includes architect fees incurred in the year ended June 30, 2005 relating to work performed on planning several projects to be completed by June 30, 2007. Management expects the projects to cost approximately \$6 million and will be financed from both internal and external sources.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 6: Long-term Debt**

A schedule of changes in the Hospital's long-term debt for 2005 and 2004 follows.

	<b>Balance June 30, 2004</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2005</b>	<b>Amounts Due Within One Year</b>
Series 1997 Hospital Revenue Bonds (A)	\$ 5,100,000	\$ —	\$ 465,000	\$ 4,635,000	\$ 485,000
Note payable to bank (C)	821,380	—	169,270	652,110	175,116
Capital lease obligation (B)	<u>166,238</u>	<u>—</u>	<u>64,060</u>	<u>102,178</u>	<u>48,323</u>
	<u>\$ 6,087,618</u>	<u>\$ 0</u>	<u>\$ 698,330</u>	<u>\$ 5,389,288</u>	<u>\$ 708,439</u>

	<b>Balance June 30, 2003</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2004</b>	<b>Amounts Due Within One Year</b>
Series 1997 Hospital Revenue Bonds (A)	\$ 5,545,000	\$ —	\$ 445,000	\$ 5,100,000	\$ 465,000
Note payable to bank (C)	—	893,885	72,505	821,380	169,270
Capital lease obligation (B)	<u>190,141</u>	<u>—</u>	<u>23,903</u>	<u>166,238</u>	<u>45,927</u>
	<u>\$ 5,735,141</u>	<u>\$ 893,885</u>	<u>\$ 541,408</u>	<u>\$ 6,087,618</u>	<u>\$ 680,197</u>

Scheduled principal and interest repayments on long-term debt are as follows:

	<b>Long-term Debt</b>		<b>Capital Lease Obligation</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2006	\$ 660,116	\$ 242,359	\$ 48,324	\$ 8,377
2007	691,164	212,034	53,854	3,081
2008	722,420	179,761	—	—
2009	668,410	146,110	—	—
2010	590,000	115,330	—	—
2011-2013	<u>1,955,000</u>	<u>149,514</u>	<u>—</u>	<u>—</u>
	<u>\$ 5,287,110</u>	<u>\$ 1,045,108</u>	<u>\$ 102,178</u>	<u>\$ 11,458</u>

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

- (A) Hospital Revenue Bonds, Series 1997; \$7,500,000 maturing serially at varying amounts through 2013; semiannual interest payments at rates ranging from 4.80% to 5.30%; callable beginning December 1, 2007 and thereafter at varying amounts, collateralized by the Hospital's net revenues.
- (B) The capital lease obligation shown as long-term debt includes a lease for an MRI suite, which expires in 2007. The assets and liabilities under the capital lease is recorded at the present value of the minimum lease payments calculated using a maximum number of scans and the scan rate, to be paid during the term of the lease. Depreciation of asset under the capital lease is included in depreciation expense. At June 30, 2005 and 2004, the MRI suite and equipment under the capital lease amounted to \$205,062, and accumulated depreciation was \$51,266 and \$30,759, respectively.
- (C) The note payable to bank is due January 2009, with monthly principal and interest of \$16,225 at 3.4%. The note is secured by radiology equipment.

The Hospital Revenue Bond Indentures place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

The Series 1997 note resolution provides that payments be made to a sinking fund in amounts sufficient to pay the principal and interest due on the bonds when due. Sinking funds available for payment of maturing bonds amounted to \$586,671, which was in excess of the required reserve amount of \$302,613 at June 30, 2005.

