

Story County Hospital and Long-Term Care Facility

Accountants' Report and Financial Statements

June 30, 2009 and 2008



Story County Hospital and Long-Term Care Facility

June 30, 2009 and 2008

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Story County Hospital and Long-Term Care Facility
Nevada, Iowa

We have audited the accompanying balance sheets of Story County Hospital and Long-Term Care Facility as of June 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Story County Hospital and Long-Term Care Facility as of June 30, 2009 and 2008, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2009, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining information is presented for purposes of additional analysis of the government financial statements rather than to present individual financial position changes in net assets and cash flows of the primary government and its component unit. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
December 1, 2009

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

Introduction

This management's discussion and analysis of the financial performance of Story County Hospital and Long-Term Care Facility (the Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2009 and 2008 by \$422,644 and increased by \$663,988 between 2008 and 2007.
- The Hospital's net assets increased \$600,336 or 10% in 2009 and \$714,525 or 14% in 2008.
- The Hospital reported operating losses in 2009 and 2008 of \$796,031 and \$1,094,972, respectively. The operating loss in 2009 decreased by \$298,941 compared to the operating loss reported in 2008 and increased by \$737,658 in 2008 compared to the operating loss reported in 2007.

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 assets and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets (the difference between assets and liabilities) are one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$600,336 or 10% in 2009 and \$714,525 or 14% in 2008.

Table 1: Assets, Liabilities and Net Assets

	2009	2008	2007
Assets			
Patient accounts receivable, net	\$ 2,718,352	\$ 2,849,729	\$ 2,729,915
Other current assets	5,004,777	4,888,475	6,944,958
Capital assets, net	15,679,928	5,652,038	5,134,871
Other noncurrent assets	4,209,346	13,541,746	379,609
	<u>\$ 27,612,403</u>	<u>\$ 26,931,988</u>	<u>\$ 15,189,353</u>
Liabilities			
Current liabilities	\$ 4,101,732	\$ 3,739,536	\$ 8,234,323
Long-term debt	17,170,481	17,453,842	1,929,722
Other liabilities	9,184	7,940	9,163
	<u>21,281,397</u>	<u>21,201,318</u>	<u>10,173,208</u>
Net Assets			
Invested in capital assets, net of related debt	1,955,399	609,927	3,941,755
Restricted expendable			
Building project	745,518	779,679	501,642
Debt Service Fund	1,055,120	1,053,205	-
By contributors and grantors	141,922	106,226	38,337
Unrestricted	2,433,047	3,181,633	534,411
	<u>6,331,006</u>	<u>5,730,670</u>	<u>5,016,145</u>
Total net assets	<u>\$ 27,612,403</u>	<u>\$ 26,931,988</u>	<u>\$ 15,189,353</u>
Total liabilities and net assets	<u>\$ 27,612,403</u>	<u>\$ 26,931,988</u>	<u>\$ 15,189,353</u>

In 2009, a significant change is the increase in capital assets of \$10,027,890. This increase primarily represents the hospital replacement project in construction in progress. There was a corresponding decrease in other non-current assets of \$9,357,358, primarily related to payments for on the hospital replacement project.

Net capital assets increased in 2008 by \$517,167 or 10%. This increase primarily represents the start of the hospital replacement project in construction in progress.

Operating Results and Changes in the Hospital's Net Assets

In 2009, the Hospital's net assets increased by \$600,336 or 10% as shown in Table 2. This increase is made up of several different components and represents a decrease of \$114,189 from 2008 when the increase in net assets was \$714,525.

Table 2: Operating Results and Changes in Net Assets

	2009	2008	2007
Operating Revenues			
Net patient service revenue	\$ 13,907,297	\$ 13,070,879	\$ 12,897,526
Operating Expenses			
Salaries and wages and employee benefits	8,494,301	8,029,244	7,438,906
Medical professional fees	1,536,942	1,649,974	1,570,856
Depreciation and amortization	552,664	540,103	506,989
Other operating expenses	4,119,421	3,946,530	3,738,089
Total operating expenses	<u>14,703,328</u>	<u>14,165,851</u>	<u>13,254,840</u>
Operating Loss	<u>(796,031)</u>	<u>(1,094,972)</u>	<u>(357,314)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,252,331	1,230,163	1,180,716
Investment income	77,434	63,742	137,084
Non-capital grants and gifts	42,722	43,300	55,769
Other	(19,440)	30,012	28,531
Interest expense	(82,986)	(248,730)	(196,717)
Total nonoperating revenues	<u>1,270,061</u>	<u>1,118,487</u>	<u>1,205,383</u>
Capital Grants and Contributions	<u>126,306</u>	<u>691,010</u>	<u>613,929</u>
Increase in Net Assets	<u>\$ 600,336</u>	<u>\$ 714,525</u>	<u>\$ 1,461,998</u>

Operating Loss

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2009, 2008 and 2007, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Story County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss for 2009 decreased by \$298,941, or 27%, as compared to 2008. The primary components of the decreased operating loss are:

- Net patient service revenues increased \$836,418 or 6% during fiscal year 2009. Most of the increase was found in SNF/NF revenues, while hospital and clinic revenues were relatively flat.
- Operating expenses increased approximately 4% or \$537,477, \$465,057 of which was related to salaries and benefits.

The operating loss for 2008 increased by \$737,658, or 206%, as compared to 2007. The primary components of the increased operating loss were:

- Net patient service revenues increased \$173,353 or 1% during fiscal year 2008. Most of the increase was found in SNF/NF revenues, while hospital and clinic revenues were relatively flat.
- Operating expenses increased approximately 7% or \$911,011, \$590,338 of which was related to salaries and benefits.
- Supplies and medical professional fees increased \$292,277 or 6%.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income and interest expense and grants. For 2009, interest expense decreased significantly by \$165,744. Interest income decreased by \$62,221 during 2009, related to reduction in investments and reduction in market interest rates.

