

Boone County Hospital

Accountants' Report and Financial Statements

June 30, 2012 and 2011



Boone County Hospital
June 30, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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 22, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The Other Supplementary Information 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 not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Kansas City, Missouri
October 22, 2012

Boone County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2012 and 2011

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, 2012 and 2011. 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 2012 by \$2,331,357 or 48% and increased in 2011 by \$1,198,532 or 33%.
- The Hospital's net assets increased in each of the past two years with a \$795,006 or 4% increase in 2012 and a \$82,629 or 0.4% increase in 2011.
- The Hospital reported an operating loss of \$103,943 in 2012 and an operating loss of \$773,204 in 2011.
- Net nonoperating revenues increased by \$86,750 and \$69,143 in 2012 and 2011, 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 \$795,006 or 4% in 2012 and \$82,629 or 0.4% in 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2012	2011	2010
Assets			
Patient accounts receivable, net	\$ 7,120,334	\$ 6,333,909	\$ 6,879,481
Other current assets	5,974,551	5,693,627	4,370,616
Capital assets, net	18,382,681	16,484,839	16,809,129
Other noncurrent assets	3,816,119	1,977,555	2,324,141
Total assets	<u>\$ 35,293,685</u>	<u>\$ 30,489,930</u>	<u>\$ 30,383,367</u>
Liabilities			
Long-term debt	\$ 8,810,198	\$ 5,567,183	\$ 6,299,938
Other current and noncurrent liabilities	6,862,547	6,096,813	5,340,124
Total liabilities	<u>15,672,745</u>	<u>11,663,996</u>	<u>11,640,062</u>
Net Assets			
Invested in capital assets, net of related debt	9,728,984	9,018,239	8,925,911
Restricted – expendable for			
Debt service payments	160,876	160,073	159,269
Specific operating activities	-	-	920
Restricted – nonexpendable endowment	57,440	57,440	57,440
Unrestricted	9,673,640	9,590,182	9,599,765
Total net assets	<u>19,620,940</u>	<u>18,825,934</u>	<u>18,743,305</u>
Total liabilities and net assets	<u>\$ 35,293,685</u>	<u>\$ 30,489,930</u>	<u>\$ 30,383,367</u>

In 2012, the primary change in assets was due to increases in cash and net accounts receivable. In 2011, the change in net assets was due to reduced accounts receivable, increased cash and reduced capital assets. The reduced capital assets were due to depreciation expense in excess of capital additions.

Operating Results

In 2012, the Hospital's Excess of Revenues Over Expenses Before Capital Contributions was \$757,633 as shown in Table 2.

Table 2: Operating Results

	2012	2011	2010
Operating Revenues			
Net patient service revenue	\$ 36,878,041	\$ 35,381,254	\$ 35,375,225
Other operating revenues	<u>2,406,610</u>	<u>2,075,250</u>	<u>2,016,622</u>
Total operating revenues	<u>39,284,651</u>	<u>37,456,504</u>	<u>37,391,847</u>
Operating Expenses			
Salaries and wages and employee benefits	22,133,055	21,178,372	20,623,251
Medical professional fees	7,328,461	7,121,703	6,589,780
Depreciation and amortization	1,851,990	1,923,830	1,888,769
Other operating expenses	<u>8,075,088</u>	<u>8,005,803</u>	<u>8,324,226</u>
Total operating expenses	<u>39,388,594</u>	<u>38,229,708</u>	<u>37,426,026</u>
Operating Loss	<u>(103,943)</u>	<u>(773,204)</u>	<u>(34,179)</u>
Nonoperating Revenues (Expenses)			
Noncapital contributions	11,611	7,232	6,296
Interest income	27,213	31,970	51,655
Interest expense	(236,248)	(304,107)	(331,873)
Property tax revenue	<u>1,059,000</u>	<u>1,039,731</u>	<u>979,605</u>
Total nonoperating revenues	<u>861,576</u>	<u>774,826</u>	<u>705,683</u>
Excess of Revenues Over Expenses Before Capital Contributions	757,633	1,622	671,504
Capital Contributions	<u>37,373</u>	<u>81,007</u>	<u>57,052</u>
Increase in Net Assets	<u>\$ 795,006</u>	<u>\$ 82,629</u>	<u>\$ 728,556</u>

Operating Income

In 2012, the decrease in the Operating Loss was due to increases in Orthopedic surgery volume, pharmacy revenue, and patient admissions. 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.

The Hospital's Cash Flows

The Hospital's cash increased in 2012 by \$2,587,709. The increase is due to improved collection on accounts receivable. The Hospital's cash increased in 2011 by \$1,502,803. The increase was due to improved collection on accounts receivable.

Capital Contributions

In 2012 and 2011, the Hospital received \$37,373 and \$81,007, respectively, for equipment purchases.