**Note 7: Employee Health Insurance Claims**

The Hospital is self-insured for the first \$75,000 per individual of employee health insurance risks. The Hospital purchases insurance coverage above the self-insurance limits. Losses from asserted claims and from unasserted claims are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including relevant trend factors. Activity in the Hospital's accrued health insurance claims liability during 2005 and 2004 is summarized as follows:

	<b>2005</b>	<b>2004</b>
Balance, beginning of year	\$ 169,122	\$ 280,000
Current year claims incurred and changes in estimates for claims incurred in prior year	1,897,240	1,165,017
Payments for claims	<u>(1,845,362)</u>	<u>(1,275,895)</u>
Balance, end of year	\$ <u>221,000</u>	\$ <u>169,122</u>

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 8: Boone County Health Care Foundation**

The Boone County Health Care Foundation is a not-for-profit corporation organized in 1992 for the purpose of supporting and promoting health care services in Boone County. The Foundation donated \$25,000 to the Hospital for the year ended June 30, 2004. The Hospital provided for the expenses of the Foundation director in the amount of \$16,365 and \$10,286 in 2005 and 2004, respectively. The unaudited financial position and results of operations of the Foundation for 2005 and 2004 are summarized as follows:

	<b>2005</b>	<b>2004</b>
Cash and investments	\$ <u>295,106</u>	\$ <u>173,340</u>
Net assets	\$ <u>295,106</u>	\$ <u>173,340</u>
Revenue	\$ 148,879	\$ 41,500
Expenses	<u>27,113</u>	<u>58,717</u>
Revenue over (under) expenses	\$ <u>121,766</u>	\$ <u>(17,217)</u>

**Note 9: Operating Leases**

Noncancellable operating leases for primary care outpatient clinic offices and equipment expire in various years through 2012. These leases generally contain renewal options for periods ranging from one to ten years and require the Hospital to pay all executory costs (maintenance and insurance). Rental payments include minimum rentals.

Future minimum lease payments at June 30, 2005, were:

2006	\$ 529,851
2007	524,148
2008	104,118
2009	104,118
2010	104,118
2011 – 2012	<u>216,913</u>
Future minimum lease payments	\$ <u>1,583,266</u>

Rental expense for all operating leases totaled \$655,136 and \$652,486 for 2005 and 2004, respectively.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 10: Defined Benefit Pension Plan**

***Plan Description***

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

***Funding Policy***

Plan members are required to contribute 3.7% of their annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll for 2005 and 2004. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2005, 2004 and 2003 were \$619,449, \$616,758 and \$559,089, respectively, which equaled the required contributions for each year.

**Note 11: Commitment, Management Agreement**

In January 2003, the Hospital entered into a five-year management agreement with Quorum Health Resources, Inc. Under the agreement, the Hospital will pay Quorum a management fee of \$227,836 for each year of the agreement, subject to an annual adjustment to reflect changes in the *Consumer Price Index*. In addition, Quorum will provide certain key personnel (presently, the administrator and chief financial officer) whose salaries, fringe benefits and employment and payroll taxes are reimbursable under the agreement. Total fees and reimbursements paid to Quorum pursuant to the agreement amounted to \$622,753 and \$606,830 for the years ended June 30, 2005 and 2004, respectively.

**Note 12: Budget and Budgetary Accounting**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget:

	<b>Book Basis</b>	<b>Actual Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Amount to be raised by taxation	\$ 766,883	\$ —	\$ 766,883	\$ 787,875
Other revenues/receipts	<u>27,142,661</u>	<u>161,013</u>	<u>27,303,674</u>	<u>27,402,549</u>
	27,909,544	161,013	28,070,557	28,190,424
Expenses/disbursements	<u>27,427,377</u>	<u>(168,430)</u>	<u>27,258,947</u>	<u>28,870,112</u>
	482,167	329,443	811,610	(679,688)
Balance, beginning of year	<u>14,235,910</u>	<u>2,797,412</u>	<u>17,033,322</u>	<u>17,033,322</u>
Balance, end of year	<u>\$ 14,718,077</u>	<u>\$ 3,126,855</u>	<u>\$ 17,844,932</u>	<u>\$ 16,353,634</u>

**Note 13: Significant Estimates and Concentrations**

Significant estimates and current vulnerability due to certain concentrations include the following:

- Estimates of allowances for adjustments included in net patient service revenue are described in Note 2. Estimates related to the accrual for self-insured health benefits are described in Notes 1 and 7.
- The Hospital is served by three groups of physicians whose patients comprise 69% of the Hospital's net patient service revenue at June 30, 2005.

**Note 14: Restricted and Designated Net Assets**

At June 30, 2005 and 2004, restricted expendable net assets were available for the following purposes.

