

Story County Hospital and Long-Term Care Facility

Accountants' Report and Financial Statements

June 30, 2010 and 2009



Story County Hospital and Long-Term Care Facility

June 30, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2010, 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.

BKD, LLP

Kansas City, Missouri
October 22, 2010

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis

Years Ended June 30, 2010 and 2009

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, 2010 and 2009. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents decreased between 2010 and 2009 by \$322,187 and increased by \$422,644 between 2009 and 2008.
- The Hospital's net assets decreased \$695,403 or 11% in 2010 and increased \$600,336 or 10% in 2009.
- The Hospital reported operating losses in 2010 and 2009 of \$1,342,797 and \$796,031, respectively. The operating loss in 2010 increased by \$546,766 compared to the operating loss reported in 2009 and decreased by \$298,941 in 2009 compared to the operating loss reported in 2008.

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 decreased by \$695,403 or 11% in 2010 and increased \$600,336 or 10% in 2009.

Table 1: Assets, Liabilities and Net Assets

	2010	2009	2008
Assets			
Patient accounts receivable, net	\$ 3,087,600	\$ 2,718,352	\$ 2,849,729
Other current assets	5,509,212	5,004,777	4,888,475
Capital assets, net	16,482,891	15,679,928	5,652,038
Other noncurrent assets	942,556	4,209,346	13,541,746
	<u>\$ 26,022,259</u>	<u>\$ 27,612,403</u>	<u>\$ 26,931,988</u>
Liabilities			
Current liabilities	\$ 3,641,791	\$ 4,101,732	\$ 3,739,536
Long-term debt	16,736,379	17,170,481	17,453,842
Other liabilities	8,486	9,184	7,940
	<u>20,386,656</u>	<u>21,281,397</u>	<u>21,201,318</u>
Net Assets			
Invested in capital assets, net of related debt	1,007,255	1,955,399	609,927
Restricted expendable			
Capital acquisitions	787,731	1,246,516	1,275,668
Debt Service Fund	1,062,844	1,055,120	1,053,205
By contributors and grantors	119,350	141,922	106,226
Unrestricted	2,658,423	1,932,049	2,685,644
	<u>5,635,603</u>	<u>6,331,006</u>	<u>5,730,670</u>
Total net assets	<u>\$ 26,022,259</u>	<u>\$ 27,612,403</u>	<u>\$ 26,931,988</u>
Total liabilities and net assets	<u>\$ 26,022,259</u>	<u>\$ 27,612,403</u>	<u>\$ 26,931,988</u>

In 2010, the decrease in other non-current assets of \$3,266,790 was primarily due to payments made relating to the hospital replacement project completed in August 2009.

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.

Operating Results and Changes in the Hospital's Net Assets

In 2010, the Hospital's net assets decreased by \$695,403 or 11% as shown in Table 2. This decrease is made up of several different components and represents a decrease of \$1,295,739 from 2009 results which was an increase in net assets of \$600,336.

Table 2: Operating Results and Changes in Net Assets

	2010	2009	2008
Operating Revenues			
Net patient service revenue	\$ 15,833,088	\$ 13,907,297	\$ 13,070,879
Operating Expenses			
Salaries and wages and employee benefits	9,273,294	8,494,301	8,029,244
Medical professional fees	1,706,869	1,536,942	1,649,974
Depreciation and amortization	1,301,446	552,664	540,103
Other operating expenses	4,894,276	4,119,421	3,946,530
Total operating expenses	17,175,885	14,703,328	14,165,851
Operating Loss	(1,342,797)	(796,031)	(1,094,972)
Nonoperating Revenues (Expenses)			
Property taxes	1,320,098	1,252,331	1,230,163
Investment income	19,236	77,434	63,742
Non-capital grants and gifts	47,480	42,722	43,300
Other	5,481	(19,440)	30,012
Interest expense	(771,916)	(82,986)	(248,730)
Total nonoperating revenues	620,379	1,270,061	1,118,487
Capital Grants and Gifts	27,015	126,306	691,010
Increase (Decrease) in Net Assets	\$ (695,403)	\$ 600,336	\$ 714,525

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 2010, 2009 and 2008, 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 2010 increased by \$546,766, or 69%, as compared to 2009. The primary components of the increased operating loss are:

- Net patient service revenues increased \$1,925,791 or 14% during fiscal year 2010. Most of the increase was found in inpatient acute, inpatient ancillary revenue and outpatient revenues and was offset by a decrease in clinic revenues.
- Operating expenses increased approximately 17% or \$2,472,557, \$748,782 of which was related to depreciation of the new hospital. The increases in salaries and benefits of \$778,993 and other operating expenses of \$774,855 were a result of increased volumes described above.

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

- 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.

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 2010, interest expense increased significantly by \$688,930 as interest costs on the 2008 bonds are no longer being capitalized due to completion of the Hospital replacement project in August 2009.

For 2009, interest expense decreased by \$165,744. Interest income decreased by \$62,221 during 2009, related to reduction in investments and reduction in market interest rates.

Capital Grants and Contributions

The Hospital and Hospital Foundation received capital grants and gifts of \$27,015 and \$126,306 from various sources in 2010 and 2009, respectively. Capital grants and gifts decreased by \$99,291 and \$517,530 in 2010 and 2009, respectively. 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 both 2010 and 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 2010 and 2009 as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2010 and 2009, the Hospital had \$16,482,891 and \$15,679,928, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2010, the Hospital invested \$2,121,684 in new capital assets, including \$1,734,320 related to the new hospital facility. In 2009, the Hospital invested \$10,563,011 in new capital assets, including \$10,491,785 related to the new hospital facility.

Debt

At June 30, 2010 and 2009, the Hospital had \$17,267,174 and \$17,459,366 in notes payable and capital lease obligations outstanding, respectively. In 2010, the Hospital entered into a capital lease for equipment totaling \$107,904. In 2009, the Hospital did not take on any new debt.

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, 2010 and 2