

Boone County Hospital

Auditor's Report and Financial Statements

June 30, 2013 and 2012



Boone County Hospital
June 30, 2013 and 2012

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Boone County Hospital
Boone, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Boone County Hospital (Hospital), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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 basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements and other knowledge we obtained during our audits of the basic 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

Other Supplementary Information

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 and the condensed financial statements and statistical data included in the Report to the Board of Trustees are 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013 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* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Kansas City, Missouri
December 16, 2013

Boone County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2013 and 2012

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, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total deposits decreased in 2013 by \$4,772,302 or 65% and increased in 2012 by \$2,332,160 or 46%.
- The Hospital's net position increased in each of the past two years with a \$1,020,002 or 5% increase in 2013 and a \$795,006 or 4% increase in 2012.
- The Hospital reported operating income of \$201,798 in 2013 and an operating loss of \$103,943 in 2012.
- Net nonoperating revenues decreased by \$64,974 and increased \$86,750 in 2013 and 2012, respectively.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; 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 Position

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 Position 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 position and changes in them. The Hospital's total net position—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 position 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 Position

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net position increased by \$1,020,002 or 5% in 2013 and \$795,006 or 4% in 2012 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Patient accounts receivable, net	\$ 6,823,148	\$ 7,120,334	\$ 6,333,909
Other current assets	7,872,543	5,974,551	5,693,627
Capital assets, net	19,709,070	18,382,681	16,484,839
Other noncurrent assets	<u>608,259</u>	<u>3,816,119</u>	<u>1,977,555</u>
Total assets	<u>\$ 35,013,020</u>	<u>\$ 35,293,685</u>	<u>\$ 30,489,930</u>
Liabilities			
Long-term debt	\$ 7,201,279	\$ 8,810,198	\$ 5,567,183
Other current and noncurrent liabilities	<u>7,170,799</u>	<u>6,862,547</u>	<u>6,096,813</u>
Total liabilities	<u>14,372,078</u>	<u>15,672,745</u>	<u>11,663,996</u>
Net Position			
Net investment in capital assets	10,631,692	9,728,984	9,018,239
Restricted – expendable for			
Debt service payments	161,681	160,876	160,073
Restricted – nonexpendable endowment	57,440	57,440	57,440
Unrestricted	<u>9,790,129</u>	<u>9,673,640</u>	<u>9,590,182</u>
Total net position	<u>20,640,942</u>	<u>19,620,940</u>	<u>18,825,934</u>
Total liabilities and net position	<u>\$ 35,013,020</u>	<u>\$ 35,293,685</u>	<u>\$ 30,489,930</u>

In 2013, the changes in assets were due to a reduction in net accounts receivable and increases in other current assets, including a receivable related to electronic health record incentive revenue of \$3,020,803. Capital assets increased in 2013 due to additions related to the electronic health records project. Other noncurrent assets decreased in 2013 due to cash and deposits used to purchase capital assets. Total liabilities decreased \$1,300,667 in 2013 for normal principal payments on long-term debt and estimated amounts due to third-party payers changing to a receivable in 2013. There was also an increase in accounts payable of approximately \$561,000 at June 30, 2013 over the prior year.

In 2012, the primary change in assets was due to increases in cash and net accounts receivable. The Hospital's noncurrent cash and deposits increased \$1.9 million for cash remaining from borrowings related to the electronic health record project. Capital assets increased approximately \$1.9 million for additions primarily related to the electronic health record project. In 2012, total liabilities increased primarily due to borrowing \$4,986,075 related to the electronic health record project.

Operating Results

In 2013, the Hospital's Excess of Revenues Over Expenses Before Capital Contributions was \$998,400 as shown in Table 2.

Table 2: Operating Results

	2013	2012	2011
Operating Revenues			
Net patient service revenue	\$ 39,121,807	\$ 36,878,041	\$ 35,381,254
Other operating revenues	2,903,273	2,406,610	2,075,250
Total operating revenues	<u>42,025,080</u>	<u>39,284,651</u>	<u>37,456,504</u>
Operating Expenses			
Salaries and wages and employee benefits	22,877,264	22,133,055	21,178,372
Medical and other professional fees	8,038,482	7,328,461	7,121,703
Depreciation and amortization	2,246,183	1,851,990	1,923,830
Other operating expenses	8,661,353	8,075,088	8,005,803
Total operating expenses	<u>41,823,282</u>	<u>39,388,594</u>	<u>38,229,708</u>
Operating Income (Loss)	<u>201,798</u>	<u>(103,943)</u>	<u>(773,204)</u>
Nonoperating Revenues (Expenses)			
Noncapital contributions	5,141	11,611	7,232
Interest income	23,990	27,213	31,970
Interest expense	(296,463)	(236,248)	(304,107)
Property tax revenue	1,063,934	1,059,000	1,039,731
Total nonoperating revenues	<u>796,602</u>	<u>861,576</u>	<u>774,826</u>
Excess of Revenues Over Expenses Before Capital Contributions	998,400	757,633	1,622
Capital Contributions	<u>21,602</u>	<u>37,373</u>	<u>81,007</u>
Increase in Net Position	<u>\$ 1,020,002</u>	<u>\$ 795,006</u>	<u>\$ 82,629</u>

Operating Income

In 2013, the increase in the operating expenses was due to an increase in depreciation expense, as well as other operating expenses, related to the Electronic Medical Record implementation. The increase in net patient service revenue in 2013 was due to recording \$3,237,562 of Electronic Health Record incentive revenue. In 2012, the decrease in the operating loss was due to increases in Orthopedic surgery volume, pharmacy revenue and patient admissions.

