Boone County Hospital

Accountants' Report and Financial Statements

June 30, 2011 and 2010

BKD LLP
CPAs & Advisors

Boone County Hospital

June 30, 2011 and 2010

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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, 2011 and 2010, 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, 2011 and 2010, 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 January 17, 2012, 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.

experience BKD

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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
January 17, 2012

Boone County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2011 and 2010

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, 2011 and 2010. 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 increased in 2011 by $1,198,532 or 33% and decreased in 2010 by $985,314 or 21%.
- The Hospital's net assets increased in each of the past two years with an $82,629 or 0.4% increase in 2011 and a $728,556 or 4% increase in 2010.
- The Hospital reported operating losses of $773,204 and $34,179 in 2011 and 2010, respectively.
- Net nonoperating revenues increased by $69,143 and $55,849 in 2011 and 2010, respectively.

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 $82,629 or 0.4% in 2011 and $728,556 or 4% in 2010 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Patient accounts receivable, net	$ 6,333,909	$ 6,879,481	$ 6,193,595
Other current assets	5,693,627	4,370,616	4,732,831
Capital assets, net	16,484,839	16,809,129	17,759,890
Other noncurrent assets	1,977,555	2,324,141	2,435,048
Total assets	$ 30,489,930	$ 30,383,367	$ 31,121,364
Liabilities			
Long-term debt	$ 5,567,183	$ 6,299,938	$ 7,922,638
Other current and noncurrent liabilities	6,096,813	5,340,124	5,183,977
Total liabilities	11,663,996	11,640,062	13,106,615
Net Assets			
Invested in capital assets, net of related debt	9,018,239	8,925,911	8,325,035
Restricted – expendable for			
Debt service payments	160,073	159,269	157,941
Specific operating activities	-	920	2,267
Restricted – nonexpendable endowment	57,440	57,440	57,440
Unrestricted	9,590,182	9,599,765	9,472,066
Total net assets	18,825,934	18,743,305	18,014,749
Total liabilities and net assets	$ 30,489,930	$ 30,383,367	$ 31,121,364

In 2011, the change in net assets was due to reduced accounts receievable, increased cash, and reduced capital assets. The reduced capital assets were due to depreciation expense in excess of capital additions.

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.

Operating Results

In 2011, the Hospital's Excess of Revenues Over Expenses Before Capital Contributions was $1,622 as shown in Table 2.

Table 2: Operating Results

	2011	2010	2009
Operating Revenues			
Net patient service revenue	$ 35,381,254	$ 35,375,225	$ 33,416,256
Other operating revenues	2,075,250	2,016,622	1,780,168
Total operating revenues	37,456,504	37,391,847	35,196,424
Operating Expenses			
Salaries and wages and employee benefits	21,171,553	20,623,251	19,452,554
Medical professional fees	5,101,420	4,862,196	4,871,382
Depreciation and amortization	1,901,800	1,874,496	1,972,697
Other operating expenses	10,054,935	10,066,083	9,067,623
Total operating expenses	38,229,708	37,426,026	35,364,256
Operating Loss	(773,204)	(34,179)	(167,832)
Nonoperating Revenues (Expenses)			
Noncapital contributions	7,232	6,296	4,221
Interest income	31,970	51,655	93,318
Interest expense	(304,107)	(331,873)	(380,978)
Property tax revenue	1,039,731	979,605	933,273
Total nonoperating revenues	774,826	705,683	649,834
Excess of Revenues Over Expenses Before Capital Contributions	1,622	671,504	482,002
Capital Contributions	81,007	57,052	-
Increase in Net Assets	$ 82,629	$ 728,556	$ 482,002

Operating Income

In 2011, the increase in Operating Loss was due to increased expenses, particularly wages and benefits. Most of that increase was due to health insurance and other employee benefit cost. Net revenue did not increase enough to cover increased expenses. The Net revenue was basically unchanged due to reduced inpatient volumes which offset gains in outpatient.

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.

The Hospital's Cash Flows

The Hospital's cash increased in 2011 by $1,502,803. The increase is due to improved collection on accounts receivable. The Hospital's cash decreased in 2010 by $328,416. The decrease is primarily due to debt payments and the increase in patient accounts receivable.

Capital Contributions

In 2011 and 2010, the Hospital received $81,007 and $57,052, respectively, for equipment purchases from the Boone County Health Care Foundation.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011 and 2010, the Hospital had $16,484,839 and $16,809,129, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011 and 2010, the Hospital added $1,603,219 and $923,735 in new capital assets, respectively.

