

# **Boone County Hospital**

Accountants' Report and Financial Statements

June 30, 2010 and 2009



**Boone County Hospital**  
**June 30, 2010 and 2009**

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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, 2010 and 2009, 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, 2010 and 2009, 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 October 19, 2010, 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.

*BKD, LLP*

Kansas City, Missouri  
October 19, 2010

# **Boone County Hospital**

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

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

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

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

- Cash, short-term certificates of deposit and noncurrent cash and deposits decreased in 2010 by \$985,314 or 21% and increased in 2009 by \$319,935 or 7%.
- The Hospital's net assets increased in each of the past two years with a \$728,556 or 4% increase in 2010 and a \$482,002 or 3% increase in 2009.
- The Hospital reported operating losses of \$34,179 and \$167,832 in 2010 and 2009, respectively.
- Net nonoperating revenues increased in 2010 by 55,849 and decreased in 2009 by \$133,714.

#### ***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 \$728,556 or 4% in 2010 and \$482,002 or 3% in 2009 as shown in Table 1.

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

	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 6,879,481	\$ 6,193,595	\$ 5,621,732
Other current assets	4,370,616	4,732,831	4,923,815
Capital assets, net	16,809,129	17,759,890	19,134,058
Other noncurrent assets	2,324,141	2,435,048	2,665,516
Total assets	<u>\$ 30,383,367</u>	<u>\$ 31,121,364</u>	<u>\$ 32,345,121</u>
<b>Liabilities</b>			
Long-term debt	\$ 6,299,938	\$ 7,922,638	\$ 9,319,972
Other current and noncurrent liabilities	5,340,124	5,183,977	5,492,402
Total liabilities	<u>11,640,062</u>	<u>13,106,615</u>	<u>14,812,374</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	8,925,911	8,325,035	8,033,584
Restricted – expendable for			
Debt service payments	159,269	157,941	345,104
Specific operating activities	920	2,267	3,386
Restricted – nonexpendable endowment	57,440	57,440	57,440
Unrestricted	9,599,765	9,472,066	9,093,233
Total net assets	<u>18,743,305</u>	<u>18,014,749</u>	<u>17,532,747</u>
Total liabilities and net assets	<u>\$ 30,383,367</u>	<u>\$ 31,121,364</u>	<u>\$ 32,345,121</u>

In 2010, the decrease in total assets was primarily related to capital asset depreciation. Patient accounts receivable did increase approximately \$686,000 as of June 30, 2010.

In 2009, the increase in assets was primarily due to additional unrestricted investments and capital assets. The increase was reduced by additional debt payments for amounts borrowed at the end of 2008.

## Operating Results

In 2010, the Hospital's Excess of Revenues Over Expenses was \$671,504 as shown in Table 2.

**Table 2: Operating Results**

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 35,375,225	\$ 33,416,256	\$ 31,637,403
Other operating revenues	<u>2,016,622</u>	<u>1,780,168</u>	<u>1,689,043</u>
Total operating revenues	<u>37,391,847</u>	<u>35,196,424</u>	<u>33,326,446</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	20,623,251	19,452,554	18,494,904
Medical professional fees	4,304,706	4,304,702	3,704,760
Depreciation and amortization	1,874,496	1,972,697	1,747,827
Other operating expenses	<u>10,623,573</u>	<u>9,634,303</u>	<u>9,658,184</u>
Total operating expenses	<u>37,426,026</u>	<u>35,364,256</u>	<u>33,605,675</u>
<b>Operating Loss</b>	<u>(34,179)</u>	<u>(167,832)</u>	<u>(279,229)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Non-capital contributions	6,296	4,221	5,277
Interest income	51,655	93,318	165,905
Interest expense	(331,873)	(380,978)	(259,318)
Property tax revenue	<u>979,605</u>	<u>933,273</u>	<u>871,684</u>
Total nonoperating revenues	<u>705,683</u>	<u>649,834</u>	<u>783,548</u>
<b>Excess of Revenues Over Expenses Before Capital Contributions</b>	671,504	482,002	504,319
<b>Capital Contributions</b>	<u>57,052</u>	<u>-</u>	<u>40,000</u>
<b>Increase in Net Assets</b>	<u>\$ 728,556</u>	<u>\$ 482,002</u>	<u>\$ 544,319</u>

## Operating Income

In 2010, the decrease in the operating loss was primarily due to increases in outpatient volumes which resulted in net revenues increasing more than expenses. The Hospital's operating revenue increased \$2.2 million and operating expenses increased \$2.1 million over 2009. In 2009, the decrease in the operating loss was primarily due to increased admissions and patient census. However, there was additional operating expenses of \$1.7 million over 2008.

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

The Hospital's cash decreased in 2010 by \$390,185 or 20%. The decrease is primarily due to debt payments and the increase in patient accounts receivable. The Hospital's cash decreased in 2009 by \$882,396 or 32%. This decrease is primarily due to the purchase of \$1,000,000 in certificates of deposit and debt payments.