The Hospital's Cash Flows

The Hospital's cash decreased in 2013 by \$4,060,062. The decrease was due to increased accounts receivable balances, amounts due from third-party payers and payments related to the implementation of the Electronic Medical Record system. The Hospital's cash increased in 2012 by \$2,587,709. The increase is due to improved collection on accounts receivable.

Capital Contributions

In 2013 and 2012, the Hospital received \$21,602 and \$37,373, respectively, for equipment purchases.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013 and 2012, the Hospital had \$19,709,070 and \$18,382,681, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2013 and 2012, the Hospital added \$3,562,959 and \$3,736,013 in new capital assets, respectively.

Debt

At June 30, 2013 and 2012, the Hospital had \$8,802,514 and \$10,550,791, 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, 2013 and 2012

Assets

	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 1,349,646	\$ 2,690,770
Short-term certificates of deposit	504,271	753,007
Assets held under indenture agreement – Bond Fund	161,681	160,876
Patient accounts receivable, net of allowance; 2013 – \$1,956,000, 2012 – \$1,579,000	6,823,148	7,120,334
Other receivables	4,156,392	1,241,040
Estimated amounts due from third-party payers	600,000	-
Supplies	902,190	913,186
Prepaid expenses	198,363	215,672
	<u>14,695,691</u>	<u>13,094,885</u>
Noncurrent Cash and Deposits		
Internally designated		
Edward H. Peterson Endowment Fund	95,429	294,142
Capital and other expenditures	383,799	1,474,120
Externally restricted by donors		
Albert C. Linn Endowment Fund	57,440	57,440
Externally restricted under lease agreement	2,617	1,896,830
	<u>539,285</u>	<u>3,722,532</u>
Capital Assets, Net of Accumulated Depreciation	<u>19,709,070</u>	<u>18,382,681</u>
Other Assets		
Deferred financing costs (net of amortization of \$242,240 in 2013 and \$232,627 in 2012)	53,974	63,587
Receivables	15,000	30,000
	<u>68,974</u>	<u>93,587</u>
Total Assets	<u><u>\$ 35,013,020</u></u>	<u><u>\$ 35,293,685</u></u>

Liabilities and Net Position

	<u>2013</u>	<u>2012</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,601,235	\$ 1,740,593
Accounts payable	1,636,000	1,075,109
Accrued expenses		
Payroll and related deductions	2,250,073	1,943,263
Health insurance	487,990	477,258
Interest	63,323	63,323
Estimated amounts due to third-party payers	-	495,000
Deferred revenue for property taxes	1,132,178	1,068,001
	<u>7,170,799</u>	<u>6,862,547</u>
Long-term Debt	<u>7,201,279</u>	<u>8,810,198</u>
	<u>14,372,078</u>	<u>15,672,745</u>
Net Position		
Net investment in capital assets	10,631,692	9,728,984
Restricted – expendable for		
Debt service payments	161,681	160,876
Restricted – nonexpendable endowment	57,440	57,440
Unrestricted	9,790,129	9,673,640
	<u>20,640,942</u>	<u>19,620,940</u>
Total Liabilities and Net Position	<u>\$ 35,013,020</u>	<u>\$ 35,293,685</u>

Boone County Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts and electronic health record incentive revenue	\$ 39,488,068	\$ 40,561,981
Provision for uncollectible accounts	(3,603,823)	(3,683,940)
Electronic health record incentive revenue	3,237,562	-
Net patient service revenue	39,121,807	36,878,041
Other	2,903,273	2,406,610
	42,025,080	39,284,651
Operating Expenses		
Salaries and wages	16,911,267	16,503,622
Employee benefits	5,965,997	5,629,433
Medical and other professional fees	8,038,482	7,328,461
Supplies	5,321,772	5,148,678
Utilities and maintenance	2,372,084	2,030,932
Insurance	196,479	232,304
Depreciation and amortization	2,246,183	1,851,990
Other operating expenses	771,018	663,174
	41,823,282	39,388,594
Operating Income (Loss)	201,798	(103,943)
Nonoperating Revenues (Expenses)		
Noncapital contributions	5,141	11,611
Interest income	23,990	27,213
Interest expense	(296,463)	(236,248)
Property tax revenue	1,063,934	1,059,000
	796,602	861,576
Excess of Revenues Over Expenses Before Capital Contributions	998,400	757,633
Capital Contributions	21,602	37,373
Increase in Net Position	1,020,002	795,006
Net Position, Beginning of the Year	19,620,940	18,825,934
Net Position, End of the Year	\$ 20,640,942	\$ 19,620,940

Boone County Hospital
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 35,303,190	\$ 36,702,260
Payments to suppliers	(16,353,039)	(14,967,667)
Payments to employees	(22,507,131)	(21,875,679)
Other receipts and payments, net	<u>3,073,106</u>	<u>2,232,451</u>
Net cash provided by (used in) operating activities	<u>(483,874)</u>	<u>2,091,365</u>
Noncapital Financing Activities		
Property taxes supporting operations	1,063,729	1,059,000
Gifts and grants for other than capital purchases	<u>5,141</u>	<u>11,611</u>
Net cash provided by noncapital financing activities	<u>1,068,870</u>	<u>1,070,611</u>
Capital and Related Financing Activities		
Proceeds from capital debt	-	4,986,075
Purchase of capital assets	(3,263,165)	(3,777,020)
Proceeds from sale of capital assets	-	7,750
Principal payments on long-term debt	(1,748,277)	(1,779,974)
Interest paid on long-term debt	(391,448)	(331,233)
Contributions for capital assets	<u>21,602</u>	<u>37,373</u>
Net cash used in capital and related financing activities	<u>(5,381,288)</u>	<u>(857,029)</u>
Investing Activities		
Purchase of deposits and certificates of deposit	(1,065,000)	(1,528,698)
Proceeds from sale of certificates of deposit	1,781,000	1,784,000
Income received on deposits	<u>20,230</u>	<u>27,460</u>
Net cash provided by investing activities	<u>736,230</u>	<u>282,762</u>
Increase (Decrease) in Cash and Cash Equivalents	(4,060,062)	2,587,709
Cash and Cash Equivalents, Beginning of Year	<u>5,790,013</u>	<u>3,202,304</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,729,951</u>	<u>\$ 5,790,013</u>