Debt

At June 30, 2011 and 2010, the Hospital had $7,344,690 and $7,922,653, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. The Hospital obtained a $1,100,000 revenue note in the 2010 for the purpose of purchasing a medical office building.

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, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	$ 2,206,608	$ 676,498
Short-term certificates of deposit	813,867	753,890
Assets held under indenture agreement – Bond Fund	160,073	159,269
Patient accounts receivable, net of allowance; 2011 – $2,069,000, 2010 – $1,470,000	6,333,909	6,879,481
Property tax receivable	1,065,631	1,038,981
Estimated amounts due from third-party payers	115,644	557,000
Supplies	1,009,882	941,185
Prepaid expenses	321,922	243,793
Total current assets	12,027,536	11,250,097
Noncurrent Cash and Deposits		
Internally designated		
Edward H. Peterson Endowment Fund	292,588	290,772
Capital and other expenditures	1,464,449	1,856,900
Externally restricted by donors		
Albert C. Linn Endowment Fund	57,440	57,440
Specific operating activities	-	920
	1,814,477	2,206,032
Capital Assets, Net of Accumulated Depreciation	16,484,839	16,809,129
Other Assets		
Deferred financing costs (net of amortization of $218,809 in 2011 and $196,779 in 2010)	77,405	39,435
Receivables	85,673	78,674
	163,078	118,109
Total Assets	$ 30,489,930	$ 30,383,367

See Notes to Financial Statements

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Current maturities of long-term debt	$ 1,777,507	$ 1,622,715
Accounts payable	1,012,753	974,686
Accounts payable - capital assets	199,315	-
Accrued expenses		
Payroll and related deductions	1,685,884	1,470,189
Health insurance	362,353	232,802
Deferred revenue for property taxes	1,059,001	1,039,732
Total current liabilities	6,096,813	5,340,124
Long-term Debt	5,567,183	6,299,938
Total liabilities	11,663,996	11,640,062
Net Assets		
Invested in capital assets, net of related debt	9,018,239	8,925,911
Restricted – expendable for		
Debt service payments	160,073	159,269
Specific operating activities	-	920
Restricted – nonexpendable endowment	57,440	57,440
Unrestricted	9,590,182	9,599,765
Total net assets	18,825,934	18,743,305
Total Liabilities and Net Assets	$ 30,489,930	$ 30,383,367

Boone County Hospital

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	$ 38,102,057	$ 37,520,854
Provision for uncollectible accounts	(2,720,803)	(2,145,629)
Net patient service revenue	35,381,254	35,375,225
Other	2,075,250	2,016,622
	37,456,504	37,391,847
Operating Expenses		
Salaries and wages	15,735,207	15,669,492
Employee benefits	5,436,346	4,953,759
Medical professional fees	5,101,420	4,862,196
Supplies and other	6,214,783	6,433,190
General services	1,225,329	1,234,669
Administrative services	2,402,434	2,154,702
Insurance	212,389	243,522
Depreciation and amortization	1,901,800	1,874,496
	38,229,708	37,426,026
Operating Loss	(773,204)	(34,179)
Nonoperating Revenues (Expenses)		
Noncapital contributions	7,232	6,296
Interest income	31,970	51,655
Interest expense	(304,107)	(331,873)
Property tax revenue	1,039,731	979,605
	774,826	705,683
Excess of Revenues Over Expenses Before Capital Contributions	1,622	671,504
Capital Contributions	81,007	57,052
Increase in Net Assets	82,629	728,556
Net Assets, Beginning of the Year	18,743,305	18,014,749
Net Assets, End of the Year	$ 18,825,934	$ 18,743,305