Capital Asset and Debt Administration

Capital Assets

At the end of 2012 and 2011, the Hospital had \$ 18,382,681 and \$16,484,839, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2012 and 2011, the Hospital added \$3,736,013 and \$1,603,219 in new capital assets, respectively.

Debt

At June 30, 2012 and 2011, the Hospital had \$10,550,791 and \$7,344,690, respectively, in revenue bonds, notes payable and capital lease obligations outstanding.

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, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 2,690,770	\$ 2,206,608
Short-term certificates of deposit	753,007	813,867
Assets held under indenture agreement – Bond Fund	160,876	160,073
Patient accounts receivable, net of allowance; 2012 – \$1,579,000, 2011 – \$2,069,000	7,120,334	6,333,909
Other receivables	1,241,040	1,065,631
Estimated amounts due from third-party payers	-	115,644
Supplies	913,186	1,009,882
Prepaid expenses	<u>215,672</u>	<u>321,922</u>
Total current assets	<u>13,094,885</u>	<u>12,027,536</u>
Noncurrent Cash and Deposits		
Internally designated		
Edward H. Peterson Endowment Fund	294,142	292,588
Capital and other expenditures	1,474,120	1,464,449
Externally restricted by donors		
Albert C. Linn Endowment Fund	57,440	57,440
Externally restricted under lease agreement	<u>1,896,830</u>	<u>-</u>
	<u>3,722,532</u>	<u>1,814,477</u>
Capital Assets, Net of Accumulated Depreciation	<u>18,382,681</u>	<u>16,484,839</u>
Other Assets		
Deferred financing costs (net of amortization of \$232,627 in 2012 and \$218,809 in 2011)	63,587	77,405
Receivables	<u>30,000</u>	<u>85,673</u>
	<u>93,587</u>	<u>163,078</u>
Total Assets	<u><u>\$ 35,293,685</u></u>	<u><u>\$ 30,489,930</u></u>

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,740,593	\$ 1,777,507
Accounts payable	1,075,112	1,012,753
Accounts payable - capital assets	-	199,315
Accrued expenses		
Payroll and related deductions	1,943,260	1,685,884
Health insurance	477,258	362,353
Interest	63,323	-
Estimated amounts due to third-party payers	495,000	-
Deferred revenue for property taxes	<u>1,068,001</u>	<u>1,059,001</u>
Total current liabilities	6,862,547	6,096,813
Long-term Debt	<u>8,810,198</u>	<u>5,567,183</u>
Total liabilities	<u>15,672,745</u>	<u>11,663,996</u>
Net Assets		
Invested in capital assets, net of related debt	9,728,984	9,018,239
Restricted – expendable for		
Debt service payments	160,876	160,073
Restricted – nonexpendable endowment	57,440	57,440
Unrestricted	<u>9,673,640</u>	<u>9,590,182</u>
Total net assets	<u>19,620,940</u>	<u>18,825,934</u>
Total Liabilities and Net Assets	<u><u>\$ 35,293,685</u></u>	<u><u>\$ 30,489,930</u></u>

Boone County Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 40,561,981	\$ 38,102,057
Provision for uncollectible accounts	<u>(3,683,940)</u>	<u>(2,720,803)</u>
Net patient service revenue	36,878,041	35,381,254
Other	<u>2,406,610</u>	<u>2,075,250</u>
	<u>39,284,651</u>	<u>37,456,504</u>
Operating Expenses		
Salaries and wages	16,503,622	15,742,026
Employee benefits	5,629,433	5,436,346
Medical and other professional fees	7,328,461	7,121,703
Supplies	5,148,678	4,802,714
Utilities and maintenance	2,030,932	2,209,192
Insurance	232,304	288,643
Depreciation and amortization	1,851,990	1,923,830
Other operating expenses	<u>663,174</u>	<u>705,254</u>
	<u>39,388,594</u>	<u>38,229,708</u>
Operating Loss	<u>(103,943)</u>	<u>(773,204)</u>
Nonoperating Revenues (Expenses)		
Noncapital contributions	11,611	7,232
Interest income	27,213	31,970
Interest expense	(236,248)	(304,107)
Property tax revenue	<u>1,059,000</u>	<u>1,039,731</u>
	<u>861,576</u>	<u>774,826</u>
Excess of Revenues Over Expenses Before Capital Contributions	757,633	1,622
Capital Contributions	<u>37,373</u>	<u>81,007</u>
Increase in Net Assets	795,006	82,629
Net Assets, Beginning of the Year	<u>18,825,934</u>	<u>18,743,305</u>
Net Assets, End of the Year	<u>\$ 19,620,940</u>	<u>\$ 18,825,934</u>