For 2008, interest income decreased by \$33,064 due to reduction in investments and lower interest rates on treasury notes and money market accounts. Interest expense increased by \$52,013 during 2008 related to the financing activities during the year. Property taxes increased \$49,447 or 4%.

Capital Grants and Contributions

The Hospital Foundation received capital gifts and grants of \$173,480 and \$691,010 from various sources in 2009 and 2008, respectively. Capital gifts and grants decreased by \$517,530 in 2009 and increased by \$77,081 in 2008. The large amount of gifts in 2008 was due to the capital campaign that the Hospital Foundation began in November 2006. Capital gifts and grants decreased in 2009 due to the Hospital Foundation securing funds necessary to complete the new hospital facility.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2009 and 2008 as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2009 and 2008, the Hospital had \$15,679,928 and \$5,652,038, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2009, the Hospital invested \$10,563,011 in new capital assets, including \$10,491,785 related to the new hospital facility. In 2008, the Hospital invested \$1,065,317 in new capital assets, including \$809,639 related to the new hospital facility.

Debt

At June 30, 2009 and 2008, the Hospital had \$17,459,366 and \$17,880,257 in notes payable and capital lease obligations outstanding, respectively. In 2009, the Hospital did not take on any new debt. In 2008, the Hospital issued Series 2008 Revenue Bonds in the amount of \$15,690,000. The \$5,000,000 short-term note issued in 2007 was repaid and an additional \$6,000,000 short-term note was issued and repaid during 2008.

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 calling 515.382.2111.

Story County Hospital and Long-Term Care Facility

Balance Sheets

June 30, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 1,616,614	\$ 1,193,970
Short-term investments	436,331	479,371
Current funds held by trustee	746,115	746,115
Patient accounts receivable, net of allowance; 2009 – \$634,111, 2008 – \$694,423	2,718,352	2,849,729
Property taxes receivable	1,304,556	1,263,856
Other receivables	2,400	12,162
Pledges receivable, current portion	472,886	333,988
Supplies	258,410	242,821
Prepaid expenses	167,465	140,802
	<u>7,723,129</u>	<u>7,262,814</u>
Noncurrent Cash, Deposits, Pledges and Investments		
Resident trust funds	9,184	7,940
Externally restricted by donors	480,888	142,208
Pledges receivable, net of allowances	20,521	445,691
Held by trustee	3,247,481	12,945,907
	<u>3,758,074</u>	<u>13,541,746</u>
Capital Assets, net	<u>15,679,928</u>	<u>5,652,038</u>
Other Assets		
Deferred financing costs (net of amortization; 2009 - \$32,723, 2008 - \$8,605)	451,272	475,390
	<u>451,272</u>	<u>475,390</u>
Total Assets	<u>\$ 27,612,403</u>	<u>\$ 26,931,988</u>

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Current Liabilities		
Current maturities of long-term debt	\$ 288,885	\$ 426,415
Accounts payable	886,931	720,541
Accounts payable - construction	569,878	304,954
Accrued expenses	882,482	850,684
Estimated amounts due to third-party payers	169,000	173,086
Deferred revenue for property taxes	<u>1,304,556</u>	<u>1,263,856</u>
Total current liabilities	4,101,732	3,739,536
Long-term Debt	17,170,481	17,453,842
Other Long-term Liabilities		
Resident trust funds	<u>9,184</u>	<u>7,940</u>
Total liabilities	<u>21,281,397</u>	<u>21,201,318</u>
Net Assets		
Invested in capital assets, net of related debt	1,955,399	609,927
Restricted expendable		
Building project	745,518	779,679
Debt service	1,055,120	1,053,205
By contributors and grantors	141,922	106,226
Unrestricted	<u>2,433,047</u>	<u>3,181,633</u>
Total net assets	<u>6,331,006</u>	<u>5,730,670</u>
Total Liabilities and Net Assets	<u><u>\$ 27,612,403</u></u>	<u><u>\$ 26,931,988</u></u>

Story County Hospital and Long-Term Care Facility
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	2009	2008
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 14,605,617	\$ 13,829,975
Provision for uncollectible accounts	(698,320)	(759,096)
Net patient service revenue	13,907,297	13,070,879
 Operating Expenses		
Salaries and wages	7,008,038	6,621,097
Employee benefits	1,486,263	1,408,147
Medical professional fees	1,536,942	1,649,974
Insurance	158,765	163,386
Supplies and other	3,960,656	3,783,144
Depreciation and amortization	552,664	540,103
Total operating expenses	14,703,328	14,165,851
 Operating Loss	(796,031)	(1,094,972)
 Nonoperating Revenues (Expenses)		
Property taxes	1,252,331	1,230,163
Investment income	77,434	63,742
Noncapital grants and gifts	42,722	43,300
Other	(19,440)	30,012
Interest	(82,986)	(248,730)
Total nonoperating revenues	1,270,061	1,118,487
 Excess of Revenues Over Expenses Before Capital Grants and Gifts	474,030	23,515
 Capital Grants and Gifts	126,306	691,010
 Increase in Net Assets	600,336	714,525
 Net Assets, Beginning of Year	5,730,670	5,016,145
 Net Assets, End of Year	\$ 6,331,006	\$ 5,730,670

