

# **Boone County Hospital**

Auditor's Report and Financial Statements

June 30, 2014 and 2013



**Boone County Hospital**  
**June 30, 2014 and 2013**

**Contents**

<b>Independent Auditor’s Report</b> .....	<b>1</b>
<b>Management’s Discussion and Analysis</b> .....	<b>4</b>
<b>Financial Statements</b>	
Balance Sheets .....	8
Statements of Revenues, Expenses and Changes in Net Position .....	9
Statements of Cash Flows.....	10
Notes to Financial Statements .....	12
<b>Supplementary Information</b>	
Schedules of Patient Service Revenues .....	29
Schedules of Other Revenues .....	31
Schedules of Operating Expenses.....	32
Schedules of Patient Receivables and Allowance for Uncollectible Accounts .....	34
Schedules of Supplies and Prepaid Expenses.....	35
<b>Other Supplementary Information</b>	
Schedule of Officials .....	36
Schedule of Insurance Coverage .....	37
<b>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 <i>Government Auditing Standards</i></b> .....	<b>39</b>
<b>Schedule of Findings and Responses</b> .....	<b>43</b>

## Independent Auditor's Report

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, 2014 and 2013, 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, 2014 and 2013, 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.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, in 2014, the Hospital implemented the provisions of GASB Statement No. 65, which changed its method of accounting for bond issuance costs and reporting of deferred outflows and inflows through retroactive application to prior year's financial statements. Our opinion is not modified with respect to this matter.

***Other Matters***

***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 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2015 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  
June 8, 2015

# **Boone County Hospital**

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

### **Years Ended June 30, 2014 and 2013**

#### ***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, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

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

- Total deposits increased in 2014 by \$3,313,445 or 130% and decreased in 2013 by \$4,772,302 or 65%.
- The Hospital's net position decreased by \$2,671,716 or 13% in 2014 and increased by \$1,029,615 or 5% in 2013.
- The Hospital reported an operating loss of \$3,528,751 in 2014 and an operating income of \$211,411 in 2013.
- Net nonoperating revenues increased by \$40,433 and decreased by \$64,974 in 2014 and 2013, 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 and deferred inflows of resources—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, liabilities and deferred inflows of resources and net position reported in the Balance Sheet. The Hospital's net position decreased by \$2,671,716 or 13% in 2014 and increased by \$1,029,615 or 5% in 2013 as shown in Table 1.

**Table 1: Assets, Liabilities, Deferred Inflows of Resources and Net Position**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
		<i>(As Restated)</i>	<i>(As Restated)</i>
<b>Assets</b>			
Patient accounts receivable, net	\$ 5,052,655	\$ 6,823,148	\$ 7,120,334
Other current assets	8,386,134	7,872,543	5,974,551
Capital assets, net	18,774,150	19,709,070	18,382,681
Other noncurrent assets	599,123	554,285	3,752,532
Total assets	<u>\$ 32,812,062</u>	<u>\$ 34,959,046</u>	<u>\$ 35,230,098</u>
<b>Liabilities</b>			
Long-term debt	\$ 6,000,732	\$ 7,201,279	\$ 8,810,198
Other current and noncurrent liabilities	7,117,750	6,038,621	5,794,546
Total liabilities	<u>13,118,482</u>	<u>13,239,900</u>	<u>14,604,744</u>
<b>Deferred Inflows of Resources - Property Taxes</b>			
	<u>1,778,328</u>	<u>1,132,178</u>	<u>1,068,001</u>
<b>Net Position</b>			
Net investment in capital assets	10,981,602	10,631,692	9,728,984
Restricted – expendable for			
Debt service payments	162,492	161,681	160,876
Restricted – nonexpendable endowment	57,440	57,440	57,440
Unrestricted	6,713,718	9,736,155	9,610,053
Total net position	<u>17,915,252</u>	<u>20,586,968</u>	<u>19,557,353</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 32,812,062</u>	<u>\$ 34,959,046</u>	<u>\$ 35,230,098</u>

In 2014, the changes in assets were due to a reduction in net accounts receivable and capital assets. Capital assets decreased in 2014 as depreciation expense exceeded capital expenditures by approximately \$900,000. Current liabilities increased due to estimated amounts due to third-party payers.

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.

## Operating Results

In 2014, the Hospital's Deficiency of Expenses over Revenues Before Capital Contributions was \$2,671,716 as shown in Table 2.

**Table 2: Operating Results**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
		<i>(As Restated)</i>	<i>(As Restated)</i>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 34,614,158	\$ 39,121,807	\$ 36,878,041
Other operating revenues	3,745,779	2,903,273	2,406,610
Total operating revenues	<u>38,359,937</u>	<u>42,025,080</u>	<u>39,284,651</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	22,966,674	22,877,264	22,133,055
Medical and other professional fees	7,773,099	8,038,482	7,328,461
Depreciation and amortization	2,757,979	2,236,570	1,838,171
Other operating expenses	8,390,936	8,661,353	8,075,088
Total operating expenses	<u>41,888,688</u>	<u>41,813,669</u>	<u>39,374,775</u>
<b>Operating Income (Loss)</b>	<u>(3,528,751)</u>	<u>211,411</u>	<u>(90,124)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Noncapital contributions	31,957	5,141	11,611
Interest income	12,461	23,990	27,213
Interest expense	(335,494)	(296,463)	(236,248)
Property tax revenue	1,128,111	1,063,934	1,059,000
Total nonoperating revenues	<u>837,035</u>	<u>796,602</u>	<u>861,576</u>
<b>Excess (Deficiency) of Revenues Over Expenses Before Capital Contributions</b>	(2,691,716)	1,008,013	771,452
<b>Capital Contributions</b>	<u>20,000</u>	<u>21,602</u>	<u>37,373</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ (2,671,716)</u>	<u>\$ 1,029,615</u>	<u>\$ 808,825</u>

## Operating Income

In 2014, the decrease in net patient service revenue was due to unbudgeted decreases in volume, primarily in outpatient services. Emergency room, laboratory and imaging volumes each fell by more than 6% over the previous year. The reduction in operating income is reflective of the change in operating revenue. 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.