	<b>2005</b>	<b>2004</b>
Debt service	\$ 566,966	\$ 272,482
Specific operating activities	18,353	—

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

At June 30, 2005 and 2004, unrestricted net assets had been designated by the Hospital's Board of Trustees for the following purposes.

	<b>2005</b>	<b>2004</b>
Edward H. Peterson Endowment Fund	\$ 247,317	\$ 241,859
Capital and other expenditures	1,456,954	1,422,884
Education Fund	6,241	6,900
Total unrestricted designated net assets	\$ 1,710,512	\$ 1,671,643

Designated net assets remain under the control of the Board of Trustees, which may, at its discretion, later use these net assets for other purposes.

At June 30, 2005 and 2004, \$57,440 represents nonexpendable net assets related to the Albert C. Linn Endowment Fund.

## **Supplementary Information**

**Boone County Hospital**  
**Schedules of Patient Service Revenues**  
**Years Ended June 30, 2005 and 2004**

	<u>2005</u>			<u>2004</u>		
	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>
<b>Routine Services</b>						
Acute nursing care	\$ 4,161,551	\$ 4,161,551		\$ 4,870,259	\$ 4,870,259	
<b>Nursing Services</b>						
Operating room	6,152,788	1,062,508	\$ 5,090,280	4,948,473	1,263,626	\$ 3,684,847
Skilled nursing	21,000	21,000				
Recovery room	1,639	1,639		2,470	2,470	
Emergency room	5,435,339	590,414	4,844,925	3,762,020	691,733	3,070,287
Public health nursing/home health	996,546		996,546	976,964		976,964
	<u>12,607,312</u>	<u>1,675,561</u>	<u>10,931,751</u>	<u>9,689,927</u>	<u>1,957,829</u>	<u>7,732,098</u>
<b>Other Professional Services</b>						
Central service and supply	257,415	217,893	39,522	293,403	252,807	40,596
Laboratory	4,518,024	1,206,838	3,311,186	4,131,234	1,242,391	2,888,843
Radiology	3,379,804	462,550	2,917,254	3,335,348	535,908	2,799,440
MRI	1,597,483	114,388	1,483,095	1,542,251	111,692	1,430,559
CT Scan	2,405,060	520,016	1,885,044	1,955,853	459,736	1,496,117
Pharmacy	5,185,503	2,727,354	2,458,149	5,364,443	3,215,140	2,149,303
Anesthesiology	648,835	141,397	507,438	517,537	110,215	407,322
Physical therapy	2,010,084	396,680	1,613,404	2,037,897	351,636	1,686,261
Speech therapy	113,396	51,199	62,197	115,354	50,641	64,713
Occupational therapy	361,008	186,911	174,097	377,782	167,444	210,338
Cardiac rehab	205,879		205,879	207,029		207,029
Specialty clinics	267,368	458	266,910	132,783	116	132,667
Electrocardiology	2,409,025	1,544,273	864,752	2,206,002	1,461,588	744,414
Ambulance service	1,215,707	423,809	791,898	1,099,713	422,859	676,854
Madrid clinic	163,869		163,869	30,746		30,746
BCFM Boone	4,140,245		4,140,245	3,737,868		3,737,868
Ogden clinic	599,521		599,521	521,534		521,534
Clinical psychology	65,252		65,252	129,435		129,435
	<u>29,543,478</u>	<u>7,993,766</u>	<u>21,549,712</u>	<u>27,736,212</u>	<u>8,382,173</u>	<u>19,354,039</u>
<b>Patient Service Revenue</b>	46,312,341	\$ 13,830,878	\$ 32,481,463	42,296,398	\$ 15,210,261	\$ 27,086,137
<b>Contractual Allowances</b>	<u>19,740,555</u>			<u>17,833,871</u>		
<b>Net Patient Service Revenue, before Provision for Uncollectible Accounts</b>	26,571,786			24,462,527		
<b>Provision for Uncollectible Accounts</b>	<u>(1,307,597)</u>			<u>(1,153,818)</u>		
<b>Net Patient Service Revenue</b>	\$ <u>25,264,189</u>			\$ <u>23,308,709</u>		