Boone County Hospital
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	\$ 36,702,260	\$ 36,368,182
Payments to suppliers	(14,967,667)	(15,142,562)
Payments to employees	(21,875,679)	(20,955,858)
Other receipts and payments, net	2,232,451	2,115,608
Net cash provided by operating activities	2,091,365	2,385,370
Noncapital Financing Activities		
Property taxes supporting operations	1,059,000	1,039,731
Gifts and grants for other than capital purchases	11,611	7,232
Net cash provided by noncapital financing activities	1,070,611	1,046,963
Capital and Related Financing Activities		
Proceeds from capital debt	4,986,075	1,100,000
Purchase of capital assets	(3,777,020)	(1,403,904)
Proceeds from sale of capital assets	7,750	-
Principal payments on long-term debt	(1,779,974)	(1,677,963)
Interest paid on long-term debt	(331,233)	(304,107)
Deferred financing costs	-	(60,000)
Contributions for capital assets	37,373	81,007
Net cash used in capital and related financing activities	(857,029)	(2,264,967)
Investing Activities		
Purchase of deposits and certificates of deposit	(1,528,698)	(1,784,000)
Proceeds from sale of certificates of deposit	1,784,000	2,085,000
Income received on deposits	27,460	34,437
Net cash provided by investing activities	282,762	335,437
Increase in Cash and Cash Equivalents	2,587,709	1,502,803
Cash and Cash Equivalents, Beginning of Year	3,202,304	1,699,501
Cash and Cash Equivalents, End of Year	\$ 5,790,013	\$ 3,202,304

Boone County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Cash to the Balance Sheets		
Cash and cash equivalents	\$ 2,690,770	\$ 2,206,608
Cash in assets held under indenture agreement – Bond Fund	160,876	160,073
Noncurrent cash and deposits		
Internally designated		
Edward H. Peterson Endowment Fund	254,116	198,309
Capital and other expenditures	787,421	637,314
Externally restricted under lease agreement	1,896,830	-
	<u>\$ 5,790,013</u>	<u>\$ 3,202,304</u>
Reconciliation of Operating Income (Loss) to Net Cash and Cash Equivalents Provided by Operating Activities		
Operating loss	\$ (103,943)	\$ (773,204)
Items not requiring cash		
Depreciation	1,838,171	1,901,800
Amortization	13,819	22,030
(Gain) loss on sale of capital assets	(7,750)	25,709
Accrued self-insurance	114,905	129,551
Changes in		
Patient and other receivables	(786,425)	545,572
Supplies	96,696	(68,697)
Prepaid expenses	161,922	(85,128)
Accounts payable and accrued expenses	153,326	246,381
Estimated amounts due to third-party payers	610,644	441,356
	<u>\$ 2,091,365</u>	<u>\$ 2,385,370</u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	<u>\$ -</u>	<u>\$ -</u>
Supplemental Cash Flows Information		
Capital assets in accounts payable and/or accrued liabilities	<u>\$ 63,323</u>	<u>\$ 199,315</u>

Boone County Hospital

Notes to Financial Statements

June 30, 2012 and 2011

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, 2012 and 2011

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.

Other Receivables

The Hospital began participating in the 340B Drug Pricing Program in 2012. The Program limits the cost of covered outpatient drugs. At June 30, 2012, the Hospital had approximately \$126,000 recorded as a receivable related to the Program. The Hospital generated approximately \$503,000 of gross revenues from the Program in 2012.

Noncurrent Cash and Deposits

Noncurrent cash and deposits include (1) assets restricted by donors, (2) assets restricted under indenture agreements (in current assets), (3) assets restricted under lease agreement, (4) internally designated as unrestricted assets set aside by the Board of Trustees for the Edward H. Peterson Endowment Fund and the Education Fund, and (5) 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.

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.

Boone County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

Capital Assets

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

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

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

	<u>2012</u>	<u>2011</u>
Interest costs capitalized	\$ 158,308	\$ -
Interest costs charged to expense	<u>236,248</u>	<u>304,107</u>
Total interest incurred	<u>\$ 394,556</u>	<u>\$ 304,107</u>

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 \$392,100 and \$353,419 for 2012 and 2011, respectively.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012 and 2011, 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, 2012 and 2011, 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.

Boone County Hospital

Notes to Financial Statements

June 30, 2012 and 2011

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.

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, 2012 and 2011

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 2011 financial statements to conform to the 2012 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 52% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2012 and 2011, 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, 2012 and 2011

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, 2012 and 2011 was:

	2012	2011
Medicare and Medicaid	\$ 2,229,998	\$ 1,481,243
Other third-party payers	2,065,636	1,965,034
Patients	3,684,452	4,348,191
Clinics	719,248	608,441
	8,699,334	8,402,909
Less allowances for uncollectible accounts	1,579,000	2,069,000
	\$ 7,120,334	\$ 6,333,909

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, 2012 and 2011. The Hospital's deposits in banks at June 30, 2012 and 2011 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, 2012 and 2011.