Story County Hospital and Long-Term Care Facility
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 14,034,588	\$ 12,899,744
Payments to and on behalf of employees	(8,462,503)	(8,026,169)
Payments to suppliers and contractors	(5,833,305)	(5,446,458)
Other receipts, net	19,691	46,992
	<u>(241,529)</u>	<u>(525,891)</u>
Net cash used in operating activities		
Noncapital Financing Activities		
Property taxes	1,252,331	1,230,163
Noncapital grants and gifts	42,722	43,300
Other	(19,440)	30,012
	<u>1,275,613</u>	<u>1,303,475</u>
Net cash provided by noncapital financing activities		
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(426,875)	(11,549,484)
Interest paid on capital debt and leases	(82,986)	(248,730)
Proceeds from issuance of debt	-	22,190,000
Deferred financing costs	-	(545,361)
Purchase of capital assets	(10,298,087)	(765,119)
Proceeds from sale of capital assets	-	5,300
Capital grants and gifts	412,578	364,336
	<u>(10,395,370)</u>	<u>9,450,942</u>
Net cash provided by (used in) capital and related financing activities		
Investing Activities		
(Purchase) proceeds from sale of investments	9,775,336	(9,470,206)
Investment income	77,434	63,742
	<u>9,852,770</u>	<u>(9,406,464)</u>
Net cash provided by (used in) investing activities		
Increase in Cash and Cash Equivalents	491,484	822,062
Cash and Cash Equivalents, Beginning of Year	<u>1,409,165</u>	<u>587,103</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,900,649</u>	<u>\$ 1,409,165</u>

Story County Hospital and Long-Term Care Facility
Statements of Cash Flows (Continued)
Years Ended June 30, 2009 and 2008

	2009	2008
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,616,614	\$ 1,193,970
Cash and cash equivalents in noncurrent cash and investments	284,035	215,195
Total cash and cash equivalents	\$ 1,900,649	\$ 1,409,165
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (796,031)	\$ (1,094,972)
Depreciation and amortization	552,664	540,103
Loss on sale of assets	8,685	7,503
Changes in operating assets and liabilities		
Patient accounts receivable, net	131,377	(119,814)
Other receivables	(30,938)	12,718
Supplies	(15,589)	(8,572)
Prepaid expenses	(22,789)	(15,468)
Estimated amounts due from and to third-party payers	(4,086)	(51,321)
Accounts payable and accrued expenses	(64,822)	203,932
Net cash used in operating activities	\$ (241,529)	\$ (525,891)
 Supplemental Cash Flows Information		
Interest paid	\$ 852,266	\$ 391,381
Capital acquisitions included in accounts payable	569,878	304,954

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Story County Hospital and Long-Term Care Facility is a county public hospital organized and operated under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Story County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Story County area.

Story County Hospital Foundation (Foundation) is included in the accompanying financial statements as a blended component unit. The Foundation is legally separate from Story County Hospital and Long-Term Care Facility, but was organized primarily for its benefit. Story County Hospital and Long-Term Care Facility and the Foundation are collectively referred to as the "Hospital" throughout this report.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2009 and 2008, cash equivalents consisted primarily of money market accounts.

Property Taxes

The Hospital received approximately 8% of its financial support from property tax revenues in each of the years ended June 30, 2009 and 2008, which was used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in Story 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.

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, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

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.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

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

Land improvements	10 to 25 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	<u>2009</u>	<u>2008</u>
Total interest expense incurred on borrowings for project	\$ 749,365	\$ 112,117
Interest income from investment of proceeds of borrowings for project	<u>132,294</u>	<u>35,601</u>
Net interest cost capitalized	\$ <u>617,071</u>	\$ <u>76,516</u>
Interest capitalized, net	\$ 617,071	\$ 76,516
Interest charged to expense	<u>89,626</u>	<u>248,730</u>
Total interest incurred	\$ <u>706,697</u>	\$ <u>325,246</u>

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

Compensated Absences and Benefits

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

The Hospital has adopted the provisions of Governmental Accounting Standard No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As the Hospital does not provide such benefits, the new standard had no impact on the accompanying financial statements.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable net assets.

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 include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$435,035 and \$398,018 for 2009 and 2008, respectively.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

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. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- ◆ **Medicare.** Inpatient and outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Estimated settlements have been reflected in the accompanying financial statements.
- ◆ **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 50% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2009 and 2008.

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.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

Note 3: 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, 2009 and 2008. The Hospital's deposits in banks at June 30, 2009 and 2008 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

At June 30, 2009 and 2008, the Hospital had the following investments and maturities:

Type	June 30, 2009				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
Money market mutual funds	\$ 2,938,476	\$ 2,938,476	\$ -	\$ -	\$ -
Corporate stocks	<u>113,262</u>				
	<u>\$ 3,051,738</u>				
Type	June 30, 2008				
	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More than 10
Money market mutual funds	\$12,638,817	\$12,638,817	\$ -	\$ -	\$ -
Corporate stocks	<u>77,627</u>				
	<u>\$12,716,444</u>				

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy for investments considered as operating funds is with maturities less than 397 days. Other investments are to have maturities consistent with the needs of the Hospital. The money market mutual funds are presented with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2009 and 2008, the Hospital's money market mutual funds and the Foundation's money market funds are not rated.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2009 and 2008, the Hospital holds its certificates of deposit. The mutual funds do not issue certificates of ownership. The Hospital's investment policy does not address how securities underlying investments are to be held.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2009 and 2008, the Hospital's investment in money market mutual funds (Northern Institutional Government Select shares) constituted 65% and 89%, respectively, of its total investments.

Summary of Carrying Values

The carrying values of deposits and investments are included in the balance sheets as follows:

	<u>2009</u>	<u>2008</u>
Carrying value		
Deposits	\$ 3,484,875	\$ 2,799,067
Investments	3,051,738	12,716,444
	<u>\$ 6,536,613</u>	<u>\$ 15,515,511</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,616,614	\$ 1,193,970
Resident Trust Agreement	9,184	7,940
Externally restricted by donors	480,888	142,208
Short-term investments	436,331	479,371
Current funds held by trustee	746,115	746,115
Held by trustee	3,247,481	12,945,907
	<u>\$ 6,536,613</u>	<u>\$ 15,515,511</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

Investment Income

Interest income for the years ended June 30, 2009 and 2008, amounted to \$41,799 and \$104,020, respectively. Unrealized gains (losses) on investments for the years ended June 30, 2009 and 2008 was \$35,635 and (\$40,278), respectively.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2009 and 2008 consisted of:

	2009	2008
Medicare	\$ 1,074,987	\$ 1,222,677
Medicaid	343,323	351,091
Other third-party payers	727,372	1,079,603
Patients	1,206,781	890,781
	<u>3,352,463</u>	<u>3,544,152</u>
Less allowance for uncollectible accounts	634,111	694,423
	<u>\$ 2,718,352</u>	<u>\$ 2,849,729</u>

Note 5: Pledges Receivable

During November 2006, the Hospital Foundation began a capital campaign to assist in funding the construction of a new hospital facility. A discount rate of 6% was used in 2009 and 2008. Pledges receivable consisted of the following:

	2009	2008
Due within one year	\$ 499,163	\$ 351,567
Due in two to five years	20,373	469,888
	<u>519,536</u>	<u>821,455</u>
Less allowance for uncollectible pledges	26,129	41,776
	<u>\$ 493,407</u>	<u>\$ 779,679</u>

Story County Hospital and Long-Term Care Facility
Notes to Financial Statements
June 30, 2009 and 2008

Note 6: Capital Assets

Capital assets activity for the years ended June 30, 2009 and 2008 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2009					
Land	\$ 422,897	\$ 389	\$ -	\$ -	\$ 423,286
Land improvements	97,523	-	-	-	97,523
Buildings and leasehold improvements	5,025,426	21,954	(7,924)	-	5,039,456
Fixed equipment	2,215,548	16,623	(4,077)	-	2,228,094
Major movable equipment	3,103,968	32,260	(91,639)	11,155	3,055,744
Construction in progress	1,449,123	10,491,785	(10,000)	(11,155)	11,919,753
	<u>12,314,485</u>	<u>10,563,011</u>	<u>(113,640)</u>	<u>-</u>	<u>22,763,856</u>
Less accumulated depreciation					
Land improvements	69,107	5,236	-	-	74,343
Buildings and leasehold improvements	3,164,808	133,869	(7,924)	-	3,290,753
Fixed equipment	1,197,689	127,229	(2,605)	-	1,322,313
Major movable equipment	2,230,843	257,232	(91,556)	-	2,396,519
	<u>6,662,447</u>	<u>523,566</u>	<u>(102,085)</u>	<u>-</u>	<u>7,083,928</u>
Capital assets, net	<u>\$ 5,652,038</u>	<u>\$ 10,039,445</u>	<u>\$ (11,555)</u>	<u>\$ -</u>	<u>\$ 15,679,928</u>
2008					
Land	\$ 422,176	\$ 721	\$ -	\$ -	\$ 422,897
Land improvements	97,523	-	-	-	97,523
Buildings and leasehold improvements	5,037,172	-	(11,746)	-	5,025,426
Fixed equipment	2,210,786	8,840	(4,078)	-	2,215,548
Major movable equipment	2,537,340	246,117	(106,382)	426,893	3,103,968
Equipment under capital lease	374,958	-	-	(374,958)	-
Construction in progress	691,419	809,639	-	(51,935)	1,449,123
	<u>11,371,374</u>	<u>1,065,317</u>	<u>(122,206)</u>	<u>-</u>	<u>12,314,485</u>
Less accumulated depreciation					
Land improvements	63,871	5,236	-	-	69,107
Buildings and leasehold improvements	3,042,807	122,001	-	-	3,164,808
Fixed equipment	1,065,789	134,347	(2,447)	-	1,197,689
Major movable equipment	1,914,053	262,549	(95,742)	149,983	2,230,843
Equipment under capital lease	149,983	-	-	(149,983)	-
	<u>6,236,503</u>	<u>524,133</u>	<u>(98,189)</u>	<u>-</u>	<u>6,662,447</u>
Capital assets, net	<u>\$ 5,134,871</u>	<u>\$ 541,184</u>	<u>\$ (24,017)</u>	<u>\$ -</u>	<u>\$ 5,652,038</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

Note 7: Medical Malpractice Insurance

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. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2009 and 2008:

	Beginning Balance	2009 Additions	2009 Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable U.S. Bank (A)	\$ 124,016	\$ -	\$ (22,754)	\$ 101,262	\$ 23,920
Note payable State Bank & Trust – MOB (B)	787,038	-	(112,032)	675,006	117,494
Note payable State Bank & Trust (C)	730,854	-	(40,466)	690,388	42,510
Capital lease obligations (D)	158,682	-	(77,722)	80,960	80,961
Zearing Note (F)	114,467	-	(13,600)	100,867	13,600
SBT-LOC Dairyland (G)	150,000	-	(150,000)	-	-
Hospital revenue refunding bonds series 2008A (H)	8,085,000	-	-	8,085,000	-
USDA Rural Development hospital revenue note (I)	195,171	-	(10,301)	184,870	10,400
Hospital revenue bonds series 2008B (J)	7,605,000	-	-	7,605,000	-
Total long-term debt	17,950,228	\$ -	\$ (426,875)	17,523,353	\$ 288,885
Less unamortized discount	(69,971)			(63,987)	
	<u>\$17,880,257</u>			<u>\$17,459,366</u>	

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

	Beginning Balance	2008		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Note payable U.S. Bank (A)	\$ 145,521	\$ -	\$ (21,505)	\$ 124,016	\$ 22,741
Note payable State Bank & Trust – MOB (B)	893,375	-	(106,337)	787,038	111,943
Note payable State Bank & Trust (C)	768,728	-	(37,874)	730,854	40,441
Capital lease obligations (D)	249,021	-	(90,339)	158,682	77,722
UMB Note (E)	5,000,000	6,000,000	(11,000,000)	-	-
Zearing Note (F)	128,067	-	(13,600)	114,467	13,600
SBT-LOC Dairyland (G)	125,000	300,000	(275,000)	150,000	150,000
Hospital revenue refunding bonds series 2008A (H)	-	8,085,000	-	8,085,000	-
USDA Rural Development hospital revenue note (I)	-	200,000	(4,829)	195,171	9,968
Hospital revenue bonds series 2008B (J)	-	7,605,000	-	7,605,000	-
		<u>22,190,000</u>	<u>\$(11,544,655)</u>		
Total long-term debt	7,309,712			17,950,228	\$ 426,415
Less unamortized discount	-			(69,971)	
	<u>\$ 7,309,712</u>			<u>\$17,880,257</u>	

