

Boone County Hospital

Accountants' Report and Financial Statements

June 30, 2008 and 2007



Boone County Hospital
June 30, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, 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 September 24, 2008, 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
September 24, 2008

Boone County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2008 and 2007

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, 2008 and 2007. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and noncurrent cash and deposits increased (decreased) in 2008 and 2007 by \$(400,000) and \$2,200,000, or (8)% and 78%, respectively.
- The Hospital's net assets increased in each of the past two years with a \$544,000 or 3% increase in 2008 and a \$1,666,000 or 11% increase in 2007.
- The Hospital reported operating income (loss) of \$(279,229) and \$785,642 in 2008 and 2007, respectively.
- Net nonoperating revenues decreased in 2008 by approximately \$(41,000) and increased by \$146,000 in 2007.

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 \$544,000 or 3% in 2008 and \$1,666,000 or 11% in 2007 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2008	2007	2006
Assets			
Patient accounts receivable, net	\$ 5,621,732	\$ 5,153,116	\$ 5,032,131
Other current assets	4,923,815	5,049,507	3,460,145
Capital assets, net	19,134,058	15,696,128	13,179,032
Other noncurrent assets	<u>2,665,516</u>	<u>2,183,717</u>	<u>1,835,331</u>
Total assets	<u>\$ 32,345,121</u>	<u>\$ 28,082,468</u>	<u>\$ 23,506,639</u>
Liabilities			
Long-term debt	\$ 9,319,972	\$ 6,458,429	\$ 3,936,228
Other current and noncurrent liabilities	<u>5,492,402</u>	<u>4,635,611</u>	<u>4,248,149</u>
Total liabilities	<u>14,812,374</u>	<u>11,094,040</u>	<u>8,184,377</u>
Net Assets			
Invested in capital assets, net of related debt	8,033,584	7,946,041	8,432,976
Restricted – expendable for			
Debt service payments	345,104	318,143	298,398
Specific operating activities	3,386	7,582	12,176
Restricted – nonexpendable endowment	57,440	57,440	57,440
Unrestricted	<u>9,093,233</u>	<u>8,659,222</u>	<u>6,521,272</u>
Total net assets	<u>17,532,747</u>	<u>16,988,428</u>	<u>15,322,262</u>
Total liabilities and net assets	<u>\$ 32,345,121</u>	<u>\$ 28,082,468</u>	<u>\$ 23,506,639</u>

In 2008, the increase in net assets was primarily from additional capital assets, which resulted from facility renovations completed in 2008 and accounts receivable increases due to increased revenues.

In 2007, the change in assets was related to an increase in cash and capital assets. The change in cash came from patient revenues. The increase in capital assets came from equipment purchases and facility renovations. The increase in capital assets was paid for, in part, by an increase in debt.

Operating Results

In 2008, the Hospital's Excess of Revenues Over Expenses was \$504,319 as shown in Table 2.

Table 2: Operating Results

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Revenues			
Net patient service revenue	\$ 31,637,403	\$ 28,874,655	\$ 26,722,094
Other operating revenues	<u>1,689,043</u>	<u>1,415,559</u>	<u>1,402,849</u>
Total operating revenues	<u>33,326,446</u>	<u>30,290,214</u>	<u>28,124,943</u>
Operating Expenses			
Salaries and wages and employee benefits	18,494,904	16,115,130	14,864,654
Medical professional fees	3,704,760	3,468,784	3,447,866
Depreciation and amortization	1,747,827	1,467,010	1,407,623
Other operating expenses	<u>9,658,184</u>	<u>8,453,648</u>	<u>8,629,365</u>
Total operating expenses	<u>33,605,675</u>	<u>29,504,572</u>	<u>28,349,508</u>
Operating Income (Loss)	<u>(279,229)</u>	<u>785,642</u>	<u>(224,565)</u>
Nonoperating Revenues (Expenses)			
Non-capital contributions	5,277	3,010	4,094
Interest income	165,905	185,198	124,314
Interest expense	(259,318)	(225,332)	(249,539)
Property tax revenue	<u>871,684</u>	<u>861,648</u>	<u>799,881</u>
Total nonoperating revenues	<u>783,548</u>	<u>824,524</u>	<u>678,750</u>
Excess of Revenues Over Expenses Before Capital Contribution	504,319	1,610,166	454,185
Capital Contribution	<u>40,000</u>	<u>56,000</u>	<u>150,000</u>
Increase in Net Assets	<u>\$ 544,319</u>	<u>\$ 1,666,166</u>	<u>\$ 604,185</u>

Operating Income

In 2008, the drop in operating income was attributed to reduced admissions and patient census. Expenses were also up in part as the Hospital invested in the start-up of a physician clinic (orthopedics) in an effort to increase revenues.

In 2007, the increase in operating income was due to improved payment from Medicare and Medicaid. The improved payments can be traced to a full year of operation as a Critical Access Hospital. The Hospital also experienced some increases in Outpatient volumes.

The Hospital's Cash Flows

The Hospital's cash decreased in 2008 by \$(400,588) due to the timing of third-party payments.

The Hospital's cash increased in 2007 by \$1,907,211 due to the timing of third-party payments received for services during the year.