Boone County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

Summary of Carrying Value

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

	2012	2011
Deposits	\$ 7,321,013	\$ 4,986,304
Accrued interest receivable	6,172	8,721
	\$ 7,327,185	\$ 4,995,025
Included in the following balance sheet captions		
Cash	\$ 2,690,770	\$ 2,206,608
Short-term certificates of deposit	753,007	813,867
Assets held under indenture agreement – Bond Fund	160,876	160,073
Noncurrent cash and deposits	3,722,532	1,814,477
	\$ 7,327,185	\$ 4,995,025

Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2012 and 2011, were as follows:

	Balance June 30, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Land and improvements	\$ 1,212,955	\$ -	\$ -	\$ -	\$ 1,212,955
Buildings and improvements	17,337,097	41,244	-	-	17,378,341
Equipment	19,671,468	255,173	98,158	89,667	19,918,150
Construction in progress	288,982	3,439,596	-	(89,667)	3,638,911
	38,510,502	3,736,013	98,158	-	42,148,357
Less accumulated depreciation for					
Land and improvements	239,314	20,822	-	-	260,136
Buildings and improvements	7,919,323	767,938	-	-	8,687,261
Equipment	13,867,026	1,049,411	98,158	-	14,818,279
	22,025,663	1,838,171	98,158	-	23,765,676
	\$ 16,484,839	\$ 1,897,842	\$ -	\$ -	\$ 18,382,681

Boone County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

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
	<u>36,967,806</u>	<u>1,603,219</u>	<u>60,523</u>	<u>-</u>	<u>38,510,502</u>
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
	<u>20,158,677</u>	<u>1,901,800</u>	<u>34,814</u>	<u>-</u>	<u>22,025,663</u>
	<u>\$ 16,809,129</u>	<u>\$ (298,581)</u>	<u>\$ 25,709</u>	<u>\$ -</u>	<u>\$ 16,484,839</u>

Note 6: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2012 and 2011 follows.

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Series 2010 Hospital					
Revenue Notes (A)	\$ 1,045,028	\$ -	\$ 96,513	\$ 948,515	\$ 99,161
Series 2008 Hospital					
Revenue Notes (B)	6,200,427	-	1,647,002	4,553,425	1,603,270
Information technology lease (C)	-	4,986,075	-	4,986,075	-
Capital lease obligation (D)	99,235	-	36,459	62,776	38,162
	<u>\$ 7,344,690</u>	<u>\$ 4,986,075</u>	<u>\$ 1,779,974</u>	<u>\$ 10,550,791</u>	<u>\$ 1,740,593</u>

	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 (D)	134,512	-	35,277	99,235	36,763
	<u>\$ 7,922,653</u>	<u>\$ 1,100,000</u>	<u>\$ 1,677,963</u>	<u>\$ 7,344,690</u>	<u>\$ 1,777,507</u>

Boone County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

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

	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2013	\$ 1,702,431	\$ 183,336	\$ 38,162	\$ 191,646
2014	652,781	139,724	948,011	181,571
2015	679,653	112,851	958,913	145,741
2016	707,588	84,917	995,796	108,858
2017	736,787	55,709	1,034,097	70,557
2018 - 2021	1,022,700	39,379	1,073,872	30,782
	<u>\$ 5,501,940</u>	<u>\$ 615,916</u>	<u>\$ 5,048,851</u>	<u>\$ 729,155</u>

- (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 information technology system at 3.81% interest, which expires in 2018. The assets and liabilities under the capital lease are recorded at the present value of the minimum lease payments. In 2012, all related assets are included in construction in progress or noncurrent cash and deposits.
- (D) 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 it 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.

For June 30, 2012, the Hospital's Debt Service Coverage Ratio was 138% and the Fixed Charge Coverage Ratio was 116% as calculated based on the audited financial statements for June 30, 2012.

Boone County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

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 2012 and 2011 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 362,353	\$ 232,802
Current year claims incurred and changes in estimates for claims incurred in prior year	3,016,937	3,037,335
Payments for claims	<u>(2,902,032)</u>	<u>(2,907,784)</u>
Balance, end of year	<u>\$ 477,258</u>	<u>\$ 362,353</u>

Note 8: Boone County Health Care Foundation

The Boone County Health Care Foundation is a not-for-profit corporation organized in 1992 for the purpose of supporting and promoting health care services in Boone County. The Foundation donated \$26,445 and \$22,954 to the Hospital for the years ended June 30, 2012 and 2011, respectively. The Hospital provided for the expenses of the Foundation director in the amount of \$41,958 and \$40,589 in 2012 and 2011, respectively. The unaudited financial position and results of operations of the Foundation for 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Total assets	<u>\$ 433,669</u>	<u>\$ 342,432</u>
Net assets	<u>\$ 433,669</u>	<u>\$ 342,432</u>
Revenue	\$ 221,794	\$ 118,445
Expenses	<u>130,540</u>	<u>86,807</u>
Revenue over expenses	<u>\$ 91,254</u>	<u>\$ 31,638</u>