- (A) Note payable bank. Monthly payments of \$2,375 with interest at 4.99%; collateralized by revenues; due May 2013.
- (B) The note payable bank requires monthly payments of \$13,300 with interest at 4.85%. Due May 2015. Collateralized by revenues.
- (C) Note payable bank. Monthly payments of \$6,292 with interest at 4.85% through July 2016 and a balloon payment of \$339,000; due August 2016.
- (D) Capital lease CT Scanner. The lease requires monthly payments of principal and interest through June 2010 and has an effective interest rate of 4.09%.
- (E) A note was issued in the amount of \$5 million as a revenue bond anticipation note in December 2006. Interest at 4.15%, collateralized by the proceeds of the note, due and was paid in December 2007, and a note in the amount of \$6 million as a revenue bond anticipation note was issued. Interest at 4.00%, collateralized by the proceeds of the note, due October 2008. This note was paid in May 2008 upon issuance of the Series 2008 bonds in notes (I) and (J).

Story County Hospital and Long-Term Care Facility
Notes to Financial Statements
June 30, 2009 and 2008

- (F) A non interest bearing note was issued in the amount of \$136,000 in 2007. Due in 120 monthly payments of \$1,133, collateralized by a mortgage on real estate.
- (G) An unsecured line of credit was issued in the amount of \$125,000 in March 2007. Interest at 6.25%, due September 2007. The unsecured line was paid in September 2007 and a new unsecured line of credit was issued in the amount of \$300,000. Interest at 6.75%, due July 2008. The note was for funding the purchase of computer equipment. This note was paid in July 2008.
- (H) Series 2008A Revenue Refunding Bonds, issued in the original amount of \$8,085,000 as a term bond due June 2038, semi-annual interest due at a variable rate of 195 points over the Bloomberg Index (5.5% at June 30, 2009), reset at five year intervals, collateralized by hospital revenues other than taxation.
- (I) USDA Rural Development Revenue Note; Series 2007, original amount of \$200,000; \$1,506 due monthly with interest at 4.25% with final payment December 2022; payable from hospital revenues other than taxation.
- (J) Series 2008B Revenue Bonds, issued in the original amount of \$7,605,000 as serial bonds due in varying amounts from 2011 through 2028 with interest at 3.10% to 5.05%, collateralized by hospital revenues other than taxation.

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Year Ending June 30, 2009	Total to be Paid	Principal	Interest
2010	\$ 1,112,191	\$ 288,885	\$ 823,306
2011	1,324,368	513,286	811,082
2012	1,298,609	532,667	765,942
2013	1,322,145	551,208	770,937
2014	1,291,670	545,218	746,452
2015 – 2019	5,912,200	2,472,089	3,440,111
2020 – 2024	5,200,148	2,275,000	2,925,148
2025 – 2029	4,561,083	2,260,000	2,301,083
2030 – 2034	2,021,250	-	2,021,250
2035 – 2038	9,668,313	8,085,000	1,583,313
	<u>\$ 33,711,977</u>	<u>\$ 17,523,353</u>	<u>\$ 16,188,624</u>

The terms of the USDA Rural Development loan require a reserve fund to be established with monthly deposits of \$151 until the account totals \$18,072.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

In conjunction with the issuance of the Series 2008 bonds, the Hospital has agreed to comply with certain covenants as described in the related Bond Indenture. A Bond Reserve fund has been established and is to be maintained with a minimum balance of \$1,053,250. In addition, the Hospital is required to meet an earnings covenant whereby debt service coverage is at or above 1.25. Commencing with the reporting date June 30, 2009, the Hospital must also meet certain liquidity tests.

At June 30, 2009, the Hospital was in compliance with the required covenants.

Note 9: Deferred Compensation Agreements

The Hospital has entered into deferred compensation agreements with certain employees, which provide that a portion of their compensation will be deferred, to be paid upon retirement or at specified dates. The agreement indicates the amounts due the employees will be the amounts deferred plus or minus earnings or losses realized on the investments of the funds at the time payment is to be made.

The provisions of the Internal Revenue Code section 457 were amended to enable plans to hold all assets and income of the plan in a trust for the exclusive benefit of participants and their beneficiaries. These assets were previously required to be held as property of the Hospital. The Hospital plan has been amended to hold the plan assets in trust for the plan participants and their beneficiaries.

The agreements are funded with various mutual fund investments, stated at fair market value. The fair market value of the plan was \$384,342 and \$457,912 at June 30, 2009 and 2008, respectively.

The assets included in the deferred compensation agreements are not included in these financial statements.

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 IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2009 and 2008

Funding Policy

Plan members are required to contribute 4.1% and 3.9% of their annual covered salaries and the Hospital is required to contribute 6.35% and 6.05% of annual covered payroll for 2009 and 2008, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2009, 2008 and 2007 were \$441,000, \$394,000 and \$347,000, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.35% of annual covered salaries for 2009.