**Boone County Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Health Center	\$ 378,949	\$ 382,367
Public health nursing services support	173,313	171,940
Cafeteria and catering services	92,983	88,349
Meals on Wheels	103,184	110,532
Rent income	52,035	49,913
Sale of drugs	384,837	420,607
Home Care Aid services support	228,319	221,565
Purchase discounts	52,350	62,302
Medical records fees	5,082	3,020
Diabetes education	77,621	54,275
Adult daycare grants	97,275	61,622
Lifeline	51,853	48,656
Other	<u>41,412</u>	<u>105,610</u>
	<u>\$ 1,739,213</u>	<u>\$ 1,780,758</u>

# Boone County Hospital

## Schedules of Operating Expenses

### Years Ended June 30, 2005 and 2004

	2005			2004		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Nursing administration	\$ 513,102	\$ 485,838	\$ 27,264	\$ 493,647	\$ 451,339	\$ 42,308
Medical/surgical	1,477,228	1,336,648	140,580	1,627,615	1,504,236	123,379
Skilled nursing	110,867	109,480	1,387			
Special care unit	249,993	232,943	17,050	338,998	320,380	18,618
Obstetrics	336,296	299,502	36,794	363,792	297,741	66,051
Operating room	1,369,896	668,964	700,932	1,390,553	648,796	741,757
Emergency room	1,288,478	513,703	774,775	1,226,542	475,673	750,869
Public health nursing/home health	1,141,629	866,384	275,245	935,751	746,198	189,553
	<u>6,487,489</u>	<u>4,513,462</u>	<u>1,974,027</u>	<u>6,376,898</u>	<u>4,444,363</u>	<u>1,932,535</u>
<b>Other Professional Services</b>						
Central service and supply	162,056		162,056	166,450		166,450
Laboratory	1,212,808	556,178	656,630	1,071,760	492,658	579,102
Radiology	1,050,816	437,098	613,718	1,214,686	400,691	813,995
Occupational therapy	134,386		134,386	139,549		139,549
Cardiac rehab	114,041	104,306	9,735	105,749	98,079	7,670
MRI	338,330		338,330	364,532		364,532
Pharmacy	1,820,901	183,582	1,637,319	1,704,220	158,375	1,545,845
Anesthesiology	352,338		352,338	287,140		287,140
Physical therapy	837,068	27,667	809,401	812,063	50,038	762,025
Audiology	40,822		40,822	41,555		41,555
Health education	59,641	51,246	8,395	55,005	49,061	5,944
Health promotion	119,480	31,403	88,077	109,470	32,058	77,412
Ambulance service	487,643	421,454	66,189	452,132	406,446	45,686
Electrocardiology	357,748	252,942	104,806	342,190	233,417	108,773
Specialty clinics	118,682	91,196	27,486	116,448	84,319	32,129
Centre OB/GYN				360		360
Clinical Psychology	65,328	60,521	4,807	121,856	112,707	9,149
BCFM Boone	2,515,393	1,798,114	717,279	2,572,735	1,858,915	713,820
BCFM Ogden	453,076	336,600	116,476	377,783	283,618	94,165
Madrid clinic	163,149	126,668	36,481	39,040	15,085	23,955
	<u>10,403,706</u>	<u>4,478,975</u>	<u>5,924,731</u>	<u>10,094,723</u>	<u>4,275,467</u>	<u>5,819,256</u>
<b>General Services</b>						
Dietary	494,389	280,015	214,374	459,324	264,880	194,444
Operation of plant	928,541	255,025	673,516	819,944	211,258	608,686
Housekeeping	382,649	322,182	60,467	307,589	261,705	45,884
Laundry	117,868		117,868	122,925		122,925
	<u>1,923,447</u>	<u>857,222</u>	<u>1,066,225</u>	<u>1,709,782</u>	<u>737,843</u>	<u>971,939</u>
<b>Administrative Services</b>						
Medical records	304,622	220,179	84,443	285,397	204,923	80,474
Administration	2,114,274	759,673	1,354,601	2,028,361	695,227	1,333,134
Quality management	202,424	129,522	72,902	194,075	121,524	72,551
Health center	394,487	202,502	191,985	407,588	195,060	212,528
Health care foundation	18,721	16,365	2,356	11,495	10,286	1,209
Diabetes education	57,503	54,117	3,386	7,706	2,413	5,293
	<u>3,092,031</u>	<u>1,382,358</u>	<u>1,709,673</u>	<u>2,934,622</u>	<u>1,229,433</u>	<u>1,705,189</u>
<b>Insurance</b>	<u>303,939</u>		<u>303,939</u>	<u>246,700</u>		<u>246,700</u>
<b>Employee Benefits</b>	<u>3,539,326</u>		<u>3,539,326</u>	<u>2,699,067</u>		<u>2,699,067</u>
<b>Depreciation and Amortization</b>	<u>1,393,403</u>		<u>1,393,403</u>	<u>1,282,424</u>		<u>1,282,424</u>
	<u>\$ 27,143,341</u>	<u>\$ 11,232,017</u>	<u>\$ 15,911,324</u>	<u>\$ 25,344,216</u>	<u>\$ 10,687,106</u>	<u>\$ 14,657,110</u>