Capital Contributions

In 2008 and 2007, the Hospital received \$40,000 and \$56,000 for equipment purchases from the Boone County Health Care Foundation, respectively.

Capital Asset and Debt Administration

Capital Assets

At the end of 2008 and 2007, the Hospital had \$19,134,058 and \$15,696,128, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2008 and 2007, the Hospital added \$5,178,291 and \$3,969,106 in new capital assets, respectively.

Debt

At June 30, 2008 and 2007, the Hospital had \$10,891,256 and \$7,189,954, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. The Hospital refinanced the 1997 Hospital Revenue Bonds and 2006 Hospital Revenue Bonds in 2008 and issued \$10,913,000 of new debt.

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, 2008 and 2007

Assets

	2008	2007
Current Assets		
Cash	\$ 1,879,371	\$ 2,759,187
Assets held under indenture agreement – Bond Fund	345,104	333,817
Patient accounts receivable, net of allowance; 2008 – \$1,999,014, 2007 – \$1,814,155	5,621,732	5,153,116
Property tax receivable	937,151	875,344
Estimated amounts due from third-party payers	909,000	135,000
Supplies	788,375	844,370
Prepaid expenses	64,814	101,789
Total current assets	10,545,547	10,202,623
Noncurrent Cash and Deposits		
Internally designated		
Edward H. Peterson Endowment Fund	279,806	268,291
Capital and other expenditures	2,081,796	1,605,180
Externally restricted by donors		
Albert C. Linn Endowment Fund	57,440	57,440
Specific operating activities	3,386	7,582
	2,422,428	1,938,493
Capital Assets, net of accumulated depreciation	19,134,058	15,696,128
Other Assets		
Deferred financing costs (net of amortization of \$164,951 in 2008 and \$153,311 in 2007)	86,452	54,903
Receivables	156,636	182,821
Other	-	7,500
	243,088	245,224
Total Assets	\$ 32,345,121	\$ 28,082,468

Liabilities and Net Assets

	<u>2008</u>	<u>2007</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,571,284	\$ 731,525
Accounts payable	1,024,404	823,234
Accounts payable – construction	295,670	615,037
Accrued expenses		
Payroll and related deductions	1,423,814	1,320,628
Health insurance	243,956	257,754
Interest	-	15,674
Deferred revenue for property taxes	933,274	871,759
	<hr/>	<hr/>
Total current liabilities	5,492,402	4,635,611
Long-term Debt	<hr/>	<hr/>
	9,319,972	6,458,429
Total liabilities	<hr/>	<hr/>
	14,812,374	11,094,040
Net Assets		
Invested in capital assets, net of related debt	8,033,584	7,946,041
Restricted – expendable for		
Debt service payments	345,104	318,143
Specific operating activities	3,386	7,582
Restricted – nonexpendable endowment	57,440	57,440
Unrestricted	9,093,233	8,659,222
	<hr/>	<hr/>
Total net assets	17,532,747	16,988,428
Total Liabilities and Net Assets	<hr/> <hr/>	<hr/> <hr/>
	\$ 32,345,121	\$ 28,082,468

Boone County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 33,214,257	\$ 30,643,801
Provision for uncollectible accounts	(1,576,854)	(1,769,146)
Net patient service revenue	31,637,403	28,874,655
Other	1,689,043	1,415,559
	33,326,446	30,290,214
Operating Expenses		
Salaries and wages	14,215,995	12,780,052
Employee benefits	4,278,909	3,335,078
Medical professional fees	3,704,760	3,468,784
Supplies and other	5,946,604	5,105,104
General services	1,343,288	1,181,274
Administrative services	2,065,065	1,891,624
Insurance	303,227	275,646
Depreciation and amortization	1,747,827	1,467,010
	33,605,675	29,504,572
Operating Income (Loss)	(279,229)	785,642
Nonoperating Revenues (Expenses)		
Non-capital contributions	5,277	3,010
Interest income	165,905	185,198
Interest expense	(259,318)	(225,332)
Property tax revenue	871,684	861,648
	783,548	824,524
Excess of Revenues Over Expenses Before Capital Contribution	504,319	1,610,166
Capital Contribution	40,000	56,000
Increase in Net Assets	544,319	1,666,166
Net Assets, Beginning of the Year	16,988,428	15,322,262
Net Assets, End of the Year	\$ 17,532,747	\$ 16,988,428