Boone County Hospital

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	$ 36,368,182	$ 34,263,339
Payments to suppliers	(15,142,562)	(15,076,578)
Payments to employees	(20,955,858)	(20,597,204)
Other receipts and payments, net	2,115,608	2,153,367
Net cash provided by operating activities	2,385,370	742,924
Noncapital Financing Activities		
Property taxes supporting operations	1,039,731	979,605
Gifts and grants for other than capital purchases	7,232	6,296
Net cash provided by noncapital financing activities	1,046,963	985,901
Capital and Related Financing Activities		
Proceeds from capital debt	1,100,000	-
Purchase of capital assets	(1,403,904)	(923,735)
Principal payments on long-term debt	(1,677,963)	(1,565,910)
Interest paid on long-term debt	(304,107)	(331,873)
Deferred financing costs	(60,000)	-
Contributions for capital assets	81,007	57,052
Net cash used in capital and related financing activities	(2,264,967)	(2,764,466)
Investing Activities		
Purchase of certificates of deposit	(1,784,000)	(2,849,000)
Proceeds from sale of certificates of deposit	2,085,000	3,495,000
Income received on deposits	34,437	61,225
Net cash provided by investing activities	335,437	707,225
Increase (Decrease) in Cash and Cash Equivalents	1,502,803	(328,416)
Cash and Cash Equivalents, Beginning of Year	1,699,501	2,027,917
Cash and Cash Equivalents, End of Year	$ 3,202,304	$ 1,699,501
Reconciliation of Cash to the Balance Sheets		
Cash and cash equivalents	$ 2,206,608	$ 676,498
Cash in assets held under indenture agreement – Bond Fund	160,073	159,269
Noncurrent cash and deposits		
Internally designated		
Edward H. Peterson Endowment Fund	198,309	196,323
Capital and other expenditures	637,314	666,491
Externally restricted		
Specific operating activities	-	920
	$ 3,202,304	$ 1,699,501

Boone County Hospital

Statements of Cash Flows (Continued)

Years Ended June 30, 2011 and 2010

	2011	2010
Reconciliation of Operating Loss to Net Cash and Cash Equivalents Provided by (Used in) Operating Activities		
Operating loss	$ (773,204)	$ (34,179)
Items not requiring (providing) cash		
Depreciation	1,901,800	1,874,496
Amortization	22,030	14,273
Loss on sale of capital assets	25,709	-
Accrued self-insurance	129,551	(58,683)
Changes in		
Patient and other receivables	545,572	(685,886)
Supplies	(68,697)	(87,249)
Prepaid expenses	(85,128)	(74,234)
Accounts payable and accrued expenses	246,381	99,443
Estimated amounts due to third-party payers	441,356	(426,000)
Other	-	120,943
Net cash provided by operating activities	$ 2,385,370	$ 742,924
Supplemental Cash Flows Information		
Capital assets in accounts payable	$ 199,315	$ -

Boone County Hospital

Notes to Financial Statements

June 30, 2011 and 2010

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.

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, 2011 and 2010.

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 $353,419 and $468,673 for 2011 and 2010, respectively.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, 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, 2011 and 2010, 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.

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, 2011 and 2010. 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 for the year ended June 30, 2010.

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 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 2010 financial statements to conform to the 2011 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 52% and 53% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2011 and 2010, 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.

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, 2011 and 2010 was:

	2011	2010
Medicare and Medicaid	$ 1,481,243	$ 2,265,827
Other third-party payers	1,965,034	2,071,640
Patients	4,348,191	3,351,687
Clinics	608,441	660,327
	8,402,909	8,349,481
Less allowances for uncollectible accounts	2,069,000	1,470,000
	$ 6,333,909	$ 6,879,481

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, 2011 and 2010. The Hospital's deposits in banks at June 30, 2011 and 2010 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, 2011 and 2010.

Summary of Carrying Value

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

	2011	2010
Deposits	$ 4,986,304	$ 3,784,501
Accrued interest receivable	8,721	11,188
	$ 4,995,025	$ 3,795,689
Included in the following balance sheet captions		
Cash	$ 2,206,608	$ 676,498
Short-term certificates of deposit	813,867	753,890
Assets held under indenture agreement – Bond Fund	160,073	159,269
Noncurrent cash and deposits	1,814,477	2,206,032
	$ 4,995,025	$ 3,795,689

Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2011 and 2010, were as follows:

2011	Balance June 30, 2010	Additions	Retirements	Transfers	Balance June 30, 2011
Land and improvements	$ 959,075	$ 253,880	$ -	$ -	$ 1,212,955
Buildings and improvements	16,490,977	846,120	-	-	17,337,097
Equipment	19,517,754	214,237	60,523	-	19,671,468
Construction in progress	-	288,982	-	-	288,982
	36,967,806	1,603,219	60,523	-	38,510,502
Less accumulated depreciation for					
Land and improvements	216,142	23,172	-	-	239,314
Buildings and improvements	7,159,034	760,289	-	-	7,919,323
Equipment	12,783,501	1,118,339	34,814	-	13,867,026
	20,158,677	1,901,800	34,814	-	22,025,663
	$ 16,809,129	$ (298,581)	$ 25,709	$ -	$ 16,484,839

2010	Balance June 30, 2009	Additions	Retirements	Transfers	Balance June 30, 2010
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
	$ 17,759,890	$ (950,761)	$ -	$ -	$ 16,809,129

Note 6: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2011 and 2010 follows.