### ***Capital Contributions***

In 2010, the Hospital received \$57,052 for equipment purchases from the Boone County Health Care Foundation.

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

#### **Capital Assets**

At the end of 2010 and 2009, the Hospital had \$ 16,809,129 and \$17,759,890, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2010 and 2009, the Hospital added \$923,735 and \$598,529 in new capital assets, respectively.

#### **Debt**

At June 30, 2010 and 2009, the Hospital had \$7,922,653 and \$9,488,563, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. There was no new debt for 2010 and the only new debt in 2009 was a capital lease in the amount of \$189,411 for equipment.

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

**Assets**

	<u>2010</u>	<u>2009</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 676,498	\$ 1,432,883
Short-term certificates of deposit	753,890	1,007,128
Assets held under indenture agreement – Bond Fund	159,269	157,941
Patient accounts receivable, net of allowance; 2010 – \$1,470,000, 2009 – \$1,273,000	6,879,481	6,193,595
Property tax receivable	1,038,981	980,384
Estimated amounts due from third-party payers	557,000	131,000
Supplies	941,185	853,936
Prepaid expenses	<u>243,793</u>	<u>169,559</u>
Total current assets	<u>11,250,097</u>	<u>10,926,426</u>
<b>Noncurrent Cash and Deposits</b>		
Internally designated		
Edward H. Peterson Endowment Fund	290,772	287,427
Capital and other expenditures	1,856,900	1,834,589
Externally restricted by donors		
Albert C. Linn Endowment Fund	57,440	57,440
Specific operating activities	<u>920</u>	<u>2,267</u>
	<u>2,206,032</u>	<u>2,181,723</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>	<u>16,809,129</u>	<u>17,759,890</u>
<b>Other Assets</b>		
Deferred financing costs (net of amortization of \$196,779 in 2010 and \$182,506 in 2009)	39,435	53,708
Receivables	<u>78,674</u>	<u>199,617</u>
	<u>118,109</u>	<u>253,325</u>
<b>Total Assets</b>	<u><u>\$ 30,383,367</u></u>	<u><u>\$ 31,121,364</u></u>

## Liabilities and Net Assets

	<b>2010</b>	<b>2009</b>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,622,715	\$ 1,565,925
Accounts payable	974,686	902,819
Accrued expenses		
Payroll and related deductions	1,470,189	1,444,142
Health insurance	232,802	291,485
Deferred revenue for property taxes	1,039,732	979,606
	<hr/>	<hr/>
Total current liabilities	5,340,124	5,183,977
	<hr/>	<hr/>
<b>Long-term Debt</b>	6,299,938	7,922,638
	<hr/>	<hr/>
Total liabilities	11,640,062	13,106,615
	<hr/>	<hr/>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	8,925,911	8,325,035
Restricted – expendable for		
Debt service payments	159,269	157,941
Specific operating activities	920	2,267
Restricted – nonexpendable endowment	57,440	57,440
Unrestricted	9,599,765	9,472,066
	<hr/>	<hr/>
Total net assets	18,743,305	18,014,749
	<hr/>	<hr/>
<b>Total Liabilities and Net Assets</b>	<u>\$ 30,383,367</u>	<u>\$ 31,121,364</u>

**Boone County Hospital**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 37,520,854	\$ 35,641,168
Provision for uncollectible accounts	<u>(2,145,629)</u>	<u>(2,224,912)</u>
Net patient service revenue	35,375,225	33,416,256
Other	<u>2,016,622</u>	<u>1,780,168</u>
	<u>37,391,847</u>	<u>35,196,424</u>
<b>Operating Expenses</b>		
Salaries and wages	15,669,492	14,692,831
Employee benefits	4,953,759	4,759,723
Medical professional fees	4,304,706	4,304,702
Supplies and other	6,990,680	6,185,688
General services	1,234,669	1,215,364
Administrative services	2,154,702	1,936,712
Insurance	243,522	296,539
Depreciation and amortization	<u>1,874,496</u>	<u>1,972,697</u>
	<u>37,426,026</u>	<u>35,364,256</u>
<b>Operating Loss</b>	<u>(34,179)</u>	<u>(167,832)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Non-capital contributions	6,296	4,221
Interest income	51,655	93,318
Interest expense	(331,873)	(380,978)
Property tax revenue	<u>979,605</u>	<u>933,273</u>
	<u>705,683</u>	<u>649,834</u>
<b>Excess of Revenues Over Expenses Before Capital Contributions</b>	671,504	482,002
<b>Capital Contributions</b>	<u>57,052</u>	<u>-</u>
<b>Increase in Net Assets</b>	728,556	482,002
<b>Net Assets, Beginning of the Year</b>	<u>18,014,749</u>	<u>17,532,747</u>
<b>Net Assets, End of the Year</b>	<u>\$ 18,743,305</u>	<u>\$ 18,014,749</u>