Note 11: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a 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 of Story County Hospital and Long-Term Care Facility's reported amounts and their cash basis presentation as well as a comparison to budget, for the year ended June 30, 2009, excluding the Story County Hospital Foundation:

	Actual	Accrual Adjustments	Cash Basis	Budget	Difference
Revenues					
Amount to be raised by taxation	\$ 1,252,331	\$ -	\$ 1,252,331	\$ 1,238,060	\$ (14,271)
Other revenues/ receipts	14,116,810	127,291	14,244,101	15,806,044	1,561,943
Total revenues	15,369,141	127,291	15,496,432	17,044,104	1,547,672
Less expenses/ disbursements	14,762,683	103,200	14,865,883	15,185,052	319,169
Change in net assets	606,458	24,091	630,549	1,859,052	1,228,503
Net assets, beginning of year	4,369,787	(2,757,119)	1,612,668	1,612,668	-
Net assets, end of year	\$ 4,976,245	\$ (2,733,028)	\$ 2,243,217	\$ 3,471,720	\$ 1,228,503

Supplementary Information

Story County Hospital and Long-Term Care Facility
Combining Balance Sheet
June 30, 2009

Assets

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 1,625,505	\$ (8,891)		\$ 1,616,614
Short-term investments	20,450	415,881		436,331
Current held by trustee	746,115			746,115
Patient accounts receivable, net of allowance; 2009 – \$634,111	2,718,352			2,718,352
Property taxes receivable	1,304,556			1,304,556
Other receivables	2,400			2,400
Pledges receivable, current portion		472,886		472,886
Supplies	258,410			258,410
Prepaid expenses	163,591	3,874		167,465
	<u>6,839,379</u>	<u>883,750</u>		<u>7,723,129</u>
Noncurrent Cash, Deposits, Pledges and Investments				
Resident trust agreement	9,184			9,184
Externally restricted by donors	30,398	450,490		480,888
Pledges receivable, net of allowances Held by trustee	3,247,481	20,521		3,247,481
	<u>3,287,063</u>	<u>471,011</u>		<u>3,758,074</u>
Capital Assets, net	<u>15,679,928</u>	<u>-</u>		<u>15,679,928</u>
Other Assets				
Deferred financing costs (net of amortization; 2009 - \$32,723)	451,272			451,272
Total Assets	<u>\$ 26,257,642</u>	<u>\$ 1,354,761</u>	<u>\$ -</u>	<u>\$ 27,612,403</u>

Liabilities and Net Assets

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 288,885			\$ 288,885
Accounts payable	886,931			886,931
Accounts payable - construction	569,878			569,878
Accrued expenses	882,482			882,482
Estimated amounts due to third-party payers	169,000			169,000
Deferred revenue for property taxes	<u>1,304,556</u>			<u>1,304,556</u>
Total current liabilities	4,101,732			4,101,732
Long-term Debt	17,170,481			17,170,481
Other Long-term Liabilities				
Resident trust fund	<u>9,184</u>			<u>9,184</u>
Total liabilities	<u>21,281,397</u>			<u>21,281,397</u>
Net Assets				
Invested in capital assets, net of related debt	1,955,399			1,955,399
Restricted expendable				
Building project		\$ 745,518		745,518
Debt service	1,055,120			1,055,120
By contributors and grantors	28,660	113,262		141,922
Unrestricted	<u>1,937,066</u>	<u>495,981</u>		<u>2,433,047</u>
Total net assets	<u>4,976,245</u>	<u>1,354,761</u>		<u>6,331,006</u>
Total Liabilities and Net Assets	<u>\$ 26,257,642</u>	<u>\$ 1,354,761</u>	<u>\$ -</u>	<u>\$ 27,612,403</u>

Story County Hospital and Long-Term Care Facility
Combining Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2009

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 14,605,617			\$ 14,605,617
Provision for uncollectible accounts	(698,320)			(698,320)
Net patient service revenue	<u>13,907,297</u>			<u>13,907,297</u>
Operating Expenses				
Salaries and wages	6,992,181	\$ 15,857		7,008,038
Employee benefits	1,486,263			1,486,263
Medical professional fees	1,536,942			1,536,942
Insurance	158,765			158,765
Supplies and other	3,952,882	7,774		3,960,656
Depreciation and amortization	552,664			552,664
Total operating expenses	<u>14,679,697</u>	<u>23,631</u>		<u>14,703,328</u>
Operating Loss	<u>(772,400)</u>	<u>(23,631)</u>		<u>(796,031)</u>
Nonoperating Revenues (Expenses)				
Property taxes	1,252,331			1,252,331
Investment income	13,600	63,834		77,434
Noncapital grants and gifts	31,083	11,639		42,722
Other	164,830	(184,270)		(19,440)
Interest	(82,986)			(82,986)
Total nonoperating revenues (expenses)	<u>1,378,858</u>	<u>(108,797)</u>		<u>1,270,061</u>
Excess (Deficit) of Revenues Over Expenses Before Capital Grants and Gifts				
	606,458	(132,428)		474,030
Capital Grants and Gifts		<u>126,306</u>		<u>126,306</u>
Increase (Decrease) in Net Assets	606,458	(6,122)		600,336
Net Assets, Beginning of Year	<u>4,369,787</u>	<u>1,360,883</u>		<u>5,730,670</u>
Net Assets, End of Year	<u>\$ 4,976,245</u>	<u>\$ 1,354,761</u>	<u>\$ -</u>	<u>\$ 6,331,006</u>

Story County Hospital and Long-Term Care Facility
Schedules of Patient Service Revenues – Hospital Only
Years Ended June 30, 2009 and 2008