Boone County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of Cash to the Balance Sheets		
Cash and cash equivalents	\$ 1,349,646	\$ 2,690,770
Cash in assets held under indenture agreement – Bond Fund	161,681	160,876
Noncurrent cash and deposits		
Internally designated		
Edward H. Peterson Endowment Fund	55,287	254,116
Capital and other expenditures	160,720	787,421
Externally restricted under lease agreement	2,617	1,896,830
	<u>\$ 1,729,951</u>	<u>\$ 5,790,013</u>
Reconciliation of Operating Income (Loss) to Net Cash and Cash Equivalents Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 201,798	\$ (103,943)
Items not requiring cash		
Depreciation	2,236,570	1,838,171
Amortization	9,613	13,819
Gain on sale of capital assets	-	(7,750)
Accrued self-insurance	10,732	114,905
Changes in		
Patient and other receivables	(2,553,784)	(786,425)
Supplies	10,996	96,696
Prepaid expenses	32,309	161,922
Accounts payable and accrued expenses	662,892	153,326
Estimated amounts due to third-party payers	(1,095,000)	610,644
	<u>\$ (483,874)</u>	<u>\$ 2,091,365</u>
Supplemental Cash Flows Information		
Capital assets in accounts payable and/or accrued liabilities	<u>\$ 268,132</u>	<u>\$ 63,323</u>

Boone County Hospital

Notes to Financial Statements

June 30, 2013 and 2012

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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

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.

Boone County Hospital

Notes to Financial Statements

June 30, 2013 and 2012

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.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2013, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The Hospital recorded revenue of \$3,237,562, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position as of the year ended June 30, 2013.

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.

Boone County Hospital
Notes to Financial Statements
June 30, 2013 and 2012

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.

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>2013</u>	<u>2012</u>
Interest costs capitalized	\$ 94,985	\$ 158,308
Interest costs charged to expense	<u>296,463</u>	<u>236,248</u>
Total interest incurred	<u>\$ 391,448</u>	<u>\$ 394,556</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 \$655,650 and \$392,100 for 2013 and 2012, respectively.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of money market and savings accounts.

Boone County Hospital

Notes to Financial Statements

June 30, 2013 and 2012

Property Taxes

The Hospital received approximately 2% and 3% of its financial support from property tax revenues in the years ended June 30, 2013 and 2012, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

Net Position

The net position of the Hospital is classified in four components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted unexpendable and expendable net positions are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital. The restricted expendable net position includes amounts as required by the revenue bond indentures. The restricted net position is reduced by any liabilities payable from restricted assets. The restricted nonexpendable net position equals the principal portion of permanent endowments. The unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

Restricted Nonexpendable Net Positions

The restricted net position includes 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.

Boone County Hospital

Notes to Financial Statements

June 30, 2013 and 2012

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 2012 financial statements to conform to the 2013 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. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2021.
- **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 56% and 53% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid Programs are complex and subject to interpretation and change.

Boone County Hospital
Notes to Financial Statements
June 30, 2013 and 2012

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, 2013 and 2012 was:

	2013	2012
Medicare and Medicaid	\$ 2,380,915	\$ 2,422,322
Other third-party payers	3,318,161	2,519,221
Patients	3,080,072	3,757,791
	8,779,148	8,699,334
Less allowances for uncollectible accounts	1,956,000	1,579,000
	\$ 6,823,148	\$ 7,120,334

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, 2013 and 2012. The Hospital's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Boone County Hospital
Notes to Financial Statements
June 30, 2013 and 2012

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, 2013 and 2012.

Summary of Carrying Value

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

	2013	2012
Deposits	\$ 2,544,951	\$ 7,321,013
Accrued interest receivable	9,932	6,172
	\$ 2,554,883	\$ 7,327,185
Included in the following balance sheet captions		
Cash	\$ 1,349,646	\$ 2,690,770
Short-term certificates of deposit	504,271	753,007
Assets held under indenture agreement – Bond Fund	161,681	160,876
Noncurrent cash and deposits	539,285	3,722,532
	\$ 2,554,883	\$ 7,327,185

Boone County Hospital
Notes to Financial Statements
June 30, 2013 and 2012

Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2013 and 2012, were as follows:

2013	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
Land and improvements	\$ 1,212,955	\$ -	\$ -	\$ -	\$ 1,212,955
Buildings and improvements	17,378,341	193,906	-	-	17,572,247
Equipment	19,918,150	299,133	-	274,094	20,491,377
HIT designated assets	-	-	-	5,296,882	5,296,882
Construction in progress	3,638,911	3,069,920	-	(5,570,976)	1,137,855
	<u>42,148,357</u>	<u>3,562,959</u>	<u>-</u>	<u>-</u>	<u>45,711,316</u>
Less accumulated depreciation for					
Land and improvements	260,136	20,509	-	-	280,645
Buildings and improvements	8,687,261	763,906	-	-	9,451,167
Equipment	14,818,279	922,466	-	-	15,740,745
HIT designated assets	-	529,689	-	-	529,689
	<u>23,765,676</u>	<u>2,236,570</u>	<u>-</u>	<u>-</u>	<u>26,002,246</u>
	<u>\$ 18,382,681</u>	<u>\$ 1,326,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,709,070</u>
2012	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
	<u>38,510,502</u>	<u>3,736,013</u>	<u>98,158</u>	<u>-</u>	<u>42,148,357</u>
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
	<u>22,025,663</u>	<u>1,838,171</u>	<u>98,158</u>	<u>-</u>	<u>23,765,676</u>
	<u>\$ 16,484,839</u>	<u>\$ 1,897,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,382,681</u>

The Hospital is in the process of meeting the various stages of meaningful use with an electronic health record project. Original budgeted amounts were approximately \$6,000,000 for hardware and software. Additional capitalized costs include salaries, benefits, and interest as part of the project. The Hospital will incur additional amounts as it moves to the next stages. There is currently approximately \$1,000,000 of costs within construction in progress as of June 30, 2013 related to the electronic health record project. The project will be funded with internal funds along with funds received from Medicare and Medicaid as discussed in Note 1.

Boone County Hospital
Notes to Financial Statements
June 30, 2013 and 2012

Note 6: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2013 and 2012 follows.

	Balance			Balance	Amounts Due
	June 30, 2012	Additions	Reductions	June 30, 2013	Within One
					Year
Series 2010 Hospital Revenue Notes (A)	\$ 948,515	\$ -	\$ 99,161	\$ 849,354	\$ 102,427
Series 2008 Hospital Revenue Notes (B)	4,553,425	-	1,611,396	2,942,029	550,355
Information technology lease (C)	4,986,075	-	-	4,986,075	923,397
Capital lease obligation (D)	62,776	-	37,720	25,056	25,056
	<u>\$ 10,550,791</u>	<u>\$ -</u>	<u>\$ 1,748,277</u>	<u>\$ 8,802,514</u>	<u>\$ 1,601,235</u>

	Balance			Balance	Amounts Due
	June 30, 2011	Additions	Reductions	June 30, 2012	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>

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

	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2014	\$ 652,782	\$ 139,724	\$ 948,453	\$ 181,571
2015	679,654	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	721,219	25,361	1,073,872	30,782
2019 - 2021	293,353	14,018	-	-
	<u>\$ 3,791,383</u>	<u>\$ 432,580</u>	<u>\$ 5,011,131</u>	<u>\$ 537,509</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.

Boone County Hospital
Notes to Financial Statements
June 30, 2013 and 2012

- (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.

Property and equipment include the following property under capital leases at June 30:

	2013	2012
Equipment	\$ 189,411	\$ 189,411
Electronic health record designated assets	5,296,882	-
Less accumulated depreciation	706,473	138,901
	\$ 4,779,820	\$ 50,510

Amounts included in cost above for electronic health record designated assets include total costs capitalized as of June 30, 2013; however, the Hospital only borrowed \$4,986,075 for this project.

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%.

For June 30, 2013, the Hospital's Debt Service Coverage Ratio was 188% and the Fixed Charge Coverage Ratio was 144% as calculated based on the audited financial statements for June 30, 2013.

Boone County Hospital
Notes to Financial Statements
June 30, 2013 and 2012

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 2013 and 2012 is summarized as follows:

	2013	2012
Balance, beginning of year	\$ 477,258	\$ 362,353
Current year claims incurred and changes in estimates for claims incurred in prior year	3,188,053	3,016,937
Payments for claims	(3,177,321)	(2,902,032)
Balance, end of year	\$ 487,990	\$ 477,258

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 \$21,603 and \$26,445 to the Hospital for the years ended June 30, 2013 and 2012, respectively. The Hospital provided for the expenses of the Foundation director in the amount of \$50,824 and \$41,958 in 2013 and 2012, respectively. The unaudited financial position and results of operations of the Foundation for 2013 and 2012 are summarized as follows:

	2013	2012
Total assets	\$ 434,602	\$ 433,669
Net assets	\$ 434,602	\$ 433,669
Revenue	\$ 151,088	\$ 221,794
Expenses	150,655	130,540
Revenue over expenses	\$ 433	\$ 91,254

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.

Boone County Hospital
Notes to Financial Statements
June 30, 2013 and 2012

Future minimum lease payments at June 30, 2013, were:

2014	\$ 139,388
2015	100,930
2016	<u>55,666</u>
Future minimum lease payments	<u><u>\$ 295,984</u></u>

Rental expense for all operating leases totaled \$447,232 and \$560,889 for 2013 and 2012, 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 Post Office Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members were required to contribute 5.78% and 5.38% of their annual covered salary and the Hospital was required to contribute 8.67% and 8.07% of annual covered payroll for 2013 and 2012, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2013, 2012 and 2011 were \$1,401,253, \$1,262,896 and \$1,045,937, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.67% of annual covered salary for 2013.

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 \$842,630 and \$805,741 for the years ended June 30, 2013 and 2012, respectively.