**Boone County Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 34,263,339	\$ 33,622,393
Payments to suppliers	(15,076,578)	(14,774,707)
Payments to employees	(20,597,204)	(19,432,226)
Other receipts and payments, net	2,153,367	1,757,841
Net cash provided by operating activities	742,924	1,173,301
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	979,605	933,273
Gifts and grants for other than capital purchases	6,296	4,221
Net cash provided by noncapital financing activities	985,901	937,494
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(923,735)	(113,448)
Principal payments on long-term debt	(1,565,910)	(1,592,104)
Interest paid on long-term debt	(331,873)	(380,978)
Deferred financing costs	-	15,189
Contributions for capital assets	57,052	-
Net cash used in capital and related financing activities	(2,764,466)	(2,071,341)
<b>Investing Activities</b>		
Purchase of certificates of deposit	(2,849,000)	(4,160,500)
Proceeds from sale of certificates of deposit	3,495,000	3,160,352
Income received on deposits	61,225	102,399
Net cash provided by (used in) investing activities	707,225	(897,749)
<b>Decrease in Cash and Cash Equivalents</b>	(328,416)	(858,295)
<b>Cash and Cash Equivalents, Beginning of Year</b>	2,027,917	2,886,212
<b>Cash and Cash Equivalents, End of Year</b>	\$ 1,699,501	\$ 2,027,917
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash and cash equivalents	\$ 676,498	\$ 1,432,883
Cash in assets held under indenture agreement – Bond Fund	159,269	157,941
Noncurrent cash and deposits		
Internally designated		
Edward H. Peterson Endowment Fund	196,323	70,020
Capital and other expenditures	666,491	364,806
Externally restricted		
Specific operating activities	920	2,267
	\$ 1,699,501	\$ 2,027,917

**Boone County Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash and Cash Equivalents Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (34,179)	\$ (167,832)
Items not requiring (providing) cash		
Depreciation	1,874,496	1,972,697
Amortization	14,273	17,555
Accrued self-insurance	(58,683)	47,529
Changes in		
Patient and other receivables	(685,886)	(571,863)
Supplies	(87,249)	(65,561)
Prepaid expenses	(74,234)	(104,745)
Accounts payable and accrued expenses	99,443	(689,498)
Estimated amounts due to third-party payers	(426,000)	778,000
Other	120,943	(42,981)
	<u>\$ 742,924</u>	<u>\$ 1,173,301</u>
Net cash provided by operating activities	<u>\$ 742,924</u>	<u>\$ 1,173,301</u>
<b>Supplemental Cash Flows Information</b>		
Capital lease obligations incurred for capital assets	<u>\$ -</u>	<u>\$ 189,411</u>

# **Boone County Hospital**

## **Notes to Financial Statements**

### **June 30, 2010 and 2009**

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

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. No interest costs were capitalized for the years ended June 30, 2010 and 2009.

# **Boone County Hospital**

## **Notes to Financial Statements**

### **June 30, 2010 and 2009**

#### ***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 \$468,673 and \$360,032 for 2010 and 2009, respectively.

#### ***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2010 and 2009, cash equivalents consisted primarily of money market and savings accounts.

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

The Hospital received approximately 3% of its financial support from property tax revenues in each of the years ended June 30, 2010 and 2009, 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.

# **Boone County Hospital**

## **Notes to Financial Statements**

### **June 30, 2010 and 2009**

#### ***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.

#### ***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 and Benefits***

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.

The Hospital has adopted the provisions of Governmental Accounting Standard No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in 2009. The Hospital currently offers post retirement health care benefits to retirees, which includes retirees participating in the Hospital's health insurance plan at June 30, 2010 and 2009. The benefit or the difference between the retirees' contributions and over-all cost to the Hospital is being phased out over a period of one and a half years. A liability for the amount of future benefits under the plan until the plan subsidy is phased out effective January 1, 2011 has been recognized in the accompanying financial statements in the amounts of \$5,873 and \$33,285 for the years ended June 30, 2010 and 2009, respectively.

#### ***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.

# Boone County Hospital

## Notes to Financial Statements

### June 30, 2010 and 2009

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

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. 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. It is reasonably possible that this estimate could change materially in the near term.

#### ***Reclassifications***

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. The reclassifications had no effect on the changes in financial position.

#### **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.** The Hospital is recognized as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. 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.
- **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 53% and 51% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change.