Boone County Hospital
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 30,394,787	\$ 29,278,670
Payments to suppliers	(13,082,603)	(12,280,348)
Payments to employees	(18,407,392)	(16,043,048)
Other receipts and payments, net	<u>1,726,576</u>	<u>1,324,983</u>
Net cash provided by operating activities	<u>631,368</u>	<u>2,280,257</u>
Noncapital Financing Activities		
Property taxes supporting operations	871,684	861,648
Gifts and grants for other than capital purchases	<u>5,277</u>	<u>3,010</u>
Net cash provided by noncapital financing activities	<u>876,961</u>	<u>864,658</u>
Capital and Related Financing Activities		
Proceeds from capital debt	15,511,858	3,244,537
Purchase of capital assets	(5,298,953)	(3,396,136)
Principal payments on long-term debt	(11,810,556)	(741,081)
Interest paid on long-term debt	(457,988)	(286,153)
Deferred financing costs	(43,189)	-
Contributions for capital assets	<u>40,000</u>	<u>56,000</u>
Net cash used in capital and related financing activities	<u>(2,058,828)</u>	<u>(1,122,833)</u>
Investing Activities		
Purchase of certificates of deposit	(940,852)	(758,000)
Proceeds from sale of certificates of deposit	927,000	564,480
Income received on deposits	<u>163,763</u>	<u>78,649</u>
Net cash provided by (used in) investing activities	<u>149,911</u>	<u>(114,871)</u>
Increase (Decrease) in Cash	(400,588)	1,907,211
Cash, Beginning of Year	<u>3,199,017</u>	<u>1,291,806</u>
Cash, End of Year	<u>\$ 2,798,429</u>	<u>\$ 3,199,017</u>
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 1,879,371	\$ 2,759,187
Cash in assets held under indenture agreement – Bond Fund	345,104	333,817
Noncurrent cash and deposits		
Internally designated		
Edward H. Peterson Endowment Fund	62,950	45,987
Capital and other expenditures	507,618	52,444
Externally restricted		
Specific operating activities	<u>3,386</u>	<u>7,582</u>
	<u>\$ 2,798,429</u>	<u>\$ 3,199,017</u>

Boone County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (279,229)	\$ 785,642
Items not requiring (providing) cash		
Depreciation	1,740,327	1,452,010
Amortization	7,500	15,000
Accrued self-insurance	(13,798)	62,672
Changes in		
Patient and other receivables	(468,616)	(120,985)
Supplies	55,995	(145,844)
Prepaid expenses	36,975	(23,938)
Accounts payable and accrued expenses	288,389	(176,390)
Estimated amounts due to third-party payers	(774,000)	525,000
Other	37,825	(92,910)
	\$ 631,368	\$ 2,280,257
Net cash provided by operating activities		
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 295,670	\$ 615,037

Boone County Hospital

Notes to Financial Statements

June 30, 2008 and 2007

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, 2008 and 2007

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 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

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	2008	2007
Interest costs capitalized	\$ 198,670	\$ 59,000
Interest costs charged to expense	259,318	225,332
Total interest incurred	\$ 457,988	\$ 284,332

Boone County Hospital

Notes to Financial Statements

June 30, 2008 and 2007

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 \$502,840 and \$364,300 for 2008 and 2007, respectively.

Property Taxes

The Hospital received approximately 3% of its financial support from property tax revenues in each of the years ended June 30, 2008 and 2007, 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 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.

Boone County Hospital

Notes to Financial Statements

June 30, 2008 and 2007

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.

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 and outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. 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 Administrative Contractor.

Boone County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

- **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 48% and 47% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2008 and 2007, 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, 2008 and 2007 was:

	<u>2008</u>	<u>2007</u>
Medicare and Medicaid	\$ 1,308,647	\$ 1,367,791
Other third-party payers	2,558,551	2,694,933
Patients	2,731,529	2,338,917
Clinics	<u>1,022,019</u>	<u>565,630</u>
	7,620,746	6,967,271
Less allowances for uncollectible accounts	<u>1,999,014</u>	<u>1,814,155</u>
	<u>\$ 5,621,732</u>	<u>\$ 5,153,116</u>

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, 2008 and 2007. The Hospital's deposits in banks at June 30, 2008 and 2007 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.

Boone County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

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, 2008 and 2007.

Summary of Carrying Value

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

	2008	2007
Deposits	\$ 4,617,074	\$ 4,972,815
Accrued interest receivable	29,829	58,682
	\$ 4,646,903	\$ 5,031,497
Included in the following balance sheet captions		
Cash	\$ 1,879,371	\$ 2,759,187
Assets held under indenture agreement – Bond Fund	345,104	333,817
Noncurrent cash and deposits	2,422,428	1,938,493
	\$ 4,646,903	\$ 5,031,497

Boone County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2008 and 2007, were as follows:

2008	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
Land and improvements	\$ 921,766	\$ 581	\$ -	\$ 1,676	\$ 924,023
Buildings and improvements	14,541,893	12,799	-	1,711,830	16,266,522
Equipment	14,404,794	1,255,270	43,024	3,435,302	19,052,342
Construction in progress	1,273,074	3,909,641	-	(5,148,808)	33,907
	<u>31,141,527</u>	<u>5,178,291</u>	<u>43,024</u>	<u>-</u>	<u>36,276,794</u>
Less accumulated depreciation for					
Land and improvements	141,718	23,960	-	-	165,678
Buildings and improvements	5,045,799	644,632	-	-	5,690,431
Equipment	10,257,882	1,071,769	43,024	-	11,286,627
	<u>15,445,399</u>	<u>1,740,361</u>	<u>43,024</u>	<u>-</u>	<u>17,142,736</u>
	<u>\$ 15,696,128</u>	<u>\$ 3,437,930</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,134,058</u>
2007	Balance June 30, 2006	Additions	Retirements	Transfers	Balance June 30, 2007
Land and improvements	\$ 660,154	\$ -	\$ -	\$ 261,612	\$ 921,766
Buildings and improvements	13,381,663	10,961	-	1,149,269	14,541,893
Equipment	12,469,111	1,298,623	-	637,060	14,404,794
Construction in progress	661,493	2,659,522	-	(2,047,941)	1,273,074
	<u>27,172,421</u>	<u>3,969,106</u>	<u>-</u>	<u>-</u>	<u>31,141,527</u>
Less accumulated depreciation for					
Land and improvements	131,974	9,744	-	-	141,718
Buildings and improvements	4,446,626	599,173	-	-	5,045,799
Equipment	9,414,789	843,093	-	-	10,257,882
	<u>13,993,389</u>	<u>1,452,010</u>	<u>-</u>	<u>-</u>	<u>15,445,399</u>
	<u>\$ 13,179,032</u>	<u>\$ 2,517,096</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,696,128</u>