**Boone County Hospital**  
**Schedules of Patient Receivables and Allowance**  
**for Uncollectible Accounts**  
**Years Ended June 30, 2005 and 2004**

**Schedules of Patient Receivables**

	2005		2004	
	Amounts	Percent to Total	Amounts	Percent to Total
Days Since Discharge				
0-30 days	\$ 3,134,379	50.0	\$ 3,123,685	45.0
31-60 days	1,008,058	16.0	1,296,461	19.0
61-90 days	548,228	9.0	776,238	11.0
91-120 days	384,097	6.0	357,879	5.0
Over 4 months	1,241,328	19.0	1,318,015	20.0
Total	6,316,090	100.0	6,872,278	100.0
Clinic and other receivables	380,526		336,373	
Less contractual allowances	1,571,911		1,724,582	
Less allowance for uncollectible accounts	1,206,656		1,249,655	
Net patient receivables	\$ <u>3,918,049</u>		\$ <u>4,234,414</u>	

**Allowance for Uncollectible Accounts**

	2005	2004
Balance, beginning of year	\$ 1,249,655	\$ 1,197,214
Provision for year	1,307,597	1,153,818
Recoveries of accounts previously written off	436,135	343,010
	2,993,387	2,694,042
Accounts written off	1,786,731	1,444,387
Balance, end of year	\$ <u>1,206,656</u>	\$ <u>1,249,655</u>

**Boone County Hospital**  
**Schedule of Officials**  
**June 30, 2005**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Trustees</b>		
Tim Buckner	Chairman	2008
David Grant	Vice Chairman	2008
Patricia Henkel	Treasurer	2010
Maxine Redeker	Secretary	2006
Keith Kudej	Member	2008
Thomas Good	Member	2006
Bruce Anderson	Member	2006
<b>Hospital Officials</b>		
Joseph Smith	Chief Executive Officer	
Dave Mellett	Chief Financial Officer	

**Boone County Hospital**  
**Schedules of Supplies and Prepaid Expenses**  
**Years Ended June 30, 2005 and 2004**

**Supplies**

	<u>2005</u>	<u>2004</u>
General	\$ 58,428	\$ 56,971
Pharmacy	244,576	222,663
BCFM Clinics	31,361	33,380
Dietary	11,512	11,271
Plant operation and maintenance	14,435	13,267
Laboratory	47,523	54,726
Operating room	225,746	267,476
Other supplies	<u>49,524</u>	<u>47,521</u>
	<u>\$ 683,105</u>	<u>\$ 707,275</u>

**Prepaid Expenses**

	<u>2005</u>	<u>2004</u>
Maintenance and other	<u>\$ 47,689</u>	<u>\$ 31,785</u>

**Boone County Hospital**  
**Schedule of Insurance Coverage**  
**June 30, 2005**

**The Cincinnati Insurance Company**

Policy No. BEP 266-37 – 36; \$1,000 deductible  
 Boiler & Machinery; 7/1/04 – 7/1/07 \$ 9,000,000

**Physicians Insurance Company of Wisconsin, Inc.**

Policy No. 133428; 7/1/04 – 7/1/05  
 Professional Liability  
     Institutional each claim \$ 1,000,000  
     Institutional aggregate \$ 3,000,000  
     Personal Injury/Property Damage each \$ 1,000,000  
     Personal Injury/Property Damage aggregate \$ 3,000,000