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

The Hospital's cash increased in 2014 by \$3,313,445. The increase was due primarily to receipt of the Medicare electronic health record incentive payment in July of 2013. 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.

### ***Capital Contributions***

In 2014 and 2013, the Hospital received \$20,000 and \$21,602, respectively, for equipment purchases.

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

#### Capital Assets

At the end of June 30, 2014 and 2013, the Hospital had \$18,774,150 and \$19,709,070, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In June 30, 2014 and 2013, the Hospital added \$1,823,059 and \$3,562,959 in new capital assets, respectively.

#### Debt

At June 30, 2014 and 2013, the Hospital had \$7,740,952 and \$8,802,514, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. In 2014, the Hospital borrowed funds for equipment in the amount of \$539,484.

### ***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, 2014 and 2013**

**Assets**

	<b>2014</b>	<b>2013</b>
		<i>(As Restated)</i>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 4,662,442	\$ 1,349,646
Short-term certificates of deposit	504,271	504,271
Assets held under indenture agreement – Bond Fund	162,492	161,681
Patient accounts receivable, net of allowance; 2014 – \$1,371,000, 2013 – \$1,956,000	5,052,655	6,823,148
Other receivables	2,086,733	4,156,392
Estimated amounts due from third-party payers	-	600,000
Supplies	838,748	902,190
Prepaid expenses	131,448	198,363
Total current assets	13,438,789	14,695,691
<b>Noncurrent Cash and Deposits</b>		
Internally designated		
Edward H. Peterson Endowment Fund	95,851	95,429
Capital and other expenditures	385,832	383,799
Externally restricted by donors		
Albert C. Linn Endowment Fund	57,440	57,440
Externally restricted under lease agreement	-	2,617
	539,123	539,285
<b>Capital Assets, Net of Accumulated Depreciation</b>	18,774,150	19,709,070
<b>Other Assets</b>		
Receivables	-	15,000
Other	60,000	-
	60,000	15,000
<b>Total Assets</b>	<b>\$ 32,812,062</b>	<b>\$ 34,959,046</b>

## Liabilities, Deferred Inflows of Resources and Net Position

	<u>2014</u>	<u>2013</u> <i>(As Restated)</i>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,740,220	\$ 1,601,235
Accounts payable	1,126,512	1,636,000
Accrued expenses		
Payroll and related deductions	2,251,683	2,250,073
Health insurance	386,768	487,990
Interest	51,596	63,323
Estimated amounts due to third-party payers	<u>1,560,971</u>	<u>-</u>
Total current liabilities	7,117,750	6,038,621
<b>Long-term Debt</b>	<u>6,000,732</u>	<u>7,201,279</u>
Total liabilities	<u>13,118,482</u>	<u>13,239,900</u>
<b>Deferred Inflows of Resources - Property Taxes</b>	<u>1,778,328</u>	<u>1,132,178</u>
<b>Net Position</b>		
Net investment in capital assets	10,981,602	10,631,692
Restricted – expendable for		
Debt service payments	162,492	161,681
Restricted – nonexpendable endowment	57,440	57,440
Unrestricted	<u>6,713,718</u>	<u>9,736,155</u>
Total net position	<u>17,915,252</u>	<u>20,586,968</u>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 32,812,062</u>	<u>\$ 34,959,046</u>

**Boone County Hospital**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
		<i>(As Restated)</i>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts and electronic health record incentive revenue	\$ 37,283,161	\$ 39,488,068
Provision for uncollectible accounts	(2,961,296)	(3,603,823)
Electronic health record incentive revenue	292,293	3,237,562
Net patient service revenue	34,614,158	39,121,807
Other	3,745,779	2,903,273
	38,359,937	42,025,080
<b>Operating Expenses</b>		
Salaries and wages	17,288,290	16,911,267
Employee benefits	5,678,384	5,965,997
Medical and other professional fees	7,773,099	8,038,482
Supplies	5,092,664	5,321,772
Utilities and maintenance	2,473,657	2,372,084
Insurance	282,307	196,479
Depreciation and amortization	2,757,979	2,236,570
Other operating expenses	542,308	771,018
	41,888,688	41,813,669
<b>Operating Income (Loss)</b>	<b>(3,528,751)</b>	<b>211,411</b>
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital contributions	31,957	5,141
Interest income	12,461	23,990
Interest expense	(335,494)	(296,463)
Property tax revenue	1,128,111	1,063,934
	837,035	796,602
<b>Excess (Deficiency) of Revenues Over Expenses Before Capital Contributions</b>	<b>(2,691,716)</b>	<b>1,008,013</b>
<b>Capital Contributions</b>	<b>20,000</b>	<b>21,602</b>
<b>Increase (Decrease) in Net Position</b>	<b>(2,671,716)</b>	<b>1,029,615</b>
<b>Net Position, Beginning of the Year, as Restated</b>	<b>20,586,968</b>	<b>19,557,353</b>
<b>Net Position, End of the Year</b>	<b>\$ 17,915,252</b>	<b>\$ 20,586,968</b>