Boone County Hospital
Notes to Financial Statements
June 30, 2013 and 2012

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:

	<u>Book Basis</u>	<u>Actual Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Budget</u>
Amount to be raised				
by taxation	\$ 1,063,934	\$ -	\$ 1,063,934	\$ 1,063,933
Other revenues/receipts	42,075,813	(3,648,784)	38,427,029	48,227,124
	43,139,747	(3,648,784)	39,490,963	49,291,057
Expenses/disbursements	42,119,745	(691,197)	41,428,548	47,981,301
	1,020,002	(2,957,587)	(1,937,585)	1,309,756
Balance, beginning of year	19,620,940	12,303,145	31,924,085	31,924,085
Balance, end of year	<u>\$ 20,640,942</u>	<u>\$ 9,345,558</u>	<u>\$ 29,986,500</u>	<u>\$ 33,233,841</u>

Note 13: Restricted and Designated Net Position

At June 30, 2013 and 2012, the restricted expendable net position was available for the following purposes.

	<u>2013</u>	<u>2012</u>
Debt service	<u>\$ 161,681</u>	<u>\$ 160,876</u>

Boone County Hospital
Notes to Financial Statements
June 30, 2013 and 2012

At June 30, 2013 and 2012, the unrestricted net position had been designated by the Hospital's Board of Trustees for the following purposes:

	2013	2012
Edward H. Peterson Endowment Fund	\$ 95,429	\$ 294,142
Capital and other expenditures	383,799	1,474,120
Total unrestricted designated net position	\$ 479,228	\$ 1,768,262

The designated net position remains under the control of the Board of Trustees, which may, at its discretion, later use this net position for other purposes.

At June 30, 2013 and 2012, \$57,440 represents the nonexpendable net position 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: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 16: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Supplementary Information

Boone County Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2013 and 2012

	2013			2012		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	\$ 6,288,527	\$ 6,111,384	\$ 177,143	\$ 5,669,735	\$ 5,669,735	
Nursing Services						
Operating room	12,034,836	2,369,569	9,665,267	12,020,317	2,524,650	\$ 9,495,667
Skilled nursing	21,660	21,660				
Emergency room	9,640,591	193,278	9,447,313	9,916,627	179,261	9,737,366
Public health nursing/home health	1,251,709		1,251,709	1,471,825		1,471,825
	<u>22,948,796</u>	<u>2,584,507</u>	<u>20,364,289</u>	<u>23,408,769</u>	<u>2,703,911</u>	<u>20,704,858</u>
Other Professional Services						
Central service and supply	304,048	223,838	80,210	507,139	390,213	116,926
Laboratory	9,413,152	1,944,345	7,468,807	9,810,019	1,731,232	8,078,787
Radiology	3,393,623	300,561	3,093,062	3,570,236	258,745	3,311,491
MRI	2,019,644	146,635	1,873,009	2,003,048	151,931	1,851,117
CT Scan	4,559,813	538,326	4,021,487	4,953,398	529,195	4,424,203
Ultrasound	1,535,215	107,696	1,427,519	1,632,590	122,830	1,509,760
Pharmacy	8,073,736	3,467,708	4,606,028	7,911,826	3,361,280	4,550,546
Anesthesiology	1,405,895	522,415	883,480	1,166,714	313,467	853,247
Physical therapy	3,695,081	480,275	3,214,806	4,008,593	666,052	3,342,541
Speech therapy	158,914	54,294	104,620	125,904	57,761	68,143
Occupational therapy	544,522	309,233	235,289	562,559	304,558	258,001
Orthopedic	523,057		523,057	642,350		642,350
Cardiac rehab	130,953		130,953	160,767		160,767
Specialty clinics	401,083	16,401	384,682	361,520	7,810	353,710
Electrocardiology	4,205,091	2,013,290	2,191,801	4,032,170	1,742,066	2,290,104
Ambulance service	2,856,407	204,720	2,651,687	2,758,026	228,647	2,529,379

Boone County Hospital
Schedules of Patient Service Revenues (Continued)
Years Ended June 30, 2013 and 2012

	2013			2012		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Madrid Clinic	\$ 328,160		\$ 328,160	\$ 253,874		\$ 253,874
BCFM Boone	3,231,152		3,231,152	3,593,574		3,593,574
Ogden Clinic	861,566		861,566	771,955		771,955
Surgery clinic	327,612		327,612			
Wound clinic	448,662		448,662	452,694		452,694
OB Clinic	1,817,359		1,817,359	1,897,148		1,897,148
	<u>50,234,745</u>	<u>10,329,737</u>	<u>39,905,008</u>	<u>51,176,104</u>	<u>9,865,787</u>	<u>41,310,317</u>
Patient Service Revenue	79,472,068	<u>\$ 19,025,628</u>	<u>\$ 60,446,440</u>	80,254,608	<u>\$ 18,239,433</u>	<u>\$ 62,015,175</u>
Contractual Allowances	<u>(39,984,000)</u>			<u>(39,692,627)</u>		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	39,488,068			40,561,981		
Provision for Uncollectible Accounts	(3,603,823)			(3,683,940)		
Electronic Health Record Incentive Revenue	<u>3,237,562</u>			<u>-</u>		
Net Patient Service Revenue	<u>\$ 39,121,807</u>			<u>\$ 36,878,041</u>		

Boone County Hospital
Schedules of Other Revenues
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Public health nursing services support	\$ 190,872	\$ 185,411
Cafeteria and catering services	210,463	181,258
Meals on Wheels	110,602	106,961
Rent income	100,185	33,823
Sale of drugs	452,359	782,708
Home Care Aid services support	231,096	213,260
Purchase discounts	39,494	33,374
Medical records fees	3,807	4,641
Diabetes education	102,306	119,039
Adult day care grants	86,880	64,254
Lifeline	78,114	85,834
Retired senior volunteer program	62,869	37,640
340B pharmacy program	1,125,952	502,808
Foundation	5,400	-
Other	102,874	55,599
	<u>\$ 2,903,273</u>	<u>\$ 2,406,610</u>