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.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**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, 2010 and 2009 was:

	<b>2010</b>	<b>2009</b>
Medicare and Medicaid	\$ 2,265,827	\$ 1,633,601
Other third-party payers	3,095,921	3,117,731
Patients	3,351,687	2,809,413
Clinics	675,718	809,584
	9,389,153	8,370,329
Less allowances for uncollectible accounts	2,509,672	2,176,734
	\$ 6,879,481	\$ 6,193,595

**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, 2010 and 2009. The Hospital's deposits in banks at June 30, 2010 and 2009 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, 2010 and 2009.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**Summary of Carrying Value**

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

	<b>2010</b>	<b>2009</b>
Deposits	\$ 3,784,501	\$ 4,758,917
Accrued interest receivable	11,188	20,758
	<b>\$ 3,795,689</b>	<b>\$ 4,779,675</b>
Included in the following balance sheet captions		
Cash	\$ 676,498	\$ 1,432,883
Short-term certificates of deposit	753,890	1,007,128
Assets held under indenture agreement – Bond Fund	159,269	157,941
Noncurrent cash and deposits	2,206,032	2,181,723
	<b>\$ 3,795,689</b>	<b>\$ 4,779,675</b>

**Note 5: Capital Assets**

Capital asset additions, retirements and balances for the years ended June 30, 2010 and 2009, were as follows:

	<b>Balance</b>	<b>Balance</b>	<b>Balance</b>	<b>Balance</b>	<b>Balance</b>
<b>2010</b>	<b>June 30, 2009</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>June 30, 2010</b>
Land and improvements	\$ 959,075	\$ -	\$ -	\$ -	\$ 959,075
Buildings and improvements	16,356,764	7,701	-	126,512	16,490,977
Equipment	19,534,981	738,065	831,252	75,960	19,517,754
Construction in progress	24,503	177,969	-	(202,472)	-
	36,875,323	923,735	831,252	-	36,967,806
Less accumulated depreciation for					
Land and improvements	190,678	25,464	-	-	216,142
Buildings and improvements	6,426,641	732,393	-	-	7,159,034
Equipment	12,498,114	1,116,639	831,252	-	12,783,501
	19,115,433	1,874,496	831,252	-	20,158,677
	<b>\$ 17,759,890</b>	<b>\$ (950,761)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,809,129</b>

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

2009	Balance June 30, 2008	Additions	Retirements	Transfers	Balance June 30, 2009
Land and improvements	\$ 924,023	\$ 35,052	\$ -	\$ -	\$ 959,075
Buildings and improvements	16,266,522	3,105	-	87,137	16,356,764
Equipment	19,052,342	398,185	-	84,454	19,534,981
Construction in progress	33,907	162,187	-	(171,591)	24,503
	<u>36,276,794</u>	<u>598,529</u>	<u>-</u>	<u>-</u>	<u>36,875,323</u>
Less accumulated depreciation for					
Land and improvements	165,678	25,000	-	-	190,678
Buildings and improvements	5,690,431	736,210	-	-	6,426,641
Equipment	11,286,627	1,211,487	-	-	12,498,114
	<u>17,142,736</u>	<u>1,972,697</u>	<u>-</u>	<u>-</u>	<u>19,115,433</u>
	<u>\$ 19,134,058</u>	<u>\$ (1,374,168)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,759,890</u>

**Note 6: Long-term Debt**

A schedule of changes in the Hospital's long-term debt for 2010 and 2009 follows.

	Balance June 30, 2009	Additions	Reductions	Balance June 30, 2010	Amounts Due Within One Year
Series 2008 Hospital					
Revenue Notes (B)	\$ 9,319,972	\$ -	\$ 1,531,831	\$ 7,788,141	\$ 1,587,301
Capital lease obligation (C)	168,591	-	34,079	134,512	35,414
	<u>\$ 9,488,563</u>	<u>\$ -</u>	<u>\$ 1,565,910</u>	<u>\$ 7,922,653</u>	<u>\$ 1,622,715</u>
	<u>June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2009</u>	<u>Year</u>
Note payable to bank (A)	\$ 93,002	\$ -	\$ 93,002	\$ -	\$ -
Series 2008 Hospital					
Revenue Notes (B)	10,798,254	-	1,478,282	9,319,972	1,531,809
Capital lease obligation (C)	-	189,411	20,820	168,591	34,116
	<u>\$ 10,891,256</u>	<u>\$ 189,411</u>	<u>\$ 1,592,104</u>	<u>\$ 9,488,563</u>	<u>\$ 1,565,925</u>

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

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>
2011	\$ 1,587,301	\$ 270,643	\$ 35,415	\$ 4,425
2012	1,644,831	213,111	36,763	3,077
2013	1,604,938	153,477	38,163	1,677
2014	550,355	113,131	24,171	314
2015	573,854	89,631	-	-
2016-2018	1,826,862	117,637	-	-
	<u>\$ 7,788,141</u>	<u>\$ 957,630</u>	<u>\$ 134,512</u>	<u>\$ 9,493</u>

- (A) 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 note was paid off in 2009.
- (B) 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.
- (C) The capital lease obligation shown as long-term debt includes a lease for copiers, which expires in 2014. The assets and liabilities under the capital lease are recorded at the present value of the minimum lease payments.