**Boone County Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u> <i>(As Restated)</i>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 41,289,242	\$ 35,303,190
Payments to suppliers	(16,320,034)	(16,353,039)
Payments to employees	(23,066,286)	(22,507,131)
Other receipts and payments, net	<u>3,711,273</u>	<u>3,073,106</u>
Net cash provided by (used in) operating activities	<u>5,614,195</u>	<u>(483,874)</u>
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	1,128,806	1,063,729
Gifts and grants for other than capital purchases	<u>31,957</u>	<u>5,141</u>
Net cash provided by noncapital financing activities	<u>1,160,763</u>	<u>1,068,870</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(2,091,191)	(3,263,165)
Proceeds from sale of capital assets	6,000	-
Proceeds from issuance of long-term debt	539,484	-
Principal payments on long-term debt	(1,601,046)	(1,748,277)
Interest paid on long-term debt	(347,221)	(391,448)
Contributions for capital assets	<u>20,000</u>	<u>21,602</u>
Net cash used in capital and related financing activities	<u>(3,473,974)</u>	<u>(5,381,288)</u>
<b>Investing Activities</b>		
Purchase of deposits and certificates of deposit	(815,000)	(1,065,000)
Proceeds from sale of certificates of deposit	815,000	1,781,000
Income received on deposits	<u>12,461</u>	<u>20,230</u>
Net cash provided by investing activities	<u>12,461</u>	<u>736,230</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	3,313,445	(4,060,062)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,729,951</u>	<u>5,790,013</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 5,043,396</u>	<u>\$ 1,729,951</u>

**Boone County Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
		<i>(As Restated)</i>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash and cash equivalents	\$ 4,662,442	\$ 1,349,646
Cash in assets held under indenture agreement – Bond Fund	162,492	161,681
Noncurrent cash and deposits		
Internally designated		
Edward H. Peterson Endowment Fund	55,709	55,287
Capital and other expenditures	162,753	160,720
Externally restricted under lease agreement	-	2,617
	\$ 5,043,396	\$ 1,729,951
<b>Reconciliation of Operating Income (Loss) to Net Cash and Cash Equivalents Provided by (Used in) Operating Activities</b>		
Operating income (loss)	\$ (3,528,751)	\$ 211,411
Items not requiring (providing) cash		
Depreciation	2,757,979	2,236,570
Gain on sale of capital assets	(6,000)	-
Accrued self-insurance	(101,222)	10,732
Changes in		
Patient and other receivables	4,485,606	(2,553,784)
Supplies	63,442	10,996
Prepaid expenses	21,916	32,309
Accounts payable and accrued expenses	(239,746)	662,892
Estimated amounts due to third-party payers	2,160,971	(1,095,000)
	\$ 5,614,195	\$ (483,874)
<b>Supplemental Cash Flows Information</b>		
Capital assets in accounts payable and/or accrued liabilities	\$ -	\$ 268,132

# **Boone County Hospital**

## **Notes to Financial Statements**

### **June 30, 2014 and 2013**

#### **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, 2014 and 2013

#### ***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 2014 and 2013, which were the periods 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 \$292,293 and \$3,237,562, for the years ended June 30, 2014 and 2013, respectively, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position.

Subsequent to year end the Hospital received an additional \$1,300,000 in EHR incentive payments.

#### ***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 (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.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**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.

**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>2014</u>	<u>2013</u>
Interest costs capitalized	\$ -	\$ 94,985
Interest costs charged to expense	<u>335,494</u>	<u>296,463</u>
Total interest incurred	<u>\$ 335,494</u>	<u>\$ 391,448</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 \$803,848 and \$655,650 for 2014 and 2013, respectively.

# **Boone County Hospital**

## **Notes to Financial Statements**

### **June 30, 2014 and 2013**

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

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, cash equivalents consisted primarily of money market and savings accounts.

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

The Hospital received approximately 3% and 2% of its financial support from property tax revenues in the years ended June 30, 2014 and 2013, 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 expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Hospital, such as permanent endowments. 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 net position.

#### ***Restricted Nonexpendable Net Position***

The restricted nonexpendable 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.

# **Boone County Hospital**

## **Notes to Financial Statements**

### **June 30, 2014 and 2013**

#### ***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.

#### ***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.

#### ***Income Taxes***

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

#### ***Reclassifications***

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. The reclassifications had no effect on the changes in financial position.

#### ***Implementation of New Accounting Principle***

In 2014, the Hospital implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

# Boone County Hospital

## Notes to Financial Statements

### June 30, 2014 and 2013

Adoption of GASB 65 changed how the Hospital reports various debt issuance costs and deferred revenues related to property taxes, and resulted in the following reclassifications and restatements:

	As Previously Reported 2013	Implementation of GASB 65	As Restated 2013
<b>Balance Sheet Items Affected</b>			
Deferred financing costs	\$ 53,974	\$ (53,974)	\$ -
Deferred revenue for property taxes	1,132,178	(1,132,178)	-
Total current liabilities	7,170,799	(1,132,178)	6,038,621
Total liabilities	14,372,078	(1,132,178)	13,239,900
Deferred Inflows of Resources - Property taxes	-	1,132,178	1,132,178
Net position			
Unrestricted	9,790,129	(53,974)	9,736,155
Total net position	20,640,942	(53,974)	20,586,968
<b>Statement of Revenues, Expenses and Changes in Net Position Items Affected</b>			
Depreciation and amortization	2,246,183	(9,613)	2,236,570
Net position, beginning of the year	19,620,940	(63,587)	19,557,353
Increase in net position	1,020,002	9,613	1,029,615
Net position, end of the year	20,640,942	(53,974)	20,586,968
<b>Statement of Cash Flows Items Affected</b>			
Operating income	201,798	9,613	211,411
Amortization	9,613	(9,613)	-

## 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 2023.
- 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.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

Approximately 57% and 56% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medicaid Programs are complex and subject to interpretation and change.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

**Note 3: Patient Accounts Receivable**

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, 2014 and 2013 was:

	<b>2014</b>	<b>2013</b>
Medicare and Medicaid	\$ 2,059,933	\$ 2,380,915
Other third-party payers	1,969,505	3,318,161
Patients	2,394,217	3,080,072
	6,423,655	8,779,148
Less allowances for uncollectible accounts	1,371,000	1,956,000
	\$ 5,052,655	\$ 6,823,148