Boone County Hospital
Schedules of Operating Expenses
Years Ended June 30, 2013 and 2012

	2013			2012		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 715,828	\$ 682,637	\$ 33,191	\$ 728,952	\$ 685,317	\$ 43,635
Medical/surgical	1,812,592	1,478,458	334,134	1,671,954	1,489,449	182,505
Skilled nursing	21,133	16,226	4,907			
Special care unit	236,594	201,098	35,496	190,652	179,618	11,034
Obstetrics	602,614	511,070	91,544	594,249	469,619	124,630
Operating room	2,329,084	708,712	1,620,372	2,211,293	801,940	1,409,353
Emergency room	2,089,075	1,536,080	552,995	2,013,302	1,410,255	603,047
Public health nursing/home health	1,267,076	992,096	274,980	1,271,168	983,576	287,592
	<u>9,073,996</u>	<u>6,126,377</u>	<u>2,947,619</u>	<u>8,681,570</u>	<u>6,019,774</u>	<u>2,661,796</u>
Other Professional Services						
Central service and supply	123,540		123,540	176,821		176,821
Laboratory	1,497,965	669,465	828,500	1,533,500	665,803	867,697
Radiology	1,872,159	685,988	1,186,171	1,693,593	675,421	1,018,172
Occupational therapy	222,526		222,526	204,875		204,875
Orthopedic	703,183	664,764	38,419	671,386	643,828	27,558
Cardiac rehab	121,437	115,984	5,453	138,178	125,751	12,427
MRI	237,569		237,569	292,930		292,930
Pharmacy	2,276,620	316,522	1,960,098	2,414,454	320,325	2,094,129
Anesthesiology	775,185		775,185	771,091		771,091
Physical therapy	1,546,920	18	1,546,902	1,637,976		1,637,976
Audiology	67,986		67,986	45,326		45,326
Health education	79,970	70,115	9,855	81,526	71,533	9,993
Health promotion	147,688	55,764	91,924	178,351	54,452	123,899
Ambulance service	679,817	585,891	93,926	665,979	563,342	102,637
Electrocardiology	538,116	329,539	208,577	572,716	320,745	251,971
Specialty clinics	182,559	139,400	43,159	178,234	113,895	64,339
Surgery clinic	573,018	374,646	198,372	577,611	388,163	189,448
BCFM Boone	2,311,269	1,868,907	442,362	2,588,419	1,977,711	610,708

Boone County Hospital
Schedules of Operating Expenses (Continued)
Years Ended June 30, 2013 and 2012

	2013			2012		
	Total	Salaries	Other	Total	Salaries	Other
BCFM Ogden	\$ 581,129	\$ 489,653	\$ 91,476	\$ 484,653	\$ 398,300	\$ 86,353
Madrid Clinic	210,102	142,855	67,247	220,450	138,934	81,516
OB Clinic	1,073,634	918,481	155,153	981,200	889,310	91,890
Adult day care	114,851	71,123	43,728	127,971	74,858	53,113
Retired senior volunteer program	55,154	44,578	10,576	51,392	43,015	8,377
340B pharmacy program	522,966		522,966	231,570		231,570
	<u>16,515,363</u>	<u>7,543,693</u>	<u>8,971,670</u>	<u>16,520,202</u>	<u>7,465,386</u>	<u>9,054,816</u>
General Services						
Dietary	754,466	399,633	354,833	672,689	359,394	313,295
Operation of plant	1,013,681	286,587	727,094	1,058,711	305,434	753,277
Housekeeping	527,895	440,022	87,873	476,451	410,341	66,110
Laundry	102,142		102,142	88,905		88,905
	<u>2,398,184</u>	<u>1,126,242</u>	<u>1,271,942</u>	<u>2,296,756</u>	<u>1,075,169</u>	<u>1,221,587</u>
Administrative Services						
Medical records	502,530	377,091	125,439	506,105	350,558	155,547
Administration	4,463,085	1,377,209	3,085,876	3,256,079	1,261,911	1,994,168
Quality management	281,567	203,527	78,040	255,865	182,443	73,422
Health care foundation	65,135	50,824	14,311	46,786	41,958	4,828
Diabetes education	114,763	106,304	8,459	111,504	106,423	5,081
	<u>5,427,080</u>	<u>2,114,955</u>	<u>3,312,125</u>	<u>4,176,339</u>	<u>1,943,293</u>	<u>2,233,046</u>
Insurance	<u>196,479</u>		<u>196,479</u>	<u>232,304</u>		<u>232,304</u>
Employee Benefits	<u>5,965,997</u>		<u>5,965,997</u>	<u>5,629,433</u>		<u>5,629,433</u>
Depreciation and Amortization	<u>2,246,183</u>		<u>2,246,183</u>	<u>1,851,990</u>		<u>1,851,990</u>
	<u>\$ 41,823,282</u>	<u>\$ 16,911,267</u>	<u>\$ 24,912,015</u>	<u>\$ 39,388,594</u>	<u>\$ 16,503,622</u>	<u>\$ 22,884,972</u>