	2009				2008			
	Total	Inpatient	Outpatient	LTC	Total	Inpatient	Outpatient	LTC
Daily Patient Services								
Medical and surgical	\$ 620,054	\$ 401,368	\$ 218,686		\$ 412,787	\$ 311,889	\$ 100,898	
Swing-bed	975,363	975,363			909,580	909,580		
Long-term care	2,936,200			\$ 2,936,200	2,967,851			\$ 2,967,851
	<u>4,531,617</u>	<u>1,376,731</u>	<u>218,686</u>	<u>2,936,200</u>	<u>4,290,218</u>	<u>1,221,469</u>	<u>100,898</u>	<u>2,967,851</u>
Other Professional Services								
Operating and recovery room	1,227,646	141,239	1,086,407		1,310,575	254,470	1,056,105	
Anesthesiology	159,620	23,019	136,601		541,189	80,786	460,403	
Radiology	1,743,252	154,452	1,588,800		1,608,342	132,837	1,475,505	
Laboratory	1,928,792	297,500	1,631,292		2,124,122	319,485	1,804,637	
Respiratory therapy	157,102	141,250	15,852		99,877	86,609	13,268	
Physical therapy	1,323,108	349,463	973,645		1,402,704	339,890	1,062,814	
Occupational therapy	277,461	148,925	128,536		296,891	139,809	157,082	
Speech therapy	18,571	6,263	12,308		17,330	3,375	13,955	
Electrocardiology	114,887	4,835	110,052		81,688	4,504	77,184	
Medical and surgical supplies	1,391,097	610,459	750,275	30,363	1,317,084	646,384	647,366	23,334
Pharmacy	1,624,778	881,075	466,422	277,281	1,505,490	788,211	415,360	301,919
Clinic	2,413,703	275	2,413,428		1,871,583	56	1,871,527	
Emergency room	1,067,747	5,772	1,061,975		885,593	9,884	875,709	
Ambulance	682,323		682,323		698,386		698,386	
Acupuncture	103,484		103,484		107,794		107,794	
Wellness center	35,161		35,161		46,257		46,257	
Miscellaneous	133,423		133,423		104,518		104,518	
	<u>14,402,155</u>	<u>2,764,527</u>	<u>11,329,984</u>	<u>307,644</u>	<u>14,019,423</u>	<u>2,806,300</u>	<u>10,887,870</u>	<u>325,253</u>
Gross Patient Service Revenue	18,933,772	<u>\$ 4,141,258</u>	<u>\$ 11,548,670</u>	<u>\$ 3,243,844</u>	18,309,641	<u>\$ 4,027,769</u>	<u>\$ 10,988,768</u>	<u>\$ 3,293,104</u>
Contractual Adjustments	(4,328,155)				(4,479,666)			
Net Patient Service Revenue before Provision for Uncollectible Accounts	14,605,617				13,829,975			
Provision for Uncollectible Accounts	(698,320)				(759,096)			
Net Patient Service Revenue	<u>\$ 13,907,297</u>				<u>\$ 13,070,879</u>			

Story County Hospital and Long-Term Care Facility

Schedules of Operating Expenses – Hospital Only

Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 78,151	\$ 71,933	\$ 6,218	\$ 81,429	\$ 71,203	\$ 10,226
Adults and pediatrics	1,211,760	984,606	227,154	1,169,630	941,638	227,992
Operating room	455,293	232,006	223,287	393,617	230,396	163,221
Emergency	600,141	180,218	419,923	530,427	133,806	396,621
	<u>2,345,345</u>	<u>1,468,763</u>	<u>876,582</u>	<u>2,175,103</u>	<u>1,377,043</u>	<u>798,060</u>
Other Professional Services						
Central supply	381,322	52,091	329,231	375,546	48,644	326,902
Medical records	208,287	170,209	38,078	237,046	166,806	70,240
Social service	136,313	134,793	1,520	117,743	114,528	3,215
Long-term care	1,570,960	1,244,089	326,871	1,531,925	1,171,929	359,996
Anesthesiology	58,879	-	58,879	170,121	-	170,121
Radiology	436,581	185,159	251,422	393,246	183,233	210,013
Laboratory	617,839	297,483	320,356	583,091	311,080	272,011
Respiratory therapy	39,374	12,979	26,395	39,408	14,019	25,389
Physical therapy	543,842	-	543,842	558,078	-	558,078
Occupational therapy	97,620	-	97,620	112,441	-	112,441
Speech pathology	17,125	-	17,125	9,071	-	9,071
Electrocardiology	52,948	36,947	16,001	38,516	25,632	12,884
Pharmacy	646,452	37,376	609,076	637,840	44,008	593,832
Zearing clinic	275,963	209,459	66,504	263,798	208,579	55,219
Nevada clinic	1,345,398	1,182,902	162,496	1,257,768	1,097,572	160,196
Maxwell clinic	204,403	148,476	55,927	216,411	171,699	44,712
Slater clinic	101,284	66,816	34,468	150,804	109,640	41,164
After-hours clinic	5,247	5,247	-	2,503	2,503	-
Ambulance	322,711	264,851	57,860	304,863	259,402	45,461
Wellness center	151,667	141,242	10,425	162,495	139,878	22,617
Psychologist	154	-	154	3,365	16	3,349
Acupuncture	89,613	58,853	30,760	97,214	66,445	30,769
	<u>7,303,982</u>	<u>4,248,972</u>	<u>3,055,010</u>	<u>7,263,293</u>	<u>4,135,613</u>	<u>3,127,680</u>
General Services						
Operation of plant	436,112	152,062	284,050	445,240	151,285	293,955
Laundry and linen	54,720	40,191	14,529	65,380	55,057	10,323
Housekeeping	252,991	207,839	45,152	224,871	182,961	41,910
Dietary	580,156	333,701	246,455	581,188	330,829	250,359
	<u>1,323,979</u>	<u>733,793</u>	<u>590,186</u>	<u>1,316,679</u>	<u>720,132</u>	<u>596,547</u>
Administrative Services	1,508,699	540,653	968,046	1,260,799	365,703	895,096
Employee Benefits	1,486,263	-	1,486,263	1,408,147	-	1,408,147
Depreciation	552,664	-	552,664	540,103	-	540,103
Insurance	158,765	-	158,765	163,386	-	163,386
	<u>\$ 14,679,697</u>	<u>\$ 6,992,181</u>	<u>\$ 7,687,516</u>	<u>\$ 14,127,510</u>	<u>\$ 6,598,491</u>	<u>\$ 7,529,019</u>

Story County Hospital and Long-Term Care Facility

Schedules of Patient Receivables and Allowance for Uncollectible Accounts Years Ended June 30, 2009 and 2008