**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, 2014 and 2013. The Hospital's deposits in banks at June 30, 2014 and 2013 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, 2014 and 2013**

***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, 2014.

***Summary of Carrying Value***

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

	<b>2014</b>	<b>2013</b>
Deposits	\$ 5,858,396	\$ 2,544,951
Accrued interest receivable	9,932	9,932
	<b>\$ 5,868,328</b>	<b>\$ 2,554,883</b>
Included in the following balance sheet captions		
Cash	\$ 4,662,442	\$ 1,349,646
Short-term certificates of deposit	504,271	504,271
Assets held under indenture agreement – Bond Fund	162,492	161,681
Noncurrent cash and deposits	539,123	539,285
	<b>\$ 5,868,328</b>	<b>\$ 2,554,883</b>

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 5: Capital Assets**

Capital asset additions, retirements and balances for the years ended June 30, 2014 and 2013, were as follows:

<b>2014</b>	<b>Balance June 30, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2014</b>
Land and improvements	\$ 1,212,955	\$ -	\$ -	\$ -	\$ 1,212,955
Buildings and improvements	17,572,247	-	-	-	17,572,247
Equipment	20,491,377	1,089,144	75,304	141,528	21,646,745
HIT designated assets	5,296,882	-	-	-	5,296,882
Construction in progress	1,137,855	733,915	-	(141,528)	1,730,242
	<u>45,711,316</u>	<u>1,823,059</u>	<u>75,304</u>	<u>-</u>	<u>47,459,071</u>
Less accumulated depreciation for					
Land and improvements	280,645	20,068	-	-	300,713
Buildings and improvements	9,451,167	758,923	-	-	10,210,090
Equipment	15,740,745	919,612	75,304	-	16,585,053
HIT designated assets	529,689	1,059,376	-	-	1,589,065
	<u>26,002,246</u>	<u>2,757,979</u>	<u>75,304</u>	<u>-</u>	<u>28,684,921</u>
	<u>\$ 19,709,070</u>	<u>\$ (934,920)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,774,150</u>
<b>2013</b>	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2013</b>
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>

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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 \$1,600,000 of costs within construction in progress as of June 30, 2014 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.

**Note 6: Long-term Debt**

A schedule of changes in the Hospital's long-term debt for June 30, 2014 and 2013 follows.

	<b>Balance June 30, 2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2014</b>	<b>Amounts Due Within One Year</b>
Series 2010 Hospital					
Revenue Notes (A)	\$ 849,354	\$ -	\$ 102,425	\$ 746,929	\$ 105,800
Series 2008 Hospital					
Revenue Notes (B)	2,942,029	-	533,539	2,408,490	573,854
Information technology lease (C)	4,986,075	-	923,397	4,062,678	958,913
Note payable to bank (D)	-	539,484	16,629	522,855	101,653
Capital lease obligation (E)	25,056	-	25,056	-	-
	<b>\$ 8,802,514</b>	<b>\$ 539,484</b>	<b>\$ 1,601,046</b>	<b>\$ 7,740,952</b>	<b>\$ 1,740,220</b>

	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2013</b>	<b>Amounts Due Within One Year</b>
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 (E)	62,776	-	37,720	25,056	25,056
	<b>\$ 10,550,791</b>	<b>\$ -</b>	<b>\$ 1,748,277</b>	<b>\$ 8,802,514</b>	<b>\$ 1,601,235</b>

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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

	<b>Long-term Debt</b>		<b>Capital Lease Obligation</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2015	\$ 781,307	\$ 128,100	\$ 958,913	\$ 145,741
2016	812,542	96,865	995,796	108,858
2017	845,149	64,248	1,034,097	70,557
2018	833,100	30,382	1,073,872	30,782
2019	216,442	9,995	-	-
2020-2021	189,734	5,362	-	-
	<u>\$ 3,678,274</u>	<u>\$ 334,952</u>	<u>\$ 4,062,678</u>	<u>\$ 355,938</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. The note was paid off in advance in April 2015.
- (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. The note was paid off in advance in April 2015.
- (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 2014, all related assets are included in construction in progress or noncurrent cash and deposits. The capital lease obligation was terminated in advance in April 2015.
- (D) The note payable to bank shown as long-term debt is due in April 2019, with principal and interest at 3.2% payable monthly in the amount of \$9,742. The note is secured by certain capital assets.
- (E) The capital lease obligation shown as long-term debt includes a lease for copiers, which expired in 2014. The assets and liabilities under the capital lease are recorded at the present value of the minimum lease payments.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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

	<b>2014</b>	<b>2013</b>
Equipment	\$ -	\$ 189,411
Electronic health record designated assets	5,296,882	5,296,882
Less accumulated depreciation	1,589,065	706,473
	\$ 3,707,817	\$ 4,779,820

Amounts included in cost above for electronic health record designated assets include total costs capitalized as of June 30, 2014; 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 a Fixed Charge Coverage Ratio of 115%. The Hospital did not meet the Fixed Charge Coverage Ratio requirement as of June 30, 2014, but received a waiver from the bank exempting it from the covenant for the year ended June 30, 2014.