**Note 7: Employee Health Insurance Claims**

The Hospital is self-insured for the first \$110,000 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 2010 and 2009 is summarized as follows:

	<b>2010</b>	<b>2009</b>
Balance, beginning of year	\$ 291,485	\$ 243,956
Current year claims incurred and changes in estimates for claims incurred in prior year	2,633,808	2,613,627
Payments for claims	<u>(2,692,491)</u>	<u>(2,566,098)</u>
Balance, end of year	<u>\$ 232,802</u>	<u>\$ 291,485</u>

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**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 \$30,912 and \$6,391 to the Hospital for the years ended June 30, 2010 and 2009, respectively. The Hospital provided for the expenses of the Foundation director in the amount of \$39,999 and \$38,930 in 2010 and 2009, respectively. The unaudited financial position and results of operations of the Foundation for 2010 and 2009 are summarized as follows:

	<b>2010</b>	<b>2009</b>
Cash and investments	\$ 291,059	\$ 300,229
Net assets	\$ 291,059	\$ 300,229
Revenue	\$ 117,518	\$ 59,301
Expenses	93,497	25,566
Revenue over expenses	\$ 24,021	\$ 33,735

**Note 9: Operating Leases**

Noncancellable operating leases for primary care outpatient clinic offices and equipment expire in various years through 2015. 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, 2010, were:

2011	\$ 557,287
2012	557,287
2013	195,546
2014	93,607
2015	40,203
Future minimum lease payments	\$ 1,443,930

Rental expense for all operating leases totaled \$682,366 and \$592,766 for 2010 and 2009, respectively.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

**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 4.3% and 4.1% of their annual covered salary and the Hospital was required to contribute 6.65% and 6.35% of annual covered payroll for 2010 and 2009, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2010, 2009 and 2008 were \$994,071, \$895,958 and \$827,417, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.65% of annual covered salary for 2010.

***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 \$754,551 and \$729,031 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009**

**Note 11: 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:

	<b>Book Basis</b>	<b>Actual Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Amount to be raised				
by taxation	\$ 979,605	\$ -	\$ 979,605	\$ 979,605
Other revenues/receipts	37,506,850	(1,111,886)	36,394,964	42,018,432
	38,486,455	(1,111,886)	37,374,569	42,998,037
Expenses/disbursements	37,757,899	(57,374)	37,700,525	42,966,809
	728,556	(1,054,512)	(325,956)	31,228
Balance, beginning of year	18,014,749	9,724,536	27,739,285	27,739,285
Balance, end of year	<u>\$ 18,743,305</u>	<u>\$ 8,670,024</u>	<u>\$ 27,413,329</u>	<u>\$ 27,770,513</u>

**Note 12: Restricted and Designated Net Assets**

At June 30, 2010 and 2009, restricted expendable net assets were available for the following purposes.

	<b>2010</b>	<b>2009</b>
Debt service	\$ 159,269	\$ 157,941
Specific operating activities	920	2,267

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2010 and 2009**

At June 30, 2010 and 2009, unrestricted net assets had been designated by the Hospital's Board of Trustees for the following purposes:

	<b>2010</b>	<b>2009</b>
Edward H. Peterson Endowment Fund	\$ 290,772	\$ 287,427
Capital and other expenditures	1,856,900	1,834,589
Total unrestricted designated net assets	\$ 2,147,672	\$ 2,122,016

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, 2010 and 2009, \$57,440 represents nonexpendable net assets related to the Albert C. Linn Endowment Fund.

**Note 13: 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 or the amounts of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Note 14: Significant Estimates and Concentrations**

***Current Economic Conditions***

The current protracted economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

## **Supplementary Information**

## Boone County Hospital Schedules of Patient Service Revenues Years Ended June 30, 2010 and 2009

	2010			2009		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
<b>Routine Services</b>						
Acute nursing care	\$ 4,907,064	\$ 4,907,064		\$ 4,683,766	\$ 4,683,766	
<b>Nursing Services</b>						
Operating room	9,260,610	2,183,013	\$ 7,077,597	8,336,690	1,728,294	\$ 6,608,396
Skilled nursing	102,610	102,610		129,048	129,048	
Emergency room	8,081,777	134,304	7,947,473	7,422,370	154,905	7,267,465
Public health nursing/home health	1,381,387		1,381,387	1,171,203		1,171,203
	<u>18,826,384</u>	<u>2,419,927</u>	<u>16,406,457</u>	<u>17,059,311</u>	<u>2,012,247</u>	<u>15,047,064</u>
<b>Other Professional Services</b>						
Central service and supply	529,429	378,638	150,791	414,173	326,425	87,748
Laboratory	7,527,514	1,497,562	6,029,952	6,966,241	1,438,870	5,527,371
Radiology	4,498,380	355,414	4,142,966	4,214,710	360,389	3,854,321
MRI	1,721,399	125,913	1,595,486	1,727,825	143,088	1,584,737
CT Scan	4,271,381	639,568	3,631,813	3,849,471	591,989	3,257,482
Pharmacy	7,129,561	3,619,834	3,509,727	5,201,960	2,769,818	2,432,142
Anesthesiology	1,010,270	342,209	668,061	1,045,450	342,200	703,250
Physical therapy	3,063,470	630,284	2,433,186	2,765,751	610,118	2,155,633
Speech therapy	152,159	55,620	96,539	158,402	80,184	78,218
Occupational therapy	609,384	308,633	300,751	438,056	249,875	188,181
Orthopedic	579,026		579,026	612,554		612,554
Cardiac rehab	171,874		171,874	165,385		165,385
Specialty clinics	636,025		636,025	351,756	284	351,472
Electrocardiology	3,478,086	1,476,548	2,001,538	3,139,147	1,583,506	1,555,641
Ambulance service	1,923,262	205,155	1,718,107	1,859,125	242,653	1,616,472
Madrid Clinic	258,568		258,568	271,687		271,687
BCFM Boone	3,924,362		3,924,362	4,115,725		4,115,725
Ogden Clinic	532,688		532,688	531,293		531,293
Surgery clinic	1,658,048		1,658,048	1,624,236		1,624,236
	<u>43,674,886</u>	<u>9,635,378</u>	<u>34,039,508</u>	<u>39,452,947</u>	<u>8,739,399</u>	<u>30,713,548</u>