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Series 2010 Hospital Revenue Notes (A)	$ -	$ 1,100,000	$ 54,972	$ 1,045,028	$ 95,913
Series 2008 Hospital Revenue Notes (B)	7,788,141	-	1,587,714	6,200,427	1,644,831
Capital lease obligation (C)	134,512	-	35,277	99,235	36,763
	$ 7,922,653	$ 1,100,000	$ 1,677,963	$ 7,344,690	$ 1,777,507

	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
	$ 9,488,563	$ -	$ 1,565,910	$ 7,922,653	$ 1,622,715

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

	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2012	$ 1,740,744	$ 246,217	$ 36,763	$ 3,077
2013	1,704,099	183,336	38,163	1,677
2014	652,781	139,724	24,309	314
2015	679,653	112,851	-	-
2016	707,588	84,917	-	-
2017 - 2021	1,760,590	95,087	-	-
	$ 7,245,455	$ 862,132	$ 99,235	$ 5,068

(A) Hospital Revenue Note, Series 2010; $1,100,000 maturing in December 2020; principal and interest payments due monthly at a rate of 3.20%; collateralized by the Hospital's net revenues.

(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.

In connection with the hospital revenue notes, the Hospital is required, among other things, to maintain certain financial conditions, including Debt Service Coverage Ratio and a Fixed Charge Coverage Ratio of 115%. The Hospital did not meet the Fixed Charge Coverage Ratio requirement as of June 30, 2011 but received a waiver from the bank exempting them from hiring a consultant. However, the Hospital will be required to meet certain conditions as set forth in the waiver letter dated January 4, 2012, on a prospective basis.

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 2011 and 2010 is summarized as follows:

	2011	2010
Balance, beginning of year	$ 232,802	$ 291,485
Current year claims incurred and changes in estimates for claims incurred in prior year	3,037,335	2,633,808
Payments for claims	(2,907,784)	(2,692,491)
Balance, end of year	$ 362,353	$ 232,802

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 $22,954 and $30,912 to the Hospital for the years ended June 30, 2011 and 2010, respectively. The Hospital provided for the expenses of the Foundation director in the amount of $40,589 and $39,999 in 2011 and 2010, respectively. The unaudited financial position and results of operations of the Foundation for 2011 and 2010 are summarized as follows:

	2011	2010
Total assets	$ 342,432	$ 291,059
Net assets	$ 342,432	$ 291,059
Revenue	$ 118,445	$ 117,518
Expenses	86,807	93,497
Revenue over expenses	$ 31,638	$ 24,021

Note 9: Operating Leases

Noncancellable operating leases for primary care outpatient clinic offices and equipment expire in various years through 2015. The leases generally require the Hospital to pay all executory cost (maintenance and insurance). Rental payments include minimum rentals.

Future minimum lease payments at June 30, 2011, were:

2012	$ 453,169
2013	186,869
2014	93,607
2015	40,203
Future minimum lease payments	$ 773,848

Rental expense for all operating leases totaled $607,455 and $682,366 for 2011 and 2010, 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 4.5% and 4.3% of their annual covered salary and the Hospital was required to contribute 6.95% and 6.65% of annual covered payroll for 2011 and 2010, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2011, 2010 and 2009 were $1,045,937, $994,071 and $895,958, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.95% of annual covered salary for 2011.

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 $789,184 and $754,551 for the years ended June 30, 2011 and 2010, 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, 2014
January 26, 2017

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	$ 1,039,731	$ -	$ 1,039,731	$ 1,039,731
Other revenues/receipts	37,576,713	986,928	38,563,641	43,170,301
	38,616,444	986,928	39,603,372	44,210,032
Expenses/disbursements	38,533,815	(100,313)	38,433,502	42,595,497
	82,629	1,087,241	1,169,870	1,614,535
Balance, beginning of year	18,743,305	10,185,136	28,928,441	28,928,441
Balance, end of year	$ 18,825,934	$ 11,272,377	$ 30,098,311	$ 30,542,976

Note 13: Restricted and Designated Net Assets

At June 30, 2011 and 2010, restricted expendable net assets were available for the following purposes.

	2011	2010
Debt service	$ 160,073	$ 159,269
Specific operating activities	-	920

At June 30, 2011 and 2010, unrestricted net assets had been designated by the Hospital's Board of Trustees for the following purposes:

	2011	2010
Edward H. Peterson Endowment Fund	$ 292,588	$ 290,772
Capital and other expenditures	1,464,449	1,856,900
Total unrestricted designated net assets	$ 1,757,037	$ 2,147,672

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, 2011 and 2010, $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 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 15: 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 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.