In April 2015, the Hospital issued revenue notes for the purpose of refunding the Series 2010 Hospital Revenue Notes, Series 2008 Hospital Revenue Notes and information technology lease. The terms of the Series 2015 Hospital Revenue Notes are as follows:

- (1) Hospital Revenue Note, Series 2015A; \$1,636,968 maturing in July 2018; payable \$45,398 monthly, including interest at 3.20%; collateralized by the Hospital's net revenues.
- (2) Hospital Revenue Note, Series 2015B; \$332,683 maturing in August 2018; payable \$9,002 monthly, including interest at 3.20%; collateralized by the Hospital's net revenues.
- (3) Hospital Revenue Note, Series 2015C; \$678,000 maturing in December 2020; payable \$11,080 monthly, including interest at 3.20%; collateralized by the Hospital's net revenues.
- (4) Hospital Revenue Note, Series 2015D; \$3,216,840 maturing in February 2018; payable \$102,049 monthly, including interest at 3.20%; collateralized by the Hospital's net revenues.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**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 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 487,990	\$ 477,258
Current year claims incurred and changes in estimates for claims incurred in prior year	2,692,748	3,188,053
Payments for claims	<u>(2,793,970)</u>	<u>(3,177,321)</u>
Balance, end of year	<u>\$ 386,768</u>	<u>\$ 487,990</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 \$20,846 and \$21,603 to the Hospital for the years ended June 30, 2014 and 2013, respectively. The Hospital provided for the expenses of the Foundation director in the amount of \$72,530 and \$50,824 in 2014 and 2013, respectively. The unaudited financial position and results of operations of the Foundation for 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Total assets	<u>\$ 438,809</u>	<u>\$ 434,602</u>
Net assets	<u>\$ 438,809</u>	<u>\$ 434,602</u>
Revenue	\$ 176,876	\$ 151,088
Expenses	<u>174,725</u>	<u>150,655</u>
Revenue over expenses	<u>\$ 2,151</u>	<u>\$ 433</u>

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 9: Operating Leases**

Noncancellable operating leases for primary care outpatient clinic offices and equipment expire in various years through 2019. 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, 2014, were:

2015	\$ 207,171
2016	202,110
2017	125,611
2018	96,444
2019	<u>50,547</u>
Future minimum lease payments	<u><u>\$ 681,883</u></u>

Rental expense for all operating leases totaled \$227,394 and \$209,663 for June 30, 2014 and 2013, 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 5.95% and 5.78% of their annual covered salary and the Hospital was required to contribute 8.93% and 8.67% of annual covered payroll for 2014 and 2013, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2014, 2013 and 2012 were \$1,452,384, \$1,401,253 and \$1,262,896, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.93% of annual covered salary for 2014.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 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 \$1,091,194 and \$842,630 for the years ended June 30, 2014 and 2013, 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 next renewal date is 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:

	<b>Book Basis</b>	<b>Actual Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Amount to be raised by taxation	\$ 1,128,111	\$ -	\$ 1,128,111	\$ 1,128,111
Other revenues/receipts	38,424,355	6,835,971	45,260,326	46,223,264
	39,552,466	6,835,971	46,388,437	47,351,375
Expenses/disbursements	42,224,182	154,389	42,378,571	46,614,500
	(2,671,716)	6,681,582	4,009,866	736,875
Balance, beginning of year	20,586,968	11,761,087	32,348,055	32,348,055
Balance, end of year	\$ 17,915,252	\$ 18,442,669	\$ 36,357,921	\$ 33,084,930

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 13: Restricted and Designated Net Position**

At June 30, 2014 and 2013, the restricted expendable net position was available for the following purposes.

	<b>2014</b>	<b>2013</b>
Debt service	\$ 162,492	\$ 161,681

At June 30, 2014 and 2013, the unrestricted net position had been designated by the Hospital's Board of Trustees for the following purposes:

	<b>2014</b>	<b>2013</b>
Edward H. Peterson Endowment Fund	\$ 95,851	\$ 95,429
Capital and other expenditures	385,832	383,799
Total unrestricted designated net position	\$ 481,683	\$ 479,228

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, 2014 and 2013, \$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.

**Boone County Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 16: Future Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for the Hospital which provide its employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the balance sheet is expected to include a liability for the government's proportionate share of the employee pension plan.

## **Supplementary Information**

**Boone County Hospital**  
**Schedules of Patient Service Revenues**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>			<b>2013</b>		
	<b>Total</b>	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>	<b>Inpatient</b>	<b>Outpatient</b>
<b>Routine Services</b>						
Acute nursing care	\$ 6,450,633	\$ 6,042,308	\$ 408,325	\$ 6,288,527	\$ 6,111,384	\$ 177,143
<b>Nursing Services</b>						
Operating room	13,529,178	2,931,635	10,597,543	12,034,836	2,369,569	9,665,267
Skilled nursing	36,416	36,416		21,660	21,660	
Emergency room	9,171,109	350,152	8,820,957	9,640,591	193,278	9,447,313
Public health nursing/home health	1,282,001		1,282,001	1,251,709		1,251,709
	<u>24,018,704</u>	<u>3,318,203</u>	<u>20,700,501</u>	<u>22,948,796</u>	<u>2,584,507</u>	<u>20,364,289</u>
<b>Other Professional Services</b>						
Central service and supply	84,557	16,445	68,112	304,048	223,838	80,210
Laboratory	8,550,204	2,028,540	6,521,664	9,413,152	1,944,345	7,468,807
Radiology	3,557,813	313,130	3,244,683	3,393,623	300,561	3,093,062
MRI	2,368,707	194,773	2,173,934	2,019,644	146,635	1,873,009
CT Scan	4,780,336	566,436	4,213,900	4,559,813	538,326	4,021,487
Ultrasound	1,625,714	103,527	1,522,187	1,535,215	107,696	1,427,519
Pharmacy	8,020,723	3,300,685	4,720,038	8,073,736	3,467,708	4,606,028
Anesthesiology	1,442,903	447,573	995,330	1,405,895	522,415	883,480
Physical therapy	4,443,030	846,018	3,597,012	3,695,081	480,275	3,214,806
Speech therapy	209,694	68,344	141,350	158,914	54,294	104,620
Occupational therapy	709,347	398,676	310,671	544,522	309,233	235,289
Orthopedic	602,661		602,661	523,057		523,057
Cardiac rehab	138,220		138,220	130,953		130,953
Specialty clinics	351,466	374	351,092	401,083	16,401	384,682
Electrocardiology	4,020,335	1,796,193	2,224,142	4,205,091	2,013,290	2,191,801
Ambulance service	2,805,601	233,047	2,572,554	2,856,407	204,720	2,651,687