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2009	2008	2009	2008
Days Since Discharge				
0 – 30	\$ 1,563,577	\$ 1,708,200	36 %	40 %
31 – 60	446,484	510,822	11	12
61 – 90	397,272	348,451	9	8
91 – 120	268,585	357,852	6	8
Over four months	1,627,970	1,370,838	38	32
	4,303,888	4,296,163	100 %	100 %
Less contractual allowances	951,425	752,011		
	3,352,463	3,544,152		
Less allowance for uncollectible accounts	634,111	694,423		
	\$ 2,718,352	\$ 2,849,729		

Allowance for Uncollectible Accounts

	2009	2008
Balance, beginning of year	\$ 694,423	\$ 291,663
Provision for year (before reduction for recoveries)	789,885	864,797
Recoveries of accounts previously written off	91,565	105,701
Reclassification to contractual adjustments	52,297	1,700
	1,628,170	1,263,861
Less accounts written off	994,059	569,438
Balance, end of year	\$ 634,111	\$ 694,423

Story County Hospital and Long-Term Care Facility
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2009 and 2008

Supplies

	<u>2009</u>	<u>2008</u>
Central stores	\$ 42,488	\$ 41,959
Pharmacy	91,092	88,531
Laboratory	41,419	44,385
Dietary	22,542	20,439
Operating room	40,793	33,515
Emergency room	2,121	2,032
Radiology	5,642	4,153
Other	12,313	7,807
	<u>\$ 258,410</u>	<u>\$ 242,821</u>

Prepaid Expenses

	<u>2009</u>	<u>2008</u>
Insurance	\$ 37,476	\$ 35,001
Maintenance and other	129,989	105,801
	<u>\$ 167,465</u>	<u>\$ 140,802</u>

Story County Hospital and Long-Term Care Facility
Schedule of Officials
Year Ended June 30, 2009

Name	Title	Term Expires
Board of Trustees		
David Anderson	Chairman	2014
Michael Nusbaum	Vice Chairman	2010
Gaylan Scofield	Secretary/Treasurer	2010
Glenda Bradshaw	Member	2010
Liz Hertz	Member	2013
Patrick Sheets	Member	2013
Meg Tait	Member	2014
Hospital Officials		
Todd Willert	Chief Executive Officer	
Jane Ramthun	Chief Financial Officer	

Story County Hospital and Long-Term Care Facility
Schedules of Financial and Statistical Data
Years Ended June 30, 2009 and 2008

	2009	2008
Patient Days (Exclusive of Swing-bed)		
Medicare	407	384
Medicaid	22	14
Private and other	170	108
	599	506
Medicare and Medicaid Percent	71.6%	78.7%
Percent of Occupancy (Acute)	6.8%	5.5%
Discharges (Exclusive of Swing-bed)		
Medicare	118	128
Medicaid	9	5
Private and other	62	45
	189	178
Average Length of Stay in Days	3.2	2.8

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

Board of Trustees
Story County Hospital and Long-Term Care Facility
Nevada, Iowa

We have audited the financial statements of Story County Hospital and Long-Term Care Facility as of and for the year ended June 30, 2009, and have issued our report thereon dated December 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the Hospital's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal controls.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal controls.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We also noted certain additional matters that are reported below or we reported to the Hospital's management in a separate letter dated December 1, 2009.

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, 2009 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, 2009. 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, 2009.

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, 2009 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. However the following was noted:

Criteria or Specific Requirement - Management is responsible for establishing policies regarding questionable expenditures.

Condition - The Board of Trustees has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context - Written policies are not in effect.

Effect - Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause - Written policies are not in place.

Recommendation - Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions - Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform to this requirement.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

Business Transactions

We noted no transactions between 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.

Unclaimed Property

We noted no instances where the Hospital failed to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 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.

* * * * *

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

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

/s/ **BKD, LLP**

Kansas City, Missouri
December 1, 2009

Story County Hospital and Long-Term Care Facility
Schedule of Findings and Responses
Year Ended June 30, 2009

Reference Number	Finding
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None

Board of Trustees and Management
Story County Hospital and Long-Term Care Facility
Nevada, Iowa

In planning and performing our audit of the financial statements of Story County Hospital and Long-Term Care Facility as of and for the year ended June 30, 2009, 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. As such, our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements of the Hospital's financial statements on a timely basis. A control 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 is not always met. A control 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 qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal controls.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Hospital's financial statements will not be prevented or detected by the Hospital's internal controls.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously we made observations as a result of our 2008 audit engagement in a letter dated December 16, 2008.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

No matters are reportable.

Other Control Deficiencies

Journal Entries

We noted that there is no review of journal entries posted by the Chief Financial Officer. We recommend procedures be developed where someone above the Chief Financial Officer review their journal entries or remove this position's ability to post journal entries so that the position can review journal entries posted by personnel under them.

Segregation of Duties in the Purchases Cycle

There is a lack of segregation of duties in the purchases area as the Purchasing Director has conflicting duties between access and monitoring responsibilities. There are compensating controls in place which, when operating effectively, mitigate the risk of material misstatement to an inconsequential level.

Segregation of Duties in the Revenue Cycle

There is a lack of segregation of duties in the revenue area as the Receptionist has conflicting duties between access and monitoring responsibilities. There are compensating controls in place which, when operating effectively, mitigate the risk of material misstatement to an inconsequential level.

Other Matters

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

Information Technology Backups

Daily backups of information systems are performed and maintained. However, these backups are not periodically tested as to the effectiveness of the backup data or the quality of the backup files. We recommend periodically testing the effectiveness of restoration and the quality of backup files in the event the files would be needed to restore lost data.

Current Economic Conditions

The current economic environment has created unprecedented circumstances and challenges for the health care industry. As a result, hospitals are facing declines in contributions, constraints on liquidity, reduced governmental reimbursements and difficulty obtaining financing. The values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to the allowance for accounts and contributions receivable, etc., that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity. Now, more than ever, we recommend that management and the Board of Trustees vigilantly monitor and aggressively manage all of these matters.

* * * * *

This communication is intended solely for the information and use of Management, 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.

/s/ **BKD, LLP**

Kansas City, Missouri
December 1, 2009