Note 16: Subsequent Events

Subsequent to June 30, 2011, the Hospital Board has approved a resolution to borrow approximately $5 million for the purchase of an Information System that will include electronic health records capability.

Supplementary Information

Boone County Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	$ 5,510,084	$ 5,510,084		$ 4,907,064	$ 4,907,064	
Nursing Services						
Operating room	9,646,748	1,845,416	$ 7,801,332	9,260,610	2,183,013	$ 7,077,597
Skilled nursing	(875)	(875)		102,610	102,610	
Emergency room	9,047,576	139,957	8,907,619	8,081,777	134,304	7,947,473
Public health nursing/home health	1,228,566		1,228,566	1,381,387		1,381,387
	19,922,015	1,984,498	17,937,517	18,826,384	2,419,927	16,406,457
Other Professional Services						
Central service and supply	528,928	417,507	111,421	529,429	378,638	150,791
Laboratory	8,566,322	1,707,730	6,858,592	7,527,514	1,497,562	6,029,952
Radiology	4,710,853	426,042	4,284,811	4,498,380	355,414	4,142,966
MRI	2,032,582	173,838	1,858,744	1,721,399	125,913	1,595,486
CT Scan	4,268,298	556,215	3,712,083	4,271,381	639,568	3,631,813
Pharmacy	6,852,290	3,373,281	3,479,009	7,129,561	3,619,834	3,509,727
Anesthesiology	1,035,924	324,205	711,719	1,010,270	342,209	668,061
Physical therapy	3,560,337	580,040	2,980,297	3,063,470	630,284	2,433,186
Speech therapy	163,468	47,336	116,132	152,159	55,620	96,539
Occupational therapy	552,481	265,765	286,716	609,384	308,633	300,751
Orthopedic	551,747		551,747	579,026		579,026
Cardiac rehab	206,585		206,585	171,874		171,874
Specialty clinics	631,515	705	630,810	636,025		636,025
Electrocardiology	3,731,245	1,744,913	1,986,332	3,478,086	1,476,548	2,001,538
Ambulance service	2,079,684	203,538	1,876,146	1,923,262	205,155	1,718,107
Madrid Clinic	221,978		221,978	258,568		258,568
BCFM Boone	3,798,742		3,798,742	3,924,362		3,924,362
Ogden Clinic	487,360		487,360	532,688		532,688
Surgery clinic	1,682,800		1,682,800	1,658,048		1,658,048
	45,663,139	9,821,115	35,842,024	43,674,886	9,635,378	34,039,508

See Independent Accountants' Report

Boone County Hospital

Schedules of Patient Service Revenues (Continued)

Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Patient Service Revenue	$ 71,095,238	$ 17,315,697	$ 53,779,541	$ 67,408,334	$ 16,962,369	$ 50,445,965
Contractual Allowances	(32,993,181)			(29,887,480)		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	38,102,057			37,520,854		
Provision for Uncollectible Accounts	(2,720,803)			(2,145,629)		
Net Patient Service Revenue	$ 35,381,254			$ 35,375,225		

See Independent Accountants' Report

Boone County Hospital

Schedules of Other Revenues

Years Ended June 30, 2011 and 2010

	2011	2010
Public health nursing services support	$ 200,362	$ 220,151
Cafeteria and catering services	163,542	163,810
Meals on Wheels	109,570	109,501
Rent income	39,303	33,833
Sale of drugs	925,007	799,118
Home Care Aid services support	193,143	262,789
Purchase discounts	50,586	33,394
Medical records fees	486	555
Diabetes education	93,464	119,782
Adult daycare grants	80,516	91,649
Lifeline	49,790	68,945
Retired senior volunteer program	94,650	60,425
Other	74,831	52,670
	$ 2,075,250	$ 2,016,622