**Boone County Hospital**  
**Schedules of Patient Service Revenues (Continued)**  
**Years Ended June 30, 2010 and 2009**

	2010			2009		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
<b>Patient Service Revenue</b>	\$ 67,408,334	\$ 16,962,369	\$ 50,445,965	\$ 61,196,024	\$ 15,435,412	\$ 45,760,612
<b>Contractual Allowances</b>	(29,887,480)			(25,554,856)		
<b>Net Patient Service Revenue, Before Provision for Uncollectible Accounts</b>	37,520,854			35,641,168		
<b>Provision for Uncollectible Accounts</b>	(2,145,629)			(2,224,912)		
<b>Net Patient Service Revenue</b>	\$ 35,375,225			\$ 33,416,256		

**Boone County Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Public health nursing services support	\$ 220,151	\$ 177,669
Cafeteria and catering services	163,810	144,395
Meals on Wheels	109,501	123,088
Rent income	33,833	33,758
Sale of drugs	799,118	757,013
Home Care Aid services support	262,789	216,808
Purchase discounts	33,394	31,634
Medical records fees	555	(461)
Diabetes education	119,782	83,295
Adult daycare grants	91,649	62,405
Lifeline	68,945	69,983
Retired senior volunteer program	60,425	34,476
Other	52,670	46,105
	<u>\$ 2,016,622</u>	<u>\$ 1,780,168</u>

**Boone County Hospital**  
**Schedules of Operating Expenses**  
**Years Ended June 30, 2010 and 2009**

	<b>2010</b>			<b>2009</b>		
	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>
<b>Nursing Services</b>						
Nursing administration	\$ 693,688	\$ 673,464	\$ 20,224	\$ 708,434	\$ 681,378	\$ 27,056
Medical/surgical	1,678,714	1,490,983	187,731	1,504,139	1,323,523	180,616
Skilled nursing	116,287	106,058	10,229	134,025	124,498	9,527
Special care unit	240,290	224,456	15,834	238,881	218,476	20,405
Obstetrics	569,370	435,406	133,964	593,955	443,575	150,380
Operating room	1,980,636	807,082	1,173,554	1,762,565	768,781	993,784
Emergency room	2,104,428	1,030,668	1,073,760	1,979,639	703,103	1,276,536
Public health nursing/home health	1,282,284	973,669	308,615	1,175,887	902,386	273,501
	<u>8,665,697</u>	<u>5,741,786</u>	<u>2,923,911</u>	<u>8,097,525</u>	<u>5,165,720</u>	<u>2,931,805</u>
<b>Other Professional Services</b>						
Central service and supply	176,846		176,846	151,768		151,768
Laboratory	1,495,731	624,079	871,652	1,486,303	636,851	849,452
Radiology	1,640,901	666,323	974,578	1,487,212	626,480	860,732
Occupational therapy	226,179		226,179	166,164		166,164
Orthopedic	722,956	690,744	32,212	716,003	685,719	30,284
Cardiac rehab	119,362	108,680	10,682	115,452	106,873	8,579
MRI	292,930		292,930	292,930		292,930
Pharmacy	2,577,799	331,849	2,245,950	2,278,057	294,936	1,983,121
Anesthesiology	588,612		588,612	593,729		593,729
Physical therapy	1,246,959	33,101	1,213,858	1,128,087	31,091	1,096,996
Audiology	55,022		55,022	57,025		57,025
Health education	69,937	68,683	1,254	68,684	66,242	2,442
Health promotion	164,517	50,862	113,655	166,631	48,918	117,713
Ambulance service	635,122	525,687	109,435	592,209	500,012	92,197
Electrocardiology	551,506	303,666	247,840	552,355	299,862	252,493
Specialty clinics	160,230	95,230	65,000	133,972	113,085	20,887