**Boone County Hospital**  
**Schedules of Patient Service Revenues (Continued)**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>			<b>2013</b>		
	<b>Total</b>	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>	<b>Inpatient</b>	<b>Outpatient</b>
Madrid Clinic	\$ 355,358		\$ 355,358	\$ 328,160		\$ 328,160
BCFM Boone	3,461,815		3,461,815	3,231,152		3,231,152
Ogden Clinic	1,054,608		1,054,608	861,566		861,566
Surgery clinic	750,884		750,884	327,612		327,612
Wound clinic	374,951		374,951	448,662		448,662
OB Clinic	1,071,994		1,071,994	1,817,359		1,817,359
	<u>50,780,921</u>	<u>10,313,761</u>	<u>40,467,160</u>	<u>50,234,745</u>	<u>10,329,737</u>	<u>39,905,008</u>
<b>Patient Service Revenue</b>	81,250,258	<u>\$ 19,674,272</u>	<u>\$ 61,575,986</u>	79,472,068	<u>\$ 19,025,628</u>	<u>\$ 60,446,440</u>
<b>Contractual Allowances</b>	<u>(43,967,097)</u>			<u>(39,984,000)</u>		
<b>Net Patient Service Revenue, Before Provision for Uncollectible Accounts</b>	37,283,161			39,488,068		
<b>Provision for Uncollectible Accounts</b>	(2,961,296)			(3,603,823)		
<b>Electronic Health Record Incentive Revenue</b>	<u>292,293</u>			<u>3,237,562</u>		
<b>Net Patient Service Revenue</b>	<u>\$ 34,614,158</u>			<u>\$ 39,121,807</u>		

**Boone County Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Public health nursing services support	\$ 163,812	\$ 190,872
Cafeteria and catering services	199,049	210,463
Meals on Wheels	215,775	110,602
Rent income	94,078	100,185
Sale of drugs	351,807	452,359
Home Care Aid services support	191,000	231,096
Purchase discounts	28,774	39,494
Medical records fees	5,781	3,807
Diabetes education	76,602	102,306
Adult day care grants	64,780	86,880
Lifeline	79,908	78,114
Retired senior volunteer program	70,679	62,869
340B pharmacy program	2,120,150	1,125,952
Foundation	600	5,400
Other	82,984	102,874
	<u>\$ 3,745,779</u>	<u>\$ 2,903,273</u>

**Boone County Hospital**  
**Schedules of Operating Expenses**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>			<b>2013</b>		
	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>
<b>Nursing Services</b>						
Nursing administration	\$ 582,423	\$ 559,523	\$ 22,900	\$ 715,828	\$ 682,637	\$ 33,191
Medical/surgical	1,723,281	1,465,672	257,609	1,812,592	1,478,458	334,134
Skilled nursing	46,156	37,992	8,164	21,133	16,226	4,907
Special care unit	267,457	227,092	40,365	236,594	201,098	35,496
Obstetrics	638,300	465,395	172,905	602,614	511,070	91,544
Operating room	1,942,036	690,156	1,251,880	2,329,084	708,712	1,620,372
Emergency room	1,976,946	1,671,666	305,280	2,089,075	1,536,080	552,995
Public health nursing/home health	1,238,048	939,335	298,713	1,267,076	992,096	274,980
	<u>8,414,647</u>	<u>6,056,831</u>	<u>2,357,816</u>	<u>9,073,996</u>	<u>6,126,377</u>	<u>2,947,619</u>
<b>Other Professional Services</b>						
Central service and supply	129,764		129,764	123,540		123,540
Laboratory	1,416,608	661,571	755,037	1,497,965	669,465	828,500
Radiology	1,964,973	712,814	1,252,159	2,109,728	685,988	1,423,740
Occupational therapy	288,263		288,263	222,526		222,526
Orthopedic	712,561	667,586	44,975	703,183	664,764	38,419
Cardiac rehab	118,865	106,489	12,376	121,437	115,984	5,453
Pharmacy	2,025,503	373,885	1,651,618	2,276,620	316,522	1,960,098
Anesthesiology	769,613		769,613	775,185		775,185
Physical therapy	1,705,348		1,705,348	1,546,920	18	1,546,902
Audiology	76,535		76,535	67,986		67,986
Health education	73,838	67,203	6,635	79,970	70,115	9,855
Health promotion	161,760	58,804	102,956	147,688	55,764	91,924
Ambulance service	680,226	578,109	102,117	679,817	585,891	93,926
Electrocardiology	581,958	349,017	232,941	538,116	329,539	208,577
Specialty clinics	192,873	124,613	68,260	182,559	139,400	43,159
Surgery clinic	592,151	390,567	201,584	573,018	374,646	198,372
BCFM Boone	2,598,534	2,128,897	469,637	2,311,269	1,868,907	442,362