Boone County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

Note 6: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2008 and 2007 follows.

	Balance			Balance	Amounts Due
	June 30, 2007	Additions	Reductions	June 30, 2008	Within One
					Year
Series 1997 Hospital Revenue Bonds (A)	\$ 3,640,000	\$ -	\$ 3,640,000	\$ -	\$ -
Capital lease obligation (B)	9,105	-	9,105	-	-
Note payable to bank (C)	296,312	-	203,310	93,002	93,002
Series 2006 Hospital Revenue Bonds (D)	3,244,537	4,598,858	7,843,395	-	-
Series 2008 Hospital Revenue Notes (E)	-	10,913,000	114,746	10,798,254	1,478,282
	<u>\$ 7,189,954</u>	<u>\$ 15,511,858</u>	<u>\$ 11,810,556</u>	<u>\$ 10,891,256</u>	<u>\$ 1,571,284</u>
	Balance			Balance	Amounts Due
	June 30, 2006	Additions	Reductions	June 30, 2007	Within One
					Year
Series 1997 Hospital Revenue Bonds (A)	\$ 4,150,000	\$ -	\$ 510,000	\$ 3,640,000	\$ 535,000
Capital lease obligation (B)	59,342	-	50,237	9,105	9,105
Note payable to bank (C)	477,156	-	180,844	296,312	187,420
Series 2006 Hospital Revenue Bonds (D)	-	3,244,537	-	3,244,537	-
	<u>\$ 4,686,498</u>	<u>\$ 3,244,537</u>	<u>\$ 741,081</u>	<u>\$ 7,189,954</u>	<u>\$ 731,525</u>

Boone County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

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

	Long-term Debt	
	Principal	Interest
2009	\$ 1,571,284	\$ 380,616
2010	1,531,809	326,135
2011	1,587,301	270,643
2012	1,644,831	213,112
2013	1,604,938	153,467
2014-2018	2,951,093	320,408
	\$ 10,891,256	\$ 1,664,381

- (A) Hospital Revenue Bonds, Series 1997; \$7,500,000 maturing serially at varying amounts through 2013; semiannual interest payments at rates ranging from 4.90% to 5.30%; callable beginning December 1, 2007 and thereafter at varying amounts, collateralized by the Hospital's net revenues. Bonds were refunded with the issuance of the series 2008 Hospital Revenue Notes.
- (B) The capital lease obligation shown as long-term debt includes a lease for an MRI suite, which expires in 2008. 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. The lease was paid off in 2008.
- (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.
- (D) Hospital Revenue Bonds, Series 2006; \$8,500,000 available to draw until January 1, 2008. Interest is payable monthly at 4.54% to January 1, 2008. Commencing February 1, 2008 and continuing on the first day of each month thereafter, monthly installments of principal and interest shall be paid. A portion related to equipment has an interest rate of 4.54% and shall be paid in full by January 1, 2013. A portion related to real estate improvements has an interest rate of 5.19% and shall be paid in full by January 1, 2023. The debt is collateralized by the Hospital's net revenue. The bonds were refunded in 2008 with the issuance of the Series 2008 Hospital Revenue Notes.
- (E) Hospital Revenue Notes, Series 2008; \$10,913,000 maturing at varying amounts through 2018; principal and interest payments due monthly with rates ranging from 3.29% to 4.28%; collateralized by the Hospital's net revenues.

Boone County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

Note 7: Employee Health Insurance Claims

The Hospital is self-insured for the first \$100,000 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 2008 and 2007 is summarized as follows:

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 257,754	\$ 195,082
Current year claims incurred and changes in estimates for claims incurred in prior year	2,236,861	1,465,786
Payments for claims	<u>(2,250,659)</u>	<u>(1,403,114)</u>
Balance, end of year	<u>\$ 243,956</u>	<u>\$ 257,754</u>

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 \$40,000 and \$56,000 to the Hospital for the years ended June 30, 2008 and 2007, respectively. The Hospital provided for the expenses of the Foundation director in the amount of \$32,657 and \$36,467 in 2008 and 2007, respectively. The unaudited financial position and results of operations of the Foundation for 2008 and 2007 are summarized as follows:

	<u>2008</u>	<u>2007</u>
Cash and investments	<u>\$ 266,494</u>	<u>\$ 256,580</u>
Net assets	<u>\$ 266,494</u>	<u>\$ 256,580</u>
Revenue	\$ 69,993	\$ 121,885
Expenses	<u>60,079</u>	<u>68,403</u>
Revenue over expenses	<u>\$ 9,914</u>	<u>\$ 53,482</u>

Boone County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

Note 9: Operating Leases

Noncancellable operating leases for primary care outpatient clinic offices and equipment expire in various years through 2013. 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, 2008, were:

2009	\$ 423,678
2010	423,678
2011	423,678
2012	423,678
2013	<u>61,935</u>
Future minimum lease payments	<u><u>\$ 1,756,647</u></u>

Rental expense for all operating leases totaled \$685,831 and \$655,775 for 2008 and 2007, respectively.

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 were required to contribute 3.9% and 3.7% of their annual covered salary and the Hospital was required to contribute 6.05% and 5.75% of annual covered payroll for 2008 and 2007. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2008, 2007 and 2006 were \$827,417, \$719,344 and \$659,660, respectively, which equaled the required contributions for each year.

Boone County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

Note 11: Commitment, Management Agreement

In January 2003, the Hospital entered into a five-year management agreement with QHR, Inc. Under the agreement, the Hospital will pay QHR 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, QHR 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 QHR pursuant to the agreement amounted to \$728,644 and \$683,941 for the years ended June 30, 2008 and 2007, respectively.

The Hospital has agreed to an extension of the agreement with QHR for 12 years. The agreement calls for the Hospital to give notice of 90 days before certain renewal periods if the Hospital would like to terminate the agreement. The renewal periods are as follows:

Renewal Dates

January 26, 2011
January 26, 2014
January 26, 2017

Boone County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

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.

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

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 871,684	\$ -	\$ 871,684	\$ 871,759
Other revenues/receipts	<u>33,537,628</u>	<u>(1,242,616)</u>	<u>32,295,012</u>	<u>36,597,418</u>
	34,409,312	(1,242,616)	33,166,696	37,469,177
Expenses/disbursements	<u>33,864,993</u>	<u>(419,184)</u>	<u>33,445,809</u>	<u>37,027,420</u>
	544,319	(823,432)	(279,113)	441,757
Balance, beginning of year	<u>16,988,428</u>	<u>8,996,602</u>	<u>25,985,030</u>	<u>25,985,030</u>
Balance, end of year	<u><u>\$ 17,532,747</u></u>	<u><u>\$ 8,173,170</u></u>	<u><u>\$ 25,705,917</u></u>	<u><u>\$ 26,426,787</u></u>

Note 13: Restricted and Designated Net Assets

At June 30, 2008 and 2007, restricted expendable net assets were available for the following purposes.

	2008	2007
Debt service	\$ 345,104	\$ 318,143
Specific operating activities	3,386	7,582

Boone County Hospital
Notes to Financial Statements
June 30, 2008 and 2007

At June 30, 2008 and 2007, unrestricted net assets had been designated by the Hospital's Board of Trustees for the following purposes:

	2008	2007
Edward H. Peterson Endowment Fund	\$ 279,806	\$ 268,291
Capital and other expenditures	2,081,796	1,605,180
Total unrestricted designated net assets	\$ 2,361,602	\$ 1,873,471

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, 2008 and 2007, \$57,440 represents nonexpendable net assets related to the Albert C. Linn Endowment Fund.

Note 14: Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. No amounts were recorded at June 30, 2008 or 2007.

Supplementary Information

Boone County Hospital

Schedules of Patient Service Revenues Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	\$ 3,960,285	\$ 3,960,285		\$ 3,785,005	\$ 3,785,005	
Nursing Services						
Operating room	7,384,348	1,289,164	\$ 6,095,184	6,589,178	834,203	\$ 5,754,975
Skilled nursing	106,398	106,398		147,084	147,084	
Recovery room				1,220	1,220	
Emergency room	6,901,163	147,195	6,753,968	6,120,397	164,573	5,955,824
Public health nursing/home health	1,143,956		1,143,956	1,101,164		1,101,164
	<u>15,535,865</u>	<u>1,542,757</u>	<u>13,993,108</u>	<u>13,959,043</u>	<u>1,147,080</u>	<u>12,811,963</u>
Other Professional Services						
Central service and supply	373,437	306,438	66,999	315,816	250,206	65,610
Laboratory	6,264,668	1,241,064	5,023,604	5,835,495	1,324,276	4,511,219
Radiology	3,767,476	340,627	3,426,849	3,433,432	337,620	3,095,812
MRI	1,812,277	114,960	1,697,317	1,651,675	119,883	1,531,792
CT Scan	3,787,431	625,430	3,162,001	3,259,260	573,102	2,686,158
Pharmacy	4,592,652	2,308,135	2,284,517	4,685,270	2,455,990	2,229,280
Anesthesiology	1,008,802	313,798	695,004	785,370	219,737	565,633
Physical therapy	2,207,509	421,365	1,786,144	2,075,036	447,994	1,627,042
Speech therapy	90,920	53,165	37,755	113,899	46,555	67,344
Occupational therapy	302,985	158,082	144,903	363,307	191,812	171,495
Orthopedic	599,319		599,319			
Cardiac rehab	168,606		168,606	220,208		220,208
Specialty clinics	267,185		267,185	254,339		254,339
Electrocardiology	2,750,355		1,416,442	2,716,246	1,376,486	1,339,760
Ambulance service	1,743,060		1,539,767	1,464,751	179,466	1,285,285
Madrid Clinic	373,734		373,734	400,865		400,865
BCFM Boone	4,570,076		4,570,076	4,182,808		4,182,808
Ogden Clinic	530,217		530,217	495,509		495,509
Surgery clinic	1,420,471		1,420,471	1,112,460		1,112,460
	<u>36,631,180</u>	<u>7,420,270</u>	<u>29,210,910</u>	<u>33,365,746</u>	<u>7,523,127</u>	<u>25,842,619</u>