**Physicians Insurance Company of Wisconsin, Inc.**

Policy No. 133430; 7/01/04 – 7/01/05  
     General Liability each \$ 1,000,000  
     Damage to premises rented \$ 1,000,000  
     Medical expense limit \$ 10,000  
     Personal and Advertising Injury limit \$ 1,000,000  
     Employee Benefits Liability limit \$ 1,000,000  
     General aggregate \$ 3,000,000  
     Products/Completed Operations aggregate \$ 1,000,000  
     Fire Damage limit \$ 1,000,000

**Physicians Insurance Company of Wisconsin, Inc.**

Policy No. 133431; 7/1/04 – 7/1/05  
 Umbrella Policy  
     Professional liability each \$ 5,000,000  
     Professional liability aggregate \$ 5,000,000  
     Umbrella each \$ 5,000,000  
     Umbrella aggregate \$ 5,000,000

**Physicians Insurance Company of Wisconsin, Inc.**

Policy No. 133432; 7/01/04 – 7/01/05  
 Entity Professional Liability Excess  
     Each professional health care incident \$ 5,000,000  
     Annual aggregate \$ 5,000,000

**Jester Insurance – Fireman’s Fund**

Policy No. NDP 000-8649-3251; 7/1/04 – 7/1/05  
 Directors and Officers Liability; \$7,500 deductible  
     Each loss \$ 2,000,000  
     Aggregate \$ 2,000,000

**Employers Mutual Casualty Company**

Policy No. OB6-60-22-04; 7/1/04 – 7/1/05  
 Business Protection/Inland Marine; \$1,000 deductible  
     Buildings \$ 29,833,243  
     Personal property \$ 10,508,894  
     Data processing equipment \$ 550,000  
     Business income \$ 5,500,000

(Continued)

**Boone County Hospital**  
**Schedule of Insurance Coverage**  
**June 30, 2005**

**Zenith**

Policy No. ZO66092001; 7/1/04 – 7/1/05

Workers compensation

Bodily injury – each accident	\$	500,000
Bodily injury – by disease – each employee	\$	500,000
Bodily injury – by disease – policy limit	\$	500,000

**Employers Mutual Casualty Company**

Policy No. OE6-60-22-04; 7/1/04 – 7/1/05

Automobile liability	\$	1,000,000
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**Allied Mutual Insurance Company**

Bond No. BD 79 0 0575087; 7/1/04 – 7/1/05

Employee dishonesty	\$	50,000
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Policies expiring in July 2005 have been renewed for a minimum of one year.



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

Board of Trustees  
Boone County Hospital  
Boone, Iowa

We have audited the financial statements of Boone County Hospital as of and for the year ended June 30, 2005 and have issued our report thereon dated August 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and responses as item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

### ***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*.

We also noted certain additional matters that are reported below or we reported to the Hospital's management in a separate letter dated August 19, 2005.

### ***Compliance with Certain Provisions of Iowa Law***

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2005. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

#### Official Depository Banks

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, 2005.

#### Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2005 did not exceed amounts budgeted.

#### Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979. However, the following was noted:

Criteria or Specific Requirement – Management is responsible maintaining invoices or other support for questionable expenditures.

Condition – One expenditure tested did not have adequate supporting documentation.

Context – Supporting documentation did not exist.

Effect – Expenditures could have been reimbursed for inappropriate items or for an inappropriate amount.

Cause – Supporting documentation was not maintained.

Recommendation – Management should maintain supporting documentation for all questionable expenditures during the audit period.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to conform to this requirement.

#### Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. Mileage reimbursement was approved for employees not in excess of the IRS limits except as noted below:

Criteria or Specific Requirement – Management is responsible for establishing and paying proper mileage reimbursements.

Condition – One reimbursement was paid in excess of the IRS mileage reimbursement amount.

Context – Transaction was approved to pay employee for mileage reimbursement over the IRS limit.

Effect – Overpayment of one mileage reimbursement.

Cause – Review of mileage reimbursements prior to payment did not identify the overpayment.