Boone County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	$ 668,185	$ 612,434	$ 55,751	$ 693,688	$ 673,464	$ 20,224
Medical/surgical	1,592,249	1,444,313	147,936	1,678,714	1,490,983	187,731
Skilled nursing	5,913	5,695	218	116,287	106,058	10,229
Special care unit	190,348	179,831	10,517	240,290	224,456	15,834
Obstetrics	647,812	490,320	157,492	569,370	435,406	133,964
Operating room	1,816,943	786,353	1,030,590	1,980,636	807,082	1,173,554
Emergency room	2,081,650	1,192,136	889,514	2,104,428	1,030,668	1,073,760
Public health nursing/home health	1,236,658	963,994	272,664	1,282,284	973,669	308,615
	8,239,758	5,675,076	2,564,682	8,665,697	5,741,786	2,923,911
Other Professional Services						
Central service and supply	176,205		176,205	176,846		176,846
Laboratory	1,539,099	683,533	855,566	1,495,731	624,079	871,652
Radiology	1,794,645	675,848	1,118,797	1,640,901	666,323	974,578
Occupational therapy	205,878		205,878	226,179		226,179
Orthopedic	674,879	640,690	34,189	722,956	690,744	32,212
Cardiac rehab	141,783	128,714	13,069	119,362	108,680	10,682
MRI	266,300		266,300	292,930		292,930
Pharmacy	2,475,986	304,241	2,171,745	2,577,799	331,849	2,245,950
Anesthesiology	657,529		657,529	588,612		588,612
Physical therapy	1,491,933	17,161	1,474,772	1,246,959	33,101	1,213,858
Audiology	58,848		58,848	55,022		55,022
Health education	73,726	65,692	8,034	69,937	68,683	1,254
Health promotion	153,150	53,377	99,773	164,517	50,862	113,655
Ambulance service	636,810	536,090	100,720	635,122	525,687	109,435
Electrocardiology	554,873	313,082	241,791	551,506	303,666	247,840
Specialty clinics	147,989	105,593	42,396	160,230	95,230	65,000

See Independent Accountants' Report

Boone County Hospital

Schedules of Operating Expenses (Continued)

Years Ended June 30, 2011 and 2010

	2011			2010		
	Total	Salaries	Other	Total	Salaries	Other
Surgery Clinic	$ 1,325,047	$ 957,270	$ 367,777	$ 1,157,017	$ 875,151	$ 281,866
BCFM Boone	2,608,992	1,939,994	668,998	2,556,203	1,914,062	642,141
BCFM Ogden	353,301	278,444	74,857	377,592	295,122	82,470
Madrid Clinic	199,885	156,272	43,613	255,094	197,648	57,446
Adult day care	127,158	75,709	51,449	119,815	49,706	70,109
Retired senior volunteer program	68,436	49,221	19,215	54,134	42,396	11,738
	15,732,452	6,980,931	8,751,521	15,244,464	6,872,989	8,371,475
General Services						
Dietary	668,652	374,928	293,724	638,340	347,293	291,047
Operation of plant	1,111,300	333,689	777,611	1,142,101	368,960	773,141
Housekeeping	467,163	396,249	70,914	477,496	409,116	68,380
Laundry	83,080		83,080	102,101		102,101
	2,330,195	1,104,866	1,225,329	2,360,038	1,125,369	1,234,669
Administrative Services						
Medical records	462,873	334,244	128,629	461,140	337,582	123,558
Administration	3,482,861	1,319,709	2,163,152	3,213,744	1,269,765	1,943,979
Quality management	271,927	179,916	92,011	234,120	183,754	50,366
Health center				14,194		14,194
Health care foundation	49,259	40,589	8,670	50,908	39,999	10,909
Diabetes education	109,848	99,876	9,972	109,944	98,248	11,696
	4,376,768	1,974,334	2,402,434	4,084,050	1,929,348	2,154,702
Insurance	212,389		212,389	243,522		243,522
Employee Benefits	5,436,346		5,436,346	4,953,759		4,953,759
Depreciation and Amortization	1,901,800		1,901,800	1,874,496		1,874,496
	$ 38,229,708	$ 15,735,207	$ 22,494,501	$ 37,426,026	$ 15,669,492	$ 21,756,534

See Independent Accountants' Report

Boone County Hospital

Schedules of Patient Receivables and Allowance for Uncollectible Accounts

Years Ended June 30, 2011 and 2010

Schedules of Patient Receivables

	2011		2010	
	Amounts	Percent to Total	Amounts	Percent to Total
Days Since Discharge				
0-30 days	$ 4,593,541	43.6%	$ 5,073,820	45.9%
31-60 days	1,367,426	13.0%	1,893,182	17.1%
61-90 days	774,996	7.3%	1,001,843	9.1%
91-120 days	640,263	6.1%	651,778	5.9%
Over 4 months	3,155,271	30.0%	2,435,256	22.0%
Total	10,531,497	100.0%	11,055,879	100.0%
Clinic and other receivables	957,600		1,050,262	
Less contractual allowances	3,086,188		3,756,660	
Less allowance for uncollectible accounts	2,069,000		1,470,000	
Net patient receivables	$ 6,333,909		$ 6,879,481	