Boone County Hospital
Schedules of Patient Service Revenues (Continued)
Years Ended June 30, 2008 and 2007

	2008		2007	
	Total	Inpatient	Inpatient	Outpatient
Patient Service Revenue	\$ 56,127,330	\$ 12,923,312	\$ 51,109,794	\$ 38,654,582
Contractual Allowances	<u>(22,913,073)</u>		<u>(20,465,993)</u>	
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	33,214,257		30,643,801	
Provision for Uncollectible Accounts	<u>(1,576,854)</u>		<u>(1,769,146)</u>	
Net Patient Service Revenue	<u>\$ 31,637,403</u>		<u>\$ 28,874,655</u>	

Boone County Hospital
Schedules of Other Revenues
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Public health nursing services support	\$ 185,690	\$ 172,503
Cafeteria and catering services	132,369	105,401
Meals on Wheels	114,334	100,164
Rent income	33,758	34,104
Sale of drugs	638,777	486,609
Home Care Aid services support	202,345	209,888
Purchase discounts	71,708	44,479
Medical records fees	919	1,917
Diabetes education	76,559	78,429
Adult daycare grants	115,036	82,345
Lifeline	63,670	59,462
Other	<u>53,878</u>	<u>40,258</u>
	<u>\$ 1,689,043</u>	<u>\$ 1,415,559</u>

Boone County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 762,607	\$ 720,815	\$ 41,792	\$ 674,941	\$ 633,839	\$ 41,102
Medical/surgical	1,346,061	1,221,686	124,375	1,339,543	1,176,435	163,108
Skilled nursing	141,185	130,147	11,038	196,631	184,878	11,753
Special care unit	206,007	191,922	14,085	243,428	226,658	16,770
Obstetrics	669,795	430,461	239,334	371,127	329,138	41,989
Operating room	1,812,171	840,110	972,061	1,359,256	722,089	637,167
Emergency room	1,766,259	690,324	1,075,935	1,509,920	594,864	915,056
Public health nursing/home health	1,093,974	860,866	233,108	1,104,566	870,733	233,833
	<u>7,798,059</u>	<u>5,086,331</u>	<u>2,711,728</u>	<u>6,799,412</u>	<u>4,738,634</u>	<u>2,060,778</u>
Other Professional Services						
Central service and supply	175,080	44	175,036	199,357	74	199,283
Laboratory	1,447,352	602,085	845,267	1,342,472	574,337	768,135
Radiology	1,346,471	604,911	741,560	1,244,848	525,405	719,443
Occupational therapy	115,024	115,024	115,024	139,770		139,770
Orthopedic	689,483	647,690	41,793	37,098	35,614	1,484
Cardiac rehab	116,301	106,345	9,956	127,889	114,542	13,347
MRI	306,491	306,491	306,491	342,365		342,365
Pharmacy	2,055,867	284,972	1,770,895	1,874,744	254,684	1,620,060
Anesthesiology	577,751	577,751	577,751	460,004		460,004
Physical therapy	951,963	35,316	916,647	887,585	35,614	851,971
Audiology	32,731	32,731	32,731	41,003		41,003
Health education	69,643	58,357	11,286	58,998	55,610	3,388
Health promotion	154,841	45,939	108,902	161,007	42,698	118,309
Ambulance service	580,793	485,725	95,068	557,476	474,987	82,489
Electrocardiology	475,137	285,916	189,221	480,444	278,888	201,556
Specialty clinics	114,710	101,310	13,400	120,736	101,698	19,038

Boone County Hospital
Schedules of Operating Expenses (Continued)
Years Ended June 30, 2008 and 2007