See Independent Auditor's Report

Boone County Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2013 and 2012

Schedules of Patient Receivables

	<u>2013</u>		<u>2012</u>	
	<u>Amounts</u>	<u>Percent to Total</u>	<u>Amounts</u>	<u>Percent to Total</u>
Days Since Discharge				
0-30 days	\$ 5,601,419	43.5%	\$ 5,794,105	48.5%
31-60 days	1,808,057	14.0%	1,732,832	14.5%
61-90 days	1,268,187	9.9%	1,116,073	9.3%
91-120 days	1,317,189	10.2%	622,590	5.2%
Over 4 months	<u>2,879,095</u>	<u>22.4%</u>	<u>2,684,438</u>	<u>22.5%</u>
Total	12,873,947	<u>100.0%</u>	11,950,038	<u>100.0%</u>
Clinic and other receivables	1,235,129		1,094,355	
Less contractual allowances	5,329,928		4,345,059	
Less allowance for uncollectible accounts	<u>1,956,000</u>		<u>1,579,000</u>	
Net patient receivables	<u>\$ 6,823,148</u>		<u>\$ 7,120,334</u>	

Allowance for Uncollectible Accounts

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 1,579,000	\$ 2,069,000
Provision for year	3,603,823	3,683,940
Recoveries of accounts previously written off	<u>629,933</u>	<u>572,138</u>
	5,812,756	6,325,078
Accounts written off	<u>(3,856,756)</u>	<u>(4,746,078)</u>
Balance, end of year	<u>\$ 1,956,000</u>	<u>\$ 1,579,000</u>

Boone County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2013 and 2012

Supplies

	<u>2013</u>	<u>2012</u>
General	\$ 135,636	\$ 102,838
Pharmacy	319,350	308,333
BCFM Clinics	47,015	45,292
Dietary	18,707	16,178
Plant operation and maintenance	14,740	15,823
Laboratory	19,376	23,054
Operating room	301,325	352,565
Other supplies	46,041	49,103
	<u>\$ 902,190</u>	<u>\$ 913,186</u>

Prepaid Expenses

	<u>2013</u>	<u>2012</u>
Maintenance and other	<u>\$ 198,363</u>	<u>\$ 215,672</u>

Other Supplementary Information

Boone County Hospital
Schedule of Officials
June 30, 2013

Name	Title	Term Expires
Board of Trustees		
Bruce Anderson	Chairman	2018
Denny Kollbaum	Vice Chairman	2014
Patricia Henkel	Treasurer	2016
Maxine Redeker	Secretary	2018
Keith Kudej	Member	2014
Thomas Good	Member	2018
Troy Thompson	Member	2014
Hospital Officials		
Joseph Smith	Chief Executive Officer	
Joe Devin	Chief Financial Officer	

Boone County Hospital
Schedule of Insurance Coverage
June 30, 2013

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; 10/01/12-10/01/13
 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; 10/01/12-10/01/13
 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; 10/01/12-10/01/13
 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; 10/01/12-10/01/13
 Entity Professional Liability Excess
 Each Professional Health Care Incident \$ 5,000,000
 Annual Aggregate \$ 5,000,000

Jester Insurance

Policy No. 6802-9686; 07/01/12-07/01/13
 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, 2013

Employers Mutual Casualty Company

Policy No. OA6-60-22-13; 07/01/12-07/01/13

Buildings and Personal Property; \$5,000 deductible	\$ 45,020,766
Data Processing Equipment	\$ 550,000
Business Income	\$ 6,600,000

Farm Bureau

Policy No. 7815142; 07/01/12-07/01/13

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. OE6-60-22-13; 07/01/12-07/01/13

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

Employers Mutual Casualty Company

OF6-60-22-13; 07/01/12-07/01/13; \$5,000 deductible

Employee Dishonesty	\$ 500,000
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Employers Mutual Casualty Company

OF6-60-22-13; 07/01/12-07/01/13; \$100/\$250 deductible

Garage	\$ 45,000
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**Independent Auditor's 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, 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, the financial statements of Boone County Hospital, which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances 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 material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 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. 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2013-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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, 2013 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, 2013. 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, 2013.

Certified Budget

Budget hearings were held and publications were not made in accordance with Chapter 24.9 of the Code of Iowa, except as noted below. Hospital disbursements during the year ended June 30, 2013 did not exceed amounts budgeted.

Criteria or Specific Requirement – Management is responsible for ensuring publications are made timely.

Condition – The Hospital was late in publishing the notice of public hearing for the annual tax asking.

Context – The Hospital must publish the notice at least 10 days prior to the meeting.

Effect – Requirements were not met.

Cause – Timely publication of the notice was not completed.

Recommendation – Management should publish the required notice 10 days prior to the meeting.

Views of the Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will ensure the notice is published timely in the future.

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.

Management's Response to Findings

The Hospital's response to the findings identified in our audit are described above and in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Other Matters

We also noted certain matters that we reported to the Hospital's management in a separate letter dated December 16, 2013.

* * * * *

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Kansas City, Missouri
December 16, 2013

Boone County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2013

Reference Number	Finding
2013-001	<p>Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements.</p> <p>Condition—Significant audit adjustments were proposed to management related to cash, accounts receivable, accounts receivable cutoff, accounts receivable allowances, accrued liabilities and accounts payable.</p> <p>Context—Management’s financial statement preparation procedures were not sufficient such that misstatements were not identified and corrected in the financial statements.</p> <p>Effect—Misstatements in the financial statements occurred and were not prevented or detected in a timely manner.</p> <p>Cause—Closing and review procedures are not sufficient such that misstatements are identified and corrected before issuing financial statements.</p> <p>Recommendation—Management should ensure accounts are reconciled and reviewed for financial statements monthly before issuance for accuracy and completeness in conformity with generally accepted accounting principles.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year.</p>

Board of Trustees and Management
Boone County Hospital
Boone, Iowa

In planning and performing our audit of the financial statements of Boone County Hospital as of and for the year ended June 30, 2013, 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 a certain deficiency in internal control that we consider to be a material weakness.