Boone County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

Note 9: Operating Leases

Noncancellable operating leases for primary care outpatient clinic offices and equipment expire in various years through 2016. 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, 2012, were:

2013	\$ 247,596
2014	154,334
2015	100,930
2016	<u>60,727</u>
Future minimum lease payments	<u><u>\$ 563,587</u></u>

Rental expense for all operating leases totaled \$560,889 and \$607,455 for 2012 and 2011, 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 5.38% and 4.5% of their annual covered salary and the Hospital was required to contribute 8.07% and 6.95% of annual covered payroll for 2012 and 2011, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2012, 2011 and 2010 were \$1,262,896, \$1,045,937 and \$994,071, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.07% of annual covered salary for 2012.

Boone County Hospital
Notes to Financial Statements
June 30, 2012 and 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 \$805,741 and \$789,184 for the years ended June 30, 2012 and 2011, 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	\$ 1,059,000	\$ -	\$ 1,059,000	\$ 1,059,435
Other revenues/receipts	39,360,848	(175,781)	39,185,067	44,312,413
	40,419,848	(175,781)	40,244,067	45,371,848
Expenses/disbursements	39,624,842	(212,068)	39,412,774	42,981,376
	795,006	36,287	831,293	2,390,472
Balance, beginning of year	18,825,934	10,810,374	29,636,308	29,636,308
Balance, end of year	\$ 19,620,940	\$ 10,846,661	\$ 30,467,601	\$ 32,026,780

Boone County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

Note 13: Restricted and Designated Net Assets

At June 30, 2012 and 2011, restricted expendable net assets were available for the following purposes.

	2012	2011
Debt service	\$ 160,876	\$ 160,073

At June 30, 2012 and 2011, unrestricted net assets had been designated by the Hospital's Board of Trustees for the following purposes:

	2012	2011
Edward H. Peterson Endowment Fund	\$ 294,142	\$ 292,588
Capital and other expenditures	1,474,120	1,464,449
Total unrestricted designated net assets	\$ 1,768,262	\$ 1,757,037

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, 2012 and 2011, \$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.

Boone County Hospital
Notes to Financial Statements
June 30, 2012 and 2011

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.

Supplementary Information

Boone County Hospital Schedules of Patient Service Revenues Years Ended June 30, 2012 and 2011

	2012			2011		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	\$ 5,669,718	\$ 5,669,718		\$ 5,510,084	\$ 5,510,084	
Nursing Services						
Operating room	11,683,299	2,524,650	\$ 9,158,649	9,646,748	1,845,416	\$ 7,801,332
Skilled nursing				(875)	(875)	
Emergency room	10,253,645	179,261	10,074,384	9,047,576	139,957	8,907,619
Public health nursing/home health	1,471,825		1,471,825	1,228,566		1,228,566
	<u>23,408,769</u>	<u>2,703,911</u>	<u>20,704,858</u>	<u>19,922,015</u>	<u>1,984,498</u>	<u>17,937,517</u>
Other Professional Services						
Central service and supply	507,139	390,213	116,926	528,928	417,507	111,421
Laboratory	9,810,019	1,731,232	8,078,787	8,566,322	1,707,730	6,858,592
Radiology	5,202,492	381,241	4,821,251	4,710,853	426,042	4,284,811
MRI	1,985,356	134,239	1,851,117	2,032,582	173,838	1,858,744
CT Scan	4,971,424	547,221	4,424,203	4,268,298	556,215	3,712,083
Pharmacy	7,911,826	3,361,280	4,550,546	6,852,290	3,373,281	3,479,009
Anesthesiology	1,166,714	313,467	853,247	1,035,924	324,205	711,719
Physical therapy	4,008,593	666,052	3,342,541	3,560,337	580,040	2,980,297
Speech therapy	125,904	57,761	68,143	163,468	47,336	116,132
Occupational therapy	562,559	304,558	258,001	552,481	265,765	286,716
Orthopedic	642,350		642,350	551,747		551,747
Cardiac rehab	160,767		160,767	206,585		206,585
Specialty clinics	814,214	7,810	806,404	631,515	705	630,810
Electrocardiology	4,032,170	1,742,066	2,290,104	3,731,245	1,744,913	1,986,332
Ambulance service	2,758,026	228,647	2,529,379	2,079,684	203,538	1,876,146
Madrid Clinic	253,874		253,874	221,978		221,978
BCFM Boone	3,593,574		3,593,574	3,798,742		3,798,742
Ogden Clinic	771,955		771,955	487,360		487,360
Surgery clinic	1,897,148		1,897,148	1,682,800		1,682,800
OB Clinic	17	17				
	<u>51,176,121</u>	<u>9,865,804</u>	<u>41,310,317</u>	<u>45,663,139</u>	<u>9,821,115</u>	<u>35,842,024</u>