	2008		2007	
	Total	Salaries	Total	Salaries
Surgery Clinic	\$ 914,953	\$ 776,803	\$ 813,145	\$ 698,560
BCFM Boone	2,524,655	1,915,236	2,519,019	1,912,655
BCFM Ogden	382,338	269,864	357,153	267,247
Madrid Clinic	286,827	212,203	283,173	215,065
Adult day care	131,357	77,416	134,760	82,258
	<u>13,449,768</u>	<u>6,510,132</u>	<u>12,183,046</u>	<u>5,669,936</u>
				<u>6,513,110</u>
General Services				
Dietary	584,785	328,238	543,612	314,332
Operation of plant	1,197,227	306,726	1,048,119	293,605
Housekeeping	453,641	379,848	424,043	349,202
Laundry	122,447		122,639	
	<u>2,358,100</u>	<u>1,014,812</u>	<u>2,138,413</u>	<u>957,139</u>
				<u>1,181,274</u>
Administrative Services				
Medical records	393,253	267,862	342,162	235,492
Administration	2,926,225	1,082,284	2,616,691	926,784
Quality management	230,118	156,339	224,502	151,454
Health center	5,961	5,961	9,862	9,862
Health care foundation	36,194	32,657	39,840	36,467
Diabetes education	78,034	65,578	72,910	64,146
	<u>3,669,785</u>	<u>1,604,720</u>	<u>3,305,967</u>	<u>1,414,343</u>
				<u>1,891,624</u>
Insurance				
Employee Benefits	303,227		275,646	275,646
Depreciation and Amortization	4,278,909	4,278,909	3,335,078	3,335,078
	<u>1,747,827</u>	<u>1,747,827</u>	<u>1,467,010</u>	<u>1,467,010</u>
	<u>\$ 33,605,675</u>	<u>\$ 14,215,995</u>	<u>\$ 29,504,572</u>	<u>\$ 12,780,052</u>
				<u>\$ 16,724,520</u>

Boone County Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2008 and 2007

Schedules of Patient Receivables

	2008		2007	
	Amounts	Percent to Total	Amounts	Percent to Total
Days Since Discharge				
0-30 days	\$ 3,475,478	42.3%	\$ 3,598,294	44.8%
31-60 days	1,116,235	13.6%	1,331,829	16.6%
61-90 days	671,833	8.2%	686,698	8.6%
91-120 days	639,658	7.8%	474,968	5.9%
Over 4 months	2,322,323	28.1%	1,936,484	24.1%
Total	8,225,527	100.0%	8,028,273	100.0%
Clinic and other receivables	1,463,888		870,431	
Less contractual allowances	2,068,669		1,931,433	
Less allowance for uncollectible accounts	1,999,014		1,814,155	
Net patient receivables	\$ 5,621,732		\$ 5,153,116	

Allowance for Uncollectible Accounts

	2008	2007
Balance, beginning of year	\$ 1,814,155	\$ 1,441,655
Provision for year	1,576,854	1,769,146
Recoveries of accounts previously written off	371,218	471,936
	3,762,227	3,682,737
Accounts written off	(1,763,213)	(1,868,582)
Balance, end of year	\$ 1,999,014	\$ 1,814,155

Boone County Hospital
Schedule of Officials
June 30, 2008

Name	Title	Term Expires
Board of Trustees		
Tim Buckner	Chairman	2008
David Grant	Vice Chairman	2008
Patricia Henkel	Treasurer	2010
Maxine Redeker	Secretary	2012
Keith Kudej	Member	2008
Thomas Good	Member	2012
Bruce Anderson	Member	2012
Hospital Officials		
Joseph Smith	Chief Executive Officer	
Dave Mellett	Chief Financial Officer	

Boone County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2008 and 2007

Supplies

	<u>2008</u>	<u>2007</u>
General	\$ 60,797	\$ 65,025
Pharmacy	277,383	393,530
BCFM Clinics	48,124	41,025
Dietary	13,322	11,724
Plant operation and maintenance	14,571	14,603
Laboratory	37,881	21,432
Operating room	267,950	243,386
Other supplies	68,347	53,645
	<u>\$ 788,375</u>	<u>\$ 844,370</u>

Prepaid Expenses

	<u>2008</u>	<u>2007</u>
Maintenance and other	\$ 64,814	\$ 101,789

Boone County Hospital
Schedule of Insurance Coverage
June 30, 2008

The Cincinnati Insurance Company

Policy No. BEP 266 37 36; \$1,000 deductible
 Boiler and machinery 7/1/07 - 7/1/10 \$ 9,000,000

MHA

Policy No. 01-IA10011; 07/01/07 - 07/01/08
 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

MHA

Policy No. 01-IA10011; 07/01/07 - 07/01/08
 General Liability Each \$ 1,000,000
 Damage to Premises Rented \$ 50,000
 Medical Expense Limit \$ 5,000
 Personal and Advertising Injury Limit \$ 1,000,000
 Employee Benefits Liability Limit \$ 1,000,000
 General Aggregate \$ 3,000,000
 Products/Completed Operations Aggregate \$ 3,000,000
 Fire Damage Limit \$ 1,000,000

MHA

Policy No. 01-IA55011; 07/01/07 - 07/01/08
 Umbrella Policy
 Professional Liability each \$ 5,000,000
 Professional Liability aggregate \$ 5,000,000
 Umbrella each \$ 5,000,000
 Umbrella aggregate \$ 5,000,000

MHA

Policy No. 01-IA55011; 07/01/07 - 07/01/08
 Entity Professional Liability Excess
 Each Professional Health Care Incident \$ 5,000,000
 Annual Aggregate \$ 5,000,000