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 or material weaknesses.

Material Weaknesses

Refer to the Independent Auditor's 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:

- The Hospital Cashier has duties that include access to assets and recording responsibilities.
- The clinic billing clerk and personnel at the BCFM and Madrid Clinics 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 and proposed journal entries to the financial statements affecting the Hospital's net position, inventory, accounts payable, accounts receivable and capital assets. These items were not previously identified by management's internal controls.

Other Matters

Although not considered material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Medicare Reimbursement

Certain provisions of the Federal Government's *Budget Control Act of 2011* went into effect on January 1, 2013. Among these are mandatory payment reductions under the Medicare Fee-for-Service program, known as sequestration. The *American Taxpayer Relief Act of 2012* postponed sequestration for two months, but the order was issued by President Obama on March 1, 2013. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration is scheduled to last through 2021. The estimated annual impact of sequestration for the Hospital is approximately \$270,000. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Hospital.

Critical Access Hospital Status

The Office of Inspector General (OIG) recently released a study regarding original regulatory requirements for obtaining critical access hospital (CAH) status primarily related to distance and location requirements. The study found that nearly two-thirds of CAHs would not meet the distance requirement if they were required to re-enroll. The study also noted that if CMS decertified CAHs that were 15 miles or fewer from the nearest hospitals in 2011, the Medicare program would have saved \$449 million.

The OIG also has on its workplan to review swing bed reimbursement in CAHs compared to amounts reimbursed to traditional skilled nursing facilities. CAHs are paid on a cost reimbursement methodology while skilled nursing facilities are paid on prospective payment methodology that generally is less reimbursement than what would be received by a CAH for similar services.

If the Centers for Medicare and Medicaid Services were to act on the OIG study to re-enroll CAHs or make adjustments to CAH swingbed reimbursement, there would be significant financial implications for the CAH program and the Hospital.

340B Drug Pricing Program Integrity Initiative

In 2012, the Health Resources and Services Administration (HRSA) began a program integrity initiative related to the 340B drug pricing program to target risks of fraud, waste and abuse within the program. The program integrity initiative, which is intended to cover traditional hospital outpatient programs and contract retail pharmacy agreements, includes the following actions:

- Conduct selective and targeted audits of 340B covered entities to provide additional oversight, monitor for program violations and prevent diversion and duplicate discounts.
- Increase efforts to ensure that covered entities are not being overcharged through additional oversight of manufacturers.
- Issue policy releases to all 340B stakeholders in order to provide increased transparency into the processes and procedures already in place by HRSA and to ensure program integrity and compliance.
- Annual recertification for hospital providers began in February 2012 and may include closer scrutiny of nonprofit hospital contracts to provide indigent care and verification that certain outpatient facilities are included as reimbursable departments on the hospital's cost report.

We understand the Hospital has recently been audited by HRSA. We recommend the Hospital continue to review its compliance with the program and its continued eligibility to participate in the program.

Affordable Care Act

The effects of the Affordable Care Act (the Act) are far-reaching and complex and will have an impact on substantially all employers. The bulk of the provisions will phase in by January 2015, with the remaining major provisions phased in by 2018. Beginning in 2015, a large employer that does not offer qualifying health insurance coverage as required under the Act, will be required to pay a penalty if any full-time employee certifies to the employer as having purchased health insurance through a state exchange and a tax credit or cost-sharing reduction is allowed or paid to the employee. To make sure you are in compliance with the Act, we suggest you work with your insurance advisor, attorney, and BKD to:

- Determine what your health insurance compliance requirements are under the Act
 - Review the regulations of the Act and compare the requirements to provide minimum essential coverage to your current health insurance plan
 - Consider new benchmarks for health insurance in your industry
 - Determine what the acceptable level of health insurance coverage is for your employees
 - Determine what the required employer contributions will be

- Determine what options are available under the Act and which is best for your business model
 - Analyze financial implications of the Act to your financial statements
 - Perform cost projections to evaluate costs and benefits of current insurance coverage, state sponsored plans or other alternatives
 - Develop a multiyear strategy for plan design and employer and employee contributions
 - Develop an implementation plan and monitoring procedures

While many of these provisions do not take effect until 2015, the evaluation should start now to determine the best options for the Hospital and what the reporting requirements to comply with the Act will be.

Electronic Health Records Meaningful Use Audits

The *American Recovery and Reinvestment Act of 2009* included significant potential funding for hospitals starting in 2011 once they demonstrated they are meaningful users of certified electronic health record (EHR) technology. Beginning in 2012, the Centers for Medicare and Medicaid Services (CMS) contracted with an accounting firm to begin conducting meaningful use audits of certified Electronic Health Record (EHR) technology as required in the *Health Information Technology for Economic and Clinical Health Act* (HITECH Act). The HITECH Act provides for the right to audit and inspect any books and records of any organization receiving an incentive payment. As the Hospital continues implementing EHR, we recommend the Hospital evaluate and retain appropriate documentation in the event the Hospital is selected by CMS for an audit of the meaningful use of certified EHR technology for the attestation period.

New GASB 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.

- Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* – Effective for the Hospital’s fiscal year end June 30, 2014
- Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* – Effective for the Hospital’s fiscal year end June 30, 2015

* * * * *

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
December 16, 2013