Boone County Hospital
Schedules of Patient Service Revenues (Continued)
Years Ended June 30, 2012 and 2011

	2012			2011		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Patient Service Revenue	\$ 80,254,608	\$ 18,239,433	\$ 62,015,175	\$ 71,095,238	\$ 17,315,697	\$ 53,779,541
Contractual Allowances	(39,692,627)			(32,993,181)		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	40,561,981			38,102,057		
Provision for Uncollectible Accounts	(3,683,940)			(2,720,803)		
Net Patient Service Revenue	\$ 36,878,041			\$ 35,381,254		

Boone County Hospital
Schedules of Other Revenues
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Public health nursing services support	\$ 185,411	\$ 200,362
Cafeteria and catering services	181,258	163,542
Meals on Wheels	106,961	109,570
Rent income	33,823	39,303
Sale of drugs	782,708	925,007
Home Care Aid services support	213,260	193,143
Purchase discounts	33,374	50,586
Medical records fees	4,641	486
Diabetes education	119,039	93,464
Adult day care grants	64,254	80,516
Lifeline	85,834	49,790
Retired senior volunteer program	37,640	94,650
340B pharmacy program	502,808	-
Other	55,599	74,831
	<u>\$ 2,406,610</u>	<u>\$ 2,075,250</u>

Boone County Hospital
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

	2012			2011		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 728,952	\$ 685,317	\$ 43,635	\$ 668,185	\$ 612,434	\$ 55,751
Medical/surgical	1,671,954	1,489,449	182,505	1,592,249	1,444,313	147,936
Skilled nursing	603	603		5,913	5,695	218
Special care unit	190,652	179,618	11,034	190,348	179,831	10,517
Obstetrics	621,528	496,898	124,630	647,812	496,608	151,204
Operating room	2,210,690	801,337	1,409,353	1,816,943	786,353	1,030,590
Emergency room	2,013,302	1,410,255	603,047	2,018,719	1,192,136	826,583
Public health nursing/home health	1,271,168	983,576	287,592	1,236,658	963,994	272,664
	8,708,849	6,047,053	2,661,796	8,176,827	5,681,364	2,495,463
Other Professional Services						
Central service and supply	176,821		176,821	176,205		176,205
Laboratory	1,533,500	665,803	867,697	1,539,099	683,533	855,566
Radiology	1,693,593	675,421	1,018,172	1,794,645	675,848	1,118,797
Occupational therapy	204,875		204,875	205,878		205,878
Orthopedic	667,756	643,828	23,928	674,879	640,690	34,189
Cardiac rehab	138,178	125,751	12,427	141,783	128,714	13,069
MRI	292,930		292,930	266,300		266,300
Pharmacy	2,414,454	320,325	2,094,129	2,475,986	304,241	2,171,745
Anesthesiology	771,091		771,091	657,529		657,529
Physical therapy	1,637,976		1,637,976	1,491,933	17,161	1,474,772
Audiology	45,326		45,326	58,848		58,848
Health education	81,526	71,533	9,993	73,726	65,692	8,034
Health promotion	178,351	54,452	123,899	153,150	53,377	99,773
Ambulance service	665,979	563,342	102,637	636,810	536,090	100,720
Electrocardiology	572,716	320,745	251,971	554,873	313,082	241,791
Specialty clinics	178,234	113,895	64,339	147,989	105,593	42,396
Surgery Clinic	1,503,405	1,225,949	277,456	1,311,724	957,270	354,454

Boone County Hospital
Schedules of Operating Expenses (Continued)
Years Ended June 30, 2012 and 2011