Allowance for Uncollectible Accounts

	2011	2010
Balance, beginning of year	$ 1,470,000	$ 1,273,000
Provision for year	2,720,803	2,145,629
Recoveries of accounts previously written off	402,964	496,897
	4,593,767	3,915,526
Accounts written off	(2,524,767)	(2,445,526)
Balance, end of year	$ 2,069,000	$ 1,470,000

Boone County Hospital
Schedule of Officials
June 30, 2011

Name	Title	Term Expires
	Board of Trustees	
Bruce Anderson	Chairman	2012
David Grant	Vice Chairman	2014
Patricia Henkel	Treasurer	2016
Maxine Redeker	Secretary	2012
Keith Kudej	Member	2014
Thomas Good	Member	2012
Denny Kollbaum	Member	2014
	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, 2011 and 2010

Supplies

	2011	2010
General	$ 89,984	$ 92,726
Pharmacy	345,175	320,850
BCFM Clinics	55,352	60,026
Dietary	16,812	15,996
Plant operation and maintenance	13,356	13,161
Laboratory	45,523	40,324
Operating room	366,272	346,453
Information technologies	22,872	-
Other supplies	54,536	51,649
	$ 1,009,882	$ 941,185

Prepaid Expenses

	2011	2010
Maintenance and other	$ 321,922	$ 243,793

Boone County Hospital

Schedule of Insurance Coverage

June 30, 2011

The Cincinnati Insurance Company		
Policy No. BEP 266 37 36; $1,000 deductible		
Boiler and machinery 7/1/10 - 7/1/13	$	9,000,000
MHA		
Policy No. 01-IA10011; 10/01/10-10/01/11		
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; 10/01/10-10/01/11		
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; 10/01/10-10/01/11		
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; 10/01/10-10/01/11		
Entity Professional Liability Excess		
Each Professional Health Care Incident	$	5,000,000
Annual Aggregate	$	5,000,000
Jester Insurance		
Policy No.6802-9686; 07/01/10-07/01/11		
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, 2011

Employers Mutual Casualty Company	
Policy No. OA6-60-22-11; 07/01/10-07/01/11	
Buildings and Personal Property	$ 49,373,716
Data Processing Equipment	$ 550,000
Business Income	$ 6,600,000
Liberty Mutual	
Policy No. WCK-Y91-449762-019; 07/01/10-07/01/11	
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. OE6-60-22-11; 07/01/10-07/01/11	
Automobile	
Liability	$ 1,000,000
Medical	$ 2,000
Allied Mutual Insurance Company	
Bond No. BD 79 0 0575087; 7/1/10 - 7/1/11	
Employee Dishonesty	$ 50,000

All policies expiring at June 30, 2011 have been renewed for a minimum of one year.

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

Board of Trustees
Boone County Hospital
Boone, Iowa

We have audited the financial statements of Boone County Hospital as of and for the year ended June 30, 2011, and have issued our report thereon dated January 17, 2012. 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 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 11-1 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 January 17, 2012.

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, 2011 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, 2011. 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, 2011.

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, 2011 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.

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.

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 IRS limits except as noted below.

Criteria or Specific Requirement—Management is responsible for ensuring controls are in place to approve proper reimbursements.

Condition—The Hospital paid some mileage reimbursements in excess of the IRS approved limits.

Context—The Hospital has a general policy to reimburse mileage at the IRS limit.

Effect—Requirements were not met under the Hospitals policy.

Cause—Incorrect rates were not caught during review of the reimbursement forms.

Recommendation—Management should ensure mileage reimbursement rates are approved at the proper amounts.

Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendations. Management will ensure proper reimbursements are paid.

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, 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
January 17, 2012

Boone County Hospital

Schedule of Findings and Responses

Year Ended June 30, 2011

Reference Number	Finding
11-1	Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements. Condition—Significant audit adjustments were proposed to management related to accounts receivable cutoff, accounts receivable allowances, clinic receivables, paid time off accruals, health insurance accruals and other accrued liabilities. Context—Management's financial statement preparation procedures were not sufficient such that misstatements were not identified in the financial statements. Effect—Misstatements in the financial statements occurred and were not prevented or detected in a timely manner. Cause—Closing and review procedures are not sufficient such that misstatements are identified before issuing financial statements. Recommendation—Management should review financial statements monthly before issuance for accuracy and completeness in conformity with generally accepted accounting principles. 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.