**Boone County Hospital**  
**Schedules of Operating Expenses (Continued)**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>			<b>2013</b>		
	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>
BCFM Ogden	\$ 671,362	\$ 553,387	\$ 117,975	\$ 581,129	\$ 489,653	\$ 91,476
Madrid Clinic	259,702	172,428	87,274	210,102	142,855	67,247
OB Clinic	1,086,876	922,374	164,502	1,073,634	918,481	155,153
Adult day care	106,752	59,078	47,674	114,851	71,123	43,728
Retired senior volunteer program	64,004	46,874	17,130	55,154	44,578	10,576
340B pharmacy program	858,198		858,198	522,966		522,966
	<u>17,136,267</u>	<u>7,973,696</u>	<u>9,162,571</u>	<u>16,515,363</u>	<u>7,543,693</u>	<u>8,971,670</u>
<b>General Services</b>						
Dietary	677,086	345,814	331,272	754,466	399,633	354,833
Operation of plant	1,005,130	256,523	748,607	1,013,681	286,587	727,094
Housekeeping	495,831	418,393	77,438	527,895	440,022	87,873
Laundry	104,900		104,900	102,142		102,142
	<u>2,282,947</u>	<u>1,020,730</u>	<u>1,262,217</u>	<u>2,398,184</u>	<u>1,126,242</u>	<u>1,271,942</u>
<b>Administrative Services</b>						
Medical records	516,826	375,484	141,342	502,530	377,091	125,439
Administration	4,421,689	1,538,547	2,883,142	4,463,085	1,377,209	3,085,876
Quality management	214,999	169,900	45,099	281,567	203,527	78,040
Health care foundation	97,165	72,530	24,635	65,135	50,824	14,311
Diabetes education	85,478	80,572	4,906	114,763	106,304	8,459
	<u>5,336,157</u>	<u>2,237,033</u>	<u>3,099,124</u>	<u>5,427,080</u>	<u>2,114,955</u>	<u>3,312,125</u>
<b>Insurance</b>	<u>282,307</u>		<u>282,307</u>	<u>196,479</u>		<u>196,479</u>
<b>Employee Benefits</b>	<u>5,678,384</u>		<u>5,678,384</u>	<u>5,965,997</u>		<u>5,965,997</u>
<b>Depreciation and Amortization</b>	<u>2,757,979</u>		<u>2,757,979</u>	<u>2,236,570</u>		<u>2,236,570</u>
	<u>\$ 41,888,688</u>	<u>\$ 17,288,290</u>	<u>\$ 24,600,398</u>	<u>\$ 41,813,669</u>	<u>\$ 16,911,267</u>	<u>\$ 24,902,402</u>

See Independent Auditor's Report

**Boone County Hospital**  
**Schedules of Patient Receivables and Allowance**  
**for Uncollectible Accounts**  
**Years Ended June 30, 2014 and 2013**

**Schedules of Patient Receivables**

	<u>2014</u>		<u>2013</u>	
	<u>Amounts</u>	<u>Percent to Total</u>	<u>Amounts</u>	<u>Percent to Total</u>
Days Since Discharge				
0-30 days	\$ 5,928,734	61.1%	\$ 5,601,419	43.5%
31-60 days	1,262,127	13.0%	1,808,057	14.0%
61-90 days	753,967	7.8%	1,268,187	9.9%
91-120 days	499,772	5.2%	1,317,189	10.2%
Over 4 months	<u>1,254,518</u>	<u>12.9%</u>	<u>2,879,095</u>	<u>22.4%</u>
Total	9,699,118	<u>100.0%</u>	12,873,947	<u>100.0%</u>
Clinic and other receivables	999,947		1,235,129	
Less contractual allowances	4,275,410		5,329,928	
Less allowance for uncollectible accounts	<u>1,371,000</u>		<u>1,956,000</u>	
Net patient receivables	<u>\$ 5,052,655</u>		<u>\$ 6,823,148</u>	

**Allowance for Uncollectible Accounts**

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 1,956,000	\$ 1,579,000
Provision for year	2,961,296	3,603,823
Recoveries of accounts previously written off	<u>431,915</u>	<u>629,933</u>
	5,349,211	5,812,756
Accounts written off	<u>(3,978,211)</u>	<u>(3,856,756)</u>
Balance, end of year	<u>\$ 1,371,000</u>	<u>\$ 1,956,000</u>

**Boone County Hospital**  
**Schedules of Supplies and Prepaid Expenses**  
**Years Ended June 30, 2014 and 2013**

**Supplies**

	<u>2014</u>	<u>2013</u>
General	\$ 72,429	\$ 135,636
Pharmacy	297,191	319,350
BCFM Clinics	17,013	47,015
Dietary	16,913	18,707
Plant operation and maintenance	4,662	14,740
Laboratory	30,370	19,376
Operating room	304,385	301,325
Other supplies	95,785	46,041
	<u>\$ 838,748</u>	<u>\$ 902,190</u>

**Prepaid Expenses**

	<u>2014</u>	<u>2013</u>
Maintenance and other	\$ 131,448	\$ 198,363

## **Other Supplementary Information**

**Boone County Hospital**  
**Schedule of Officials**  
**June 30, 2014**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Trustees</b>		
Bruce Anderson	Chairman	2018
Denny Kollbaum	Vice Chairman	2014
Troy Thompson	Treasurer	2014
Thomas Good	Secretary	2018
Keith Kudej	Member	2014
Lisa Kobernusz	Member	2016
Meredith Nerem	Member	2018
<b>Hospital Officials</b>		
Joseph Smith	Chief Executive Officer	
Joe Devin	Chief Financial Officer	

**Boone County Hospital**  
**Schedule of Insurance Coverage**  
**June 30, 2014**

**The Cincinnati Insurance Company**

Policy No. BEP 266 37 36; \$1,000 deductible  
 Boiler and machinery 7/01/13 - 7/01/16 \$ 9,000,000

**MMIC**

Policy No. MHP 000348; 10/01/13-10/01/14  
 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; 10/01/13-10/01/14  
 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  
     Cyber liability \$ 100,000

**MMIC**

Policy No. MHP 000348; 10/01/13-10/01/14  
 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; 10/01/13-10/01/14  
 Entity Professional Liability Excess  
     Each Professional Health Care Incident \$ 5,000,000  
     Annual Aggregate \$ 5,000,000

**Jester Insurance (Chubb)**

Policy No. 6802-9686; 07/01/13-07/01/14  
 Directors and Officers Liability, \$7,500 deductible  
     Each loss \$ 2,000,000  
     IRC Coverage \$ 50,000  
     EMTALA Coverage \$ 50,000  
     Excess Benefit Coverage \$ 10,000  
     HIPAA Coverage \$ 25,000  
     Aggregate \$ 2,000,000

(Continued)