**Boone County Hospital**  
**Schedules of Operating Expenses (Continued)**  
**Years Ended June 30, 2010 and 2009**

	<b>2010</b>			<b>2009</b>		
	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>
Surgery Clinic	\$ 1,157,017	\$ 875,151	\$ 281,866	\$ 984,556	\$ 799,804	\$ 184,752
BCFM Boone	2,556,203	1,914,062	642,141	2,523,866	1,924,803	599,063
BCFM Ogden	377,592	295,122	82,470	376,500	283,160	93,340
Madrid Clinic	255,094	197,648	57,446	232,241	177,756	54,485
Adult day care	119,815	49,706	70,109	112,130	65,122	47,008
Retired senior volunteer program	54,134	42,396	11,738	24,976	21,551	3,425
	<u>15,244,464</u>	<u>6,872,989</u>	<u>8,371,475</u>	<u>14,240,850</u>	<u>6,682,265</u>	<u>7,558,585</u>
<b>General Services</b>						
Dietary	638,340	347,293	291,047	616,195	341,279	274,916
Operation of plant	1,142,101	368,960	773,141	1,129,271	348,502	780,769
Housekeeping	477,496	409,116	68,380	472,756	410,444	62,312
Laundry	102,101		102,101	97,367		97,367
	<u>2,360,038</u>	<u>1,125,369</u>	<u>1,234,669</u>	<u>2,315,589</u>	<u>1,100,225</u>	<u>1,215,364</u>
<b>Administrative Services</b>						
Medical records	461,140	337,582	123,558	429,486	321,377	108,109
Administration	3,213,744	1,269,765	1,943,979	2,904,793	1,173,508	1,731,285
Quality management	234,120	183,754	50,366	219,890	135,127	84,763
Health center	14,194		14,194			
Health care foundation	50,908	39,999	10,909	42,793	38,930	3,863
Diabetes education	109,944	98,248	11,696	84,371	75,679	8,692
	<u>4,084,050</u>	<u>1,929,348</u>	<u>2,154,702</u>	<u>3,681,333</u>	<u>1,744,621</u>	<u>1,936,712</u>
<b>Insurance</b>	<u>243,522</u>		<u>243,522</u>	<u>296,539</u>		<u>296,539</u>
<b>Employee Benefits</b>	<u>4,953,759</u>		<u>4,953,759</u>	<u>4,759,723</u>		<u>4,759,723</u>
<b>Depreciation and Amortization</b>	<u>1,874,496</u>		<u>1,874,496</u>	<u>1,972,697</u>		<u>1,972,697</u>
	<u>\$ 37,426,026</u>	<u>\$ 15,669,492</u>	<u>\$ 21,756,534</u>	<u>\$ 35,364,256</u>	<u>\$ 14,692,831</u>	<u>\$ 20,671,425</u>

**Boone County Hospital**  
**Schedules of Patient Receivables and Allowance**  
**for Uncollectible Accounts**  
**Years Ended June 30, 2010 and 2009**

**Schedules of Patient Receivables**

	2010		2009	
	Amounts	Percent to Total	Amounts	Percent to Total
Days Since Discharge				
0-30 days	\$ 5,073,820	45.9%	\$ 4,226,483	46.3%
31-60 days	1,893,182	17.1%	1,669,491	18.3%
61-90 days	1,001,843	9.1%	888,940	9.7%
91-120 days	651,778	5.9%	495,930	5.4%
Over 4 months	2,435,256	22.0%	1,856,845	20.3%
Total	11,055,879	100.0%	9,137,689	100.0%
Clinic and other receivables	1,050,262		1,309,128	
Less contractual allowances	3,756,660		2,980,222	
Less allowance for uncollectible accounts	1,470,000		1,273,000	
Net patient receivables	\$ 6,879,481		\$ 6,193,595	

**Allowance for Uncollectible Accounts**

	2010	2009
Balance, beginning of year	\$ 1,273,000	\$ 1,199,000
Provision for year	2,145,629	2,224,912
Recoveries of accounts previously written off	496,897	408,541
	3,915,526	3,832,453
Accounts written off	(2,445,526)	(2,559,453)
Balance, end of year	\$ 1,470,000	\$ 1,273,000

**Boone County Hospital**  
**Schedule of Officials**  
**June 30, 2010**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Trustees</b>		
Bruce Anderson	Chairman	2012
David Grant	Vice Chairman	2014
Patricia Henkel	Treasurer	2010
Maxine Redeker	Secretary	2012
Keith Kudej	Member	2014
Thomas Good	Member	2012
Denny Kollbaum	Member	2014
<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, 2010 and 2009**

**Supplies**

	<u>2010</u>	<u>2009</u>
General	\$ 92,726	\$ 92,919
Pharmacy	320,850	279,001
BCFM Clinics	60,026	45,242
Dietary	15,996	14,513
Plant operation and maintenance	13,161	13,458
Laboratory	40,324	49,603
Operating room	346,453	300,139
Other supplies	51,649	59,061
	<u>\$ 941,185</u>	<u>\$ 853,936</u>