Recommendation – Management should ensure employees are aware of the IRS mileage reimbursement limit and complete review of such request for reimbursement to ensure it is not over the limit.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to conform to this requirement.

#### Business Transactions

We noted no transactions between the Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

#### Trustee Minutes

No transactions were found that we believe should have been approved in the Trustee minutes but were not.

#### Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

#### Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

#### Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

#### Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

#### Unclaimed Property

Prior to November 1, 2004, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for filing a report of unclaimed property or a negative report if no unclaimed property is on hand.

Condition – A report noting no unclaimed property was not filed in 2005 for the year ended June 30, 2004.

Context – The Hospital had no unclaimed property, but no report was filed.

Effect – Requirements were not met under Chapter 556.11 of the Code of Iowa.

Cause – Necessary reporting was not made in the current fiscal year.

Recommendation – Management should ensure necessary reporting is completed each year.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to ensure all reporting is made in accordance with the Code of Iowa.

\* \* \* \* \*

This report is intended solely for the information and use of the governing body, management and the State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri  
August 19, 2005

**Boone County Hospital**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2005**

<b>Reference Number</b>	<b>Finding</b>
05-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—Certain individuals have incompatible duties in the revenue, purchases and payroll cycles in the Hospital and the revenue cycle in the Clinics.</p> <p>Context—Individuals responsible for processing cash receipts, disbursements and recording and monitoring payroll information have duties that include access to assets, recording responsibilities and some monitoring responsibilities.</p> <p>Effect—Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the purchases and payroll cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.</p>





Board of Trustees  
Boone County Hospital  
Boone, Iowa

As part of our audit of the financial statements of Boone County Hospital for the year ended June 30, 2005, we studied and evaluated the Hospital's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all reportable conditions or opportunities for improvement. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We observed the following matters and offer these comments and suggestions. Previously we made observations as a result of our 2004 audit engagement in a letter dated August 6, 2004.

### ***Internal Controls***

Certain matters regarding internal controls were included in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

We noted the following areas of segregation of duties issues with the following positions:

- Accounts payable clerk in the Purchases cycle
- Accountant in the Purchases and Revenue cycles
- CFO in the Purchases cycle
- Billing clerk and billing office manager in the Revenue cycle
- Cashier and business manager – BCFM Clinic
- Cashier – Madrid Clinic

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department may be difficult because of the limited number of personnel. The Hospital has implemented some mitigating controls in 2005; however, there may be other compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business.

We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department. Consider implementing the following changes to improve controls:

- Limit access to master file screens within the computer systems to necessary individuals via passwords.
- Review of bank statements and enclosures by management of the Hospital prior to submission to the accountant for reconciliation.
- In the Revenue cycle, limit access to actual cash deposits by the employee posting cash receipts to the general ledger by having that employee use a cash receipts listing for posting rather than handling daily deposits. No one person should have access to incoming receipts and ability to record or make adjustments to accounts receivable.
- In the Purchases cycle, the accountant and accounts payable clerk have access to signed checks and the general ledger. The accountant is also responsible for the reconciliation of accounts. We recommend someone other than the accountant or accounts payable clerk mail checks after they have been signed.
- In the Purchases cycle, we recommend the CFO should not be given access to signed checks prior to them being mailed.

### ***Approval of Journal Entries***

We noted certain journal entries prepared and posted to the general ledger by the Accountant were not approved or reviewed by the Chief Financial Officer. In order to improve controls over journal entries, we recommend the Chief Financial Officer document approval of all journal entries posted by the accountant or any other individuals proposing journal entries.

### ***Compliance Program Assessment***

The Hospital operates under the guidance of a corporate compliance program to promote the Hospital's commitment to conduct business in accordance with health insurance laws and regulations. During the year ended June 30, 2005, we noted the Hospital conducted compliance committee meetings and has planned internal reviews as part of its compliance efforts, but did not have an independent review of the effectiveness of the compliance program. The Office of Inspector General has recommended that health care organizations have independent reviews of their compliance activities on a regular basis to determine if the organization is following its compliance plan. We also recommend the Hospital review the compliance plan document and update as necessary on a periodic basis.

\* \* \* \* \*

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the Hospital's overall internal control structure; it does, however, include items that we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri  
August 19, 2005