**Boone County Hospital**  
**Schedule of Insurance Coverage (Continued)**  
**June 30, 2014**

**Employers Mutual Casualty Company**

Policy No. OA6-60-22-15; 07/01/13-07/01/14	
Buildings and Personal Property; \$5,000 deductible	\$ 48,123,676
Data Processing Equipment	\$ 550,000
Business Income	\$ 6,600,000

**Farm Bureau**

Policy No. 7815142; 07/01/13-07/01/14	
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. OE6-60-22-15; 07/01/13-07/01/14	
Automobile	
Liability	\$ 1,000,000
Uninsured individual limit	\$ 50,000
Medical	\$ 2,000

**Employers Mutual Casualty Company**

OF6-60-22-15; 07/01/13-07/01/14; \$5,000 deductible	
Employee Dishonesty	\$ 500,000

**Employers Mutual Casualty Company**

OF6-60-22-15; 07/01/13-07/01/14; \$100/\$250 deductible	
Garage	\$ 45,000

**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, 2014, 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 June 8, 2015, which contains and “Emphasis of Matter” paragraph regarding a change in accounting principles.

***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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2014-001, that we consider to be a significant deficiency in internal control.

### ***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, 2014 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, 2014. 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, 2014.

#### 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, 2014 did not exceed amounts budgeted.

#### Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

#### Business Transactions

We noted no transactions between the Hospital and Hospital officials or employees other than those exempted by law; *i.e.*, bankers on the Board of Trustees.

#### Trustee Minutes

No transactions were found that we believe should have been approved in the Trustee minutes but were not.

#### Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

#### Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

#### Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

#### Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

#### Unclaimed Property

The Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no exceptions to this requirement.

#### Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. Mileage reimbursement was approved for employees not in excess of IRS limits except as noted below:

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

Condition – The Hospital paid one mileage reimbursement in excess of the IRS approved limits.

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

Effect – Requirements were not met under the Hospital's policy.

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

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

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

### ***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 June 8, 2015.

### **Purpose of this Report**

The purpose of this report 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 report 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  
June 8, 2015

**Boone County Hospital**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2014**

<b>Reference Number</b>	<b>Finding</b>
2014-001	<p>Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements.</p> <p>Condition—Significant audit adjustments were proposed to management primarily related to accrued payroll and net position. Other adjustments were also proposed related to accounts payable, supplies inventory, long-term debt and receivables.</p> <p>Context—Management’s financial statement preparation procedures were not sufficient such that misstatements were not identified in the financial statements.</p> <p>Effect—Misstatements in the financial statements occurred and were not prevented or detected in a timely manner.</p> <p>Cause—Closing and review procedures are not sufficient such that misstatements are identified before issuing financial statements.</p> <p>Recommendation—Management should review financial statements monthly before issuance for accuracy and completeness in conformity with generally accepted accounting principles.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year.</p>

Board of Trustees and Management  
Boone County Hospital  
Boone, Iowa

In planning and performing our audit of the financial statements of Boone County Hospital as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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

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

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

### ***Significant Deficiencies***

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.

We observed matters that we considered deficiencies that we verbally communicated to management.

## **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.

### **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 2023. The estimated annual impact of sequestration for the Hospital is \$185,000. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Hospital.

## ***Electronic Health Records Meaningful Use Audits***

The Centers for Medicare and Medicaid Services (CMS) has significantly increased the activity related to audits on Medicare and dually eligible (Medicare and Medicaid) providers who are participating in the Electronic Health Record (EHR) Incentive Programs. This audit activity falls into three categories: payment audits, compliance audits and Medicaid audits. Each of these audits focuses on a different portion of the Incentive Program and requires different documentation information. Below is a recap of the three audit categories and the specific key elements associated with each.

- Payment audits - The requested documentation related to the payment audits will require different and more detailed documentation than the normal Medicare Administrative Contractors (MAC) cost report audit requests. Due to the nature of the EHR audit documentation requests, we recommend all EHR payment audits be handled separately from other cost report reviews.
- Compliance audits - These audits are receiving the most publicity and tend to have the most risk associated with them. Based on early compliance audit experience, it appears failure on just one point under the compliance audit could result in a recoupment of the entire program year payment amount, possibly including both Medicare and Medicaid EHR payments. Preparing for these compliance audits is an important and significant process in documenting the Hospital's compliance with the meaningful use requirements.
- Medicaid audits - In addition to the Medicare EHR audits, there are also audits of the Medicaid EHR incentive program. It is very important to pay close attention to any audit changes that may be proposed even if they initially appear to only be statistical in nature. There can be far-reaching and adverse long-term effects from these audits. Failure to supply adequate documentation for these audits not only puts the Medicaid EHR incentive payment for the year under audit at risk, it can also put future and prior program payments at risk.

## ***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, has resulted in over 200 audits since 2012 and the agency expects to double the number of audits performed each year. The results of the audits are made public on the HRSA website and include instances of non-compliance that may result in paybacks requiring a public letter to drug manufacturers for recoupment. The integrity initiatives also include 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 including attestation that the covered entity has complied with all program requirements and verification that certain outpatient facilities are included as reimbursable departments on the hospital's cost report.

With the increased scrutiny and complexity of the program, we recommend the Hospital regularly review its compliance with the program, its continued eligibility to participate in the program and make certain that comprehensive and accurate policies and procedures are being followed and kept current.

### **Conversion to ICD-10**

The United States Department of Health and Human Services (HHS) has issued a rule finalizing October 1, 2015 as the new compliance date for health care providers, health plans and health care clearing Houses to transition to ICD-10. This process will convert 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 the conversion 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 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.

We recommend Hospital management evaluate the impact of ICD-10 on the Hospital and develop a strategic plan to address these changes and the implementation process.

### **Future Accounting Pronouncements**

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 standard we believe will have the most impact on the Hospital.

- Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB No. 27* – Effective for the Hospital's fiscal year ending June 30, 2015

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This communication is intended solely for the information and use of management, 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  
June 8, 2015