**Prepaid Expenses**

	<u>2010</u>	<u>2009</u>
Maintenance and other	<u>\$ 243,793</u>	<u>\$ 169,559</u>

**Boone County Hospital**  
**Schedule of Insurance Coverage**  
**June 30, 2010**

**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; 07/01/0-10/01/09 and 10/01/09-10/01/10  
 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;07/01/09-10/01/09 and 10/01/09-10/01/10  
 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; 07/01/09-10/01/09 and 10/01/09-10/01/10  
 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; 07/01/09-10/01/09 and 10/01/09-10/01/10  
 Entity Professional Liability Excess  
     Each Professional Health Care Incident \$ 5,000,000  
     Annual Aggregate \$ 5,000,000

**Jester Insurance**

Policy No.6802-9686; 07/01/09-07/01/10  
 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, 2010**

**Employers Mutual Casualty Company**

Policy No. OB6-60-22-10;07/01/09-07/01/10

Buildings and Personal Property	\$ 43,555,397
Data Processing Equipment	\$ 550,000
Business Income	\$ 5,500,000

**Liberty Mutual**

Policy No. WCK-Y91-449762-019; 07/01/09-07/01/10

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. OE6-60-22-10; 07/01/09-07/01/10

Automobile	
Liability	\$ 1,000,000
Medical	\$ 2,000

**Allied Mutual Insurance Company**

Bond No. BD 79 0 0575087; 7/1/09 - 7/1/10

Employee Dishonesty	\$ 50,000
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All policies expiring at June 30, 2010 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, 2010, and have issued our report thereon dated October 19, 2010. 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses as item 10-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### ***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 matters that we reported to the Hospital's management in a separate letter dated October 19, 2010.

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

### ***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, 2010 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, 2010. 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, 2010.

#### 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, 2010 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.

\* \* \* \* \*

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

*BKD, LLP*

Kansas City, Missouri  
October 19, 2010

**Boone County Hospital**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2010**

<b>Reference Number</b>	<b>Finding</b>
10-1	<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, clinic receivables and the notes receivable.</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, 2010, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the Hospital's financial statements on a timely basis. A 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 would not be met. A 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 competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies and, significant deficiencies.

### ***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 the 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***

- One Accountant working in the payroll cycle has duties that may include the ability to authorize transactions, access to check signatures and recording responsibilities.

The Hospital should consider limiting, to the extent possible, individuals having access to assets 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 health insurance accrual, accounts payable and the cafeteria plan accrual. These items were not previously identified by management's internal controls. The impact of these adjustments decreased reported changes in net assets by approximately \$32,000.

## **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.

## **System Protection**

During the course of performing the audit, we noted that the system password for payroll and other modules are not routinely changed. Due to the sensitive nature of the information stored within these systems, we recommend that management create procedures to have these passwords periodically changed. Management should also consider changing passwords when specific circumstances arise such as change of personnel or potential breach of security.

## **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.

## **Electronic Health Records**

The American Recovery and Reinvestment Act of 2009 includes significant potential funding for hospitals starting in 2011 once they demonstrate they are meaningful users of certified electronic health record (EHR) technology. Variables that determine the total funding available to a hospital include total discharges, the percentage of patient days attributable to Medicare Part A and Part C patients and the percentage of charges attributable to charity care. Implementing regulations to be issued by the Centers for Medicare & Medicaid Services (CMS) will determine how these variables are measured and what constitutes meaningful users of certified EHR technology.

Available funding will decrease significantly if the Hospital does not become a meaningful user of certified EHR technology until 2013 or later. Normal Medicare payments to hospitals and physicians will be reduced slightly beginning in 2015, similar to reductions for failing to report quality measures, if certified EHR technology is not in use. Limited exemptions are available for up to five years for hospitals that demonstrate that becoming a meaningful user of certified EHR technology would create a hardship. We recommend the Hospital monitor the development of the CMS implementing regulations. The Hospital should continue to develop its work plan to guide its implementation efforts related to certified EHR technology.

## **Health Care Reform**

During March 2010, President Obama signed into law the *Patient Protection and Affordable Care Act* and the *Health Care and Education Tax Credits Reconciliation Act of 2010*. Together, these two acts will reform the health care system. While your Hospital may not be affected by reductions in payments, it could be affected by the economic environment in your community, including whether employers in your community continue to provide health insurance coverage for employees. The overall impact on the Hospital of the health care reform is not presently determinable.

## **Current Economic Environment**

The current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. As a result, hospitals are facing declines in the fair values of assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The values of the assets and liabilities recorded in the financial statements could change, resulting in material future adjustments to asset values, the allowance for accounts receivable, etc. that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Now, more than ever, we recommend that management and the Board of Trustees vigilantly monitor and aggressively manage all of these matters.

\* \* \* \* \*

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.

*BKD, LLP*

Kansas City, Missouri  
October 19, 2010