Jester Insurance

Policy No. 6802-9686; 07/01/07-07/01/08
 Directors and Officers Liability, \$7,500 deductible
 Each loss \$ 2,000,000
 Aggregate \$ 2,000,000

Boone County Hospital
Schedule of Insurance Coverage (Continued)
June 30, 2008

Employers Mutual Casualty Company

Policy No. OB6-60-22-08; 07/01/07 - 07/01/08	
Buildings & Personal Property	\$ 43,555,397
Data Processing Equipment	\$ 550,000
Business Income	\$ 5,500,000

Farm Bureau

Policy No. 0007578152; 07/01/07 - 07/01/08	
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. OE6-60-22-08; 07/01/07 - 07/01/08	
Automobile	
Liability	\$ 1,000,000
Medical	\$ 2,000

Allied Mutual Insurance Company

Bond No. BD 79 0 0575087; 7/1/07 - 7/1/08	
Employee Dishonesty	\$ 50,000

All policies expiring at June 30, 2008 have been renewed for a minimum of one year.



**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, 2008, and have issued our report thereon dated September 24, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 08-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency 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 September 24, 2008.

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, 2008 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, 2008. 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 exceeded during the year but were not exceeded at June 30, 2008.

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, 2008 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.

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 allowable limits.

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

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 no exceptions to this requirement.

Self-funded Health Insurance Certificate of Compliance

We noted the following regarding filing the Certificate of Compliance regarding the self-funded health insurance plan:

Criteria or Specific Requirement—Management is responsible for ensuring controls are in place to file all documents timely.

Condition—The Hospital was late in filing its Certificate of Compliance regarding the self-funded health insurance plan.

Context—The Hospital has a due date that the Certificate of Compliance is due by in order to be in compliance.

Effect—Requirements were not met under Chapter 509A.15 of the Code of Iowa.

Cause—Timely filing of the report was not completed.

Recommendation—Management should file the required documentation by the due date.

Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendations. Management will ensure reports are filed timely.

The Hospital's responses to the findings identified in our audit are described above and in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

* * * * *

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
September 24, 2008

Boone County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2008

Reference Number	Finding
08-1	<p>Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements.</p> <p>Condition—Significant audit adjustments were proposed to management related to accounts receivable allowances and clinic receivables.</p> <p>Context—Management’s financial statement preparation procedures were not sufficient such that misstatements were not identified in the financial statements.</p> <p>Effect—Misstatements in the financial statements occurred and were not prevented or detected in a timely manner.</p> <p>Cause—Closing and review procedures are not sufficient such that misstatements are identified before issuing financial statements.</p> <p>Recommendation—Management should review financial statements monthly before issuance for accuracy and completeness in conformity with Generally Accepted Accounting Principles.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year.</p>



Board of Trustees and Management
Boone County Hospital
Boone, Iowa

In planning and performing our audit of the financial statements of Boone County Hospital as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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. As such, our consideration of internal controls would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements of the Hospital's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal controls.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Hospital's financial statements will not be prevented or detected by the Hospital's internal controls.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously we made observations as a result of our 2007 audit engagement in a letter dated November 14, 2007.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

Refer to 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*.

Other Control Deficiencies

Segregation of Duties

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 is difficult because of the limited number of personnel. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

During our audit, we observed the following individuals having incompatible duties within the financial statement reporting transaction cycles:

Purchases Cycle

- The Accounts Payable Clerk has access to signed checks and has the ability to record transactions related to accounts payable.

Revenue and Cash Receipts Cycle

- The Business Office Manager and one Billing Clerk have duties that may include ability to authorize transactions, access to assets and ability to record transactions.
- The Cashier at the BCFM Clinic and the Cashier at the Madrid Clinic have duties that include access to assets and recording responsibilities.

Payroll Cycle

- Two Accountants and the Human Resources Manager working in the payroll cycle have duties that may include ability to authorize transactions, access to check signatures and recording responsibilities.

Audit Journal Entries

During the course of performing the audit, we identified adjustments and proposed journal entries to the financial statements affecting the Hospital accounts payable and physician's bonus accrual. These items were not previously identified by management's internal controls. The impact of these adjustments increased reported changes in net assets by approximately \$11,400.

Other Matters

Although not considered material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters, which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and

improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Capital Asset Records

The Hospital has not completed a thorough review of the capital assets records in over two years. We recommend the Hospital review the capital asset records in 2009 and remove any items no longer in use at the Hospital.

Information Technology Disaster Recovery

- Policies and procedures for disaster recovery of information systems have not been developed. While backups of data are performed regularly, no policy or procedure exists for a catastrophic failure. We recommend expanding upon procedures in place and developing a comprehensive disaster recovery policy to protect the Hospital should a significant loss of information occur.
- Daily backups of information systems are performed and maintained. However, these backups are not periodically tested as to the effectiveness of the backup data or the quality of the backup files. We recommend periodically testing the effectiveness of restoration and the quality of backup files in the event the files would be needed to restore lost data.

* * * * *

This communication is intended solely for the information and use of Management, the Board of Trustees and others within the Hospital, and is not intended to be, and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
September 24, 2008