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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, 2011, 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.*

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.

Other Matters

Although not considered material weaknesses, significant deficiencies or 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.

Accounts Receivable and Allowances

We noted the gross self-pay patient accounts receivable balance increased approximately 30% at June 30, 2011 compared to June 30, 2010. Additionally, the gross accounts receivable over 120 days old as a percentage of total gross accounts receivable increased approximately 8% at June 30, 2011 compared to June 30, 2010. Accounts receivable are a substantial portion of the Hospital's current assets and could yield additional cash. As the economy continues to stagnate, it is important that the Hospital closely monitor accounts receivable to ensure adequate

procedures are in place in the billings and collections processes. It is also important to continually monitor accounts receivable for collectability to assess for potential write-offs. The Hospital should consider collectability based on current trends by vendors the Hospital has engaged to collect the receivables.

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.

Conversion to ICD-10

Beginning on October 1, 2013, the Centers for Medicare and Medicaid Services (CMS) is converting coding data sets utilized to report medical diagnoses and inpatient procedures to the 10th edition (International Classification of Diseases – ICD). Claims made with ICD-9 codes for services provided after this date cannot be paid. The conversion will improve the information reported regarding a patients' medical condition, hospital inpatient procedures, update medical terms and be more consistent with current medical practices. However, to accomplish these changes, the amount of codes has increased from approximately 13,500 to 70,000, thereby making the coding system more complex in nature.

The impact from this conversion will be significant given the change in complexity. The greatest cost to the providers will be related to the loss of productivity through error rates and reworking of claims filed, in addition to the loss of cash flows through the initial increase in the length of time necessary to process claims. CMS estimates that it may take up to six months for error rates and accounts receivable to decrease back to pre-conversion levels.

Providers should begin developing an implementation strategy that includes an assessment of the impact on your hospital. Check with your billing services, clearinghouse or practice management software vendor about their compliance plans. Training of personnel and physicians will be necessary to prevent significant delays in processing of claims or loss of reimbursement.

Medicare and Medicaid Reimbursement

- The Federal government is currently evaluating ways to cut expenses due to the current economic conditions. Medicare and Medicaid programs are all being evaluated in this progress. The Hospital should continue to monitor the status of the proposed reimbursement cuts and take steps to ensure the Hospital can meet debt covenants in the event of reduced reimbursements.

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.

- Normal Medicare payments to hospitals and physicians will be reduced slightly beginning in 2015, 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.

Tax-exempt Status

Some of the more immediate changes for health care organizations as a result of the Patient Protection and Affordable Care Act will be the supplemental requirements to maintain tax-exempt status. These requirements include the following:

- **Financial Assistance Policy** – Each tax-exempt hospital must adopt a financial assistance policy that includes eligible criteria for free or discounted care, the basis for calculating amounts charged to patients, the method of applying financial assistance, a statement of the collections-related actions that could be taken if the hospital has no separate collections policy and how the hospital widely disseminates the policy. Additionally, each hospital must provide nondiscriminatory emergency medical care regardless of the individuals' eligibility for financial assistance.

- **Limitation on Charges** – For those patients eligible for financial assistance, charges for emergency or medically necessary care must not be more than the lowest amounts charged to patients who have insurance covering such care. The hospital must also prohibit the use of gross charges. How CMS will incorporate this guidance with the established principle consistent charging has yet to be determined.

- **Community Health Needs Assessment and Reporting** – Each tax-exempt hospital will be required to conduct a community health needs assessment every three years. This assessment must take into account input from a broad base of the community, including those with special knowledge of public health, and must be widely distributed to the public. This assessment provision is effective for fiscal years beginning on or after April 1, 2012, and carries a $50,000 penalty if not completed.

- **Billing and Collections** – A hospital must not take "extraordinary collections actions" until it has determined whether the patient is eligible under its financial assistance policy. While the amount of effort required to make that determination will be established by subsequent regulation, it is expected to include notifying the patient upon admission, on the bill and by subsequent telephone calls.

Charity Care Disclosures

Health care organizations currently report services to qualified charity patients in the notes to the financial statements. The disclosures generally report the amount of charity based on charges or the cost of providing the services. Effective for fiscal years beginning after December 15, 2010, ASU 2010-23 will require that all disclosures for charity care be based on the cost of providing those services. While this standard is not specifically for governmental entities, we recommend the Hospital consider adopting the disclosure to be consistent with the health care industry for 2012.

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.

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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
January 17, 2012