	2012			2011		
	Total	Salaries	Other	Total	Salaries	Other
BCFM Boone	\$ 2,612,664	\$ 2,001,956	\$ 610,708	\$ 2,608,992	\$ 1,939,994	\$ 668,998
BCFM Ogden	484,653	398,300	86,353	353,301	278,444	74,857
Madrid Clinic	220,450	138,934	81,516	199,885	156,272	43,613
Adult day care	127,971	74,858	53,113	127,158	75,709	51,449
Retired senior volunteer program	51,392	43,015	8,377	68,436	49,221	19,215
340B pharmacy program	231,570		231,570			
	<u>16,485,411</u>	<u>7,438,107</u>	<u>9,047,304</u>	<u>15,719,129</u>	<u>6,980,931</u>	<u>8,738,198</u>
General Services						
Dietary	672,689	359,394	313,295	668,652	374,928	293,724
Operation of plant	1,058,711	305,434	753,277	1,111,300	333,689	777,611
Housekeeping	476,451	410,341	66,110	467,163	396,249	70,914
Laundry	88,905		88,905	83,080		83,080
	<u>2,296,756</u>	<u>1,075,169</u>	<u>1,221,587</u>	<u>2,330,195</u>	<u>1,104,866</u>	<u>1,225,329</u>
Administrative Services						
Medical records	506,105	350,558	155,547	462,873	334,244	128,629
Administration	3,264,274	1,261,911	2,002,363	3,460,831	1,320,240	2,140,591
Quality management	255,865	182,443	73,422	271,927	179,916	92,011
Health care foundation	46,103	41,958	4,145	49,259	40,589	8,670
Diabetes education	111,504	106,423	5,081	109,848	99,876	9,972
	<u>4,183,851</u>	<u>1,943,293</u>	<u>2,240,558</u>	<u>4,354,738</u>	<u>1,974,865</u>	<u>2,379,873</u>
Insurance	<u>232,304</u>		<u>232,304</u>	<u>288,643</u>		<u>288,643</u>
Employee Benefits	<u>5,629,433</u>		<u>5,629,433</u>	<u>5,436,346</u>		<u>5,436,346</u>
Depreciation and Amortization	<u>1,851,990</u>		<u>1,851,990</u>	<u>1,923,830</u>		<u>1,923,830</u>
	<u>\$ 39,388,594</u>	<u>\$ 16,503,622</u>	<u>\$ 22,884,972</u>	<u>\$ 38,229,708</u>	<u>\$ 15,742,026</u>	<u>\$ 22,487,682</u>

Boone County Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2012 and 2011

Schedules of Patient Receivables

	<u>2012</u>		<u>2011</u>	
	<u>Amounts</u>	<u>Percent to Total</u>	<u>Amounts</u>	<u>Percent to Total</u>
Days Since Discharge				
0-30 days	\$ 5,794,105	48.5%	\$ 4,593,541	43.6%
31-60 days	1,732,832	14.5%	1,367,426	13.0%
61-90 days	1,116,073	9.3%	774,996	7.3%
91-120 days	622,590	5.2%	640,263	6.1%
Over 4 months	<u>2,684,438</u>	<u>22.5%</u>	<u>3,155,271</u>	<u>30.0%</u>
Total	11,950,038	<u>100.0%</u>	10,531,497	<u>100.0%</u>
Clinic and other receivables	1,094,355		957,600	
Less contractual allowances	4,345,059		3,086,188	
Less allowance for uncollectible accounts	<u>1,579,000</u>		<u>2,069,000</u>	
Net patient receivables	<u>\$ 7,120,334</u>		<u>\$ 6,333,909</u>	

Allowance for Uncollectible Accounts

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 2,069,000	\$ 1,470,000
Provision for year	3,683,940	2,720,803
Recoveries of accounts previously written off	<u>572,138</u>	<u>402,964</u>
	6,325,078	4,593,767
Accounts written off	<u>(4,746,078)</u>	<u>(2,524,767)</u>
Balance, end of year	<u>\$ 1,579,000</u>	<u>\$ 2,069,000</u>

Boone County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2012 and 2011

Supplies

	<u>2012</u>	<u>2011</u>
General	\$ 102,838	\$ 89,984
Pharmacy	308,333	345,175
BCFM Clinics	45,292	55,352
Dietary	16,178	16,812
Plant operation and maintenance	15,823	13,356
Laboratory	23,054	45,523
Operating room	352,565	366,272
Information technologies	-	22,872
Other supplies	49,103	54,536
	<u>\$ 913,186</u>	<u>\$ 1,009,882</u>

Prepaid Expenses

	<u>2012</u>	<u>2011</u>
Maintenance and other	<u>\$ 215,672</u>	<u>\$ 321,922</u>

Other Supplementary Information

Boone County Hospital
Schedule of Officials
June 30, 2012

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
Schedule of Insurance Coverage
June 30, 2012

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

MMIC

Policy No. MHP 000348; 10/01/11-10/01/12
 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

MMIC

Policy No. MHP 000348; 10/01/11-10/01/12
 General Liability Each \$ 1,000,000
 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

MMIC

Policy No. MHP 000348; 10/01/11-10/01/12
 Umbrella Policy
 Professional Liability each \$ 5,000,000
 Professional Liability aggregate \$ 5,000,000
 Umbrella each \$ 5,000,000
 Umbrella aggregate \$ 5,000,000

MMIC

Policy No. MHP 000348; 10/01/11-10/01/12
 Entity Professional Liability Excess
 Each Professional Health Care Incident \$ 5,000,000
 Annual Aggregate \$ 5,000,000

Jester Insurance

Policy No. 6802-9686; 07/01/11-07/01/12
 Directors and Officers Liability, \$7,500 deductible
 Each loss \$ 2,000,000
 Aggregate \$ 2,000,000

(Continued)

Boone County Hospital
Schedule of Insurance Coverage (Continued)
June 30, 2012

Employers Mutual Casualty Company

Policy No. OA6-60-22-11; 07/01/11-07/01/12

Buildings and Personal Property	\$ 43,289,198
Data Processing Equipment	\$ 550,000
Business Income	\$ 6,600,000

Farm Bureau

Policy No. 7815142; 07/01/11-07/01/12

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. OE6-60-22-12; 07/01/11-07/01/12

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

Allied Mutual Insurance Company

OF6-60-22-12; 1/1/12-7/1/12

Employee Dishonesty	\$ 500,000
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All policies expiring at June 30, 2012 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, 2012, and have issued our report thereon dated October 22, 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

Management of the Hospital is responsible for establishing and maintaining effective 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 was not designed to 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.

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 noted certain matters that we reported to the Hospital's management in a separate letter dated October 22, 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, 2012 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, 2012. 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, 2012.

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, 2012 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.

* * * * *

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 22, 2012

Boone County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2012

Reference Number	Finding
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None

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, 2012, 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.

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.

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:

Revenue and Cash Receipts Cycle

- The billing personnel at the BCFM Clinic and the billing personnel at the Madrid Clinic have duties that include access to assets 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 resulting in journal entries to the financial statements affecting the bad debt allowance, Medicaid contractual allowance, paid-time-off accrual, accrued interest, prepaid bonus, long-term debt and accrued payroll taxes and IPERS benefits. The impact of these adjustments increased reported changes in net assets by approximately \$200,000.

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.

Maintaining Accuracy of Allowances

One of the most complex items in the Hospital's monthly financial statements is the calculation of the bad debt and contractual allowances. The Hospital has developed procedures to estimate the allowances on a monthly basis. To determine that the formulas and estimates used are still appropriate on an interim basis, at least quarterly, the Hospital should compare the estimates to actual data such as private pay collections and the Medicare and Medicaid remittance advices.

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 process. Currently, the Hospital should expect a 2% reduction in Medicare reimbursement starting January 3, 2013. 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.

New Accounting Standards

The Governmental Accounting Standards Board has issued several new standards within the past few years. While most of the new standards will have minimal impact on the Hospital, we have noted below the standards we believe will have the most impact on the Hospital.

Governmental Accounting Standards Board Statement No. 65, *Reporting Items Previously Recognized as Assets and Liabilities*

GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in the financial statements (i.e., assets, deferred outflows of resources, liabilities, deferred inflows of resources, etc.). Concepts Statement No. 4 also indicated that recognition of deferred outflows of resources and deferred inflows of resources should be limited to those instances specifically identified in subsequent authoritative pronouncements. Only two such pronouncements have been issued, GASB 53, *Accounting and Financial Reporting for Derivative Instruments* and GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard amends the classification of certain items currently reported as assets and liabilities. One potential impact for the Hospital is that all future debt issuance costs will be expensed as incurred instead of amortized over the life of any new debt.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012, or the Hospital's 2014 fiscal year.

Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*

GASB No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement includes guidance for accounting for participating employers in single-employer and multiple-employer defined-benefit pension plans, cost-sharing plans, defined-contribution plans and plans with insured benefits. More specifically, it would require the Hospital to recognize pension expense based on an actuarial valuation, as opposed to current guidance of recognizing pension expense based on contributions actually made, or contractually required to be made. The note disclosure and required supplementary information requirements for employers whose employees are provided with defined benefit pensions through qualified trusts also are addressed.

We recommend the Hospital begin reviewing these changes in order to evaluate the potential impact on the financial statements.

The effective date for this standard is generally for periods beginning after June 15, 2014.

Conversion to ICD-10

Beginning on October 1, 2014, 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.

Community Health Needs Assessment (CHNA)

Under IRS §501(r), hospitals are now required to conduct a community health needs assessment in order to maintain their tax-exempt status. This requirement is first effective for the Hospital for the year ending June 30, 2013 because the Hospital is a dual status hospital.

On July 7, 2011, the IRS issued Notice 2011-52, which provided much needed guidance on the specific requirements of the CHNA. Some key items to note with respect to this are:

- There are very specific documentation requirements in this new guidance. Many hospitals that have previously conducted CHNAs or collaborated with others will need to carefully review the documentation requirements to ensure compliance. These documentation requirements apply to all phases of the CHNA, including the needs identification process, interviews and surveys and the implementation strategy.
- Organizations that operate more than one hospital facility are required to meet the CHNA requirement separately with respect to each facility. Hospitals will be able to collaborate with other organizations, but each facility must separately document the CHNA and implementation strategy.
- The CHNA must be made widely available to the public.
- Excise tax of \$50,000 may be assessed each year that a tax-exempt hospital fails to comply with the CHNA requirement.

We recommend the Hospital evaluate the CHNA requirements in order to be in compliance by the due date.

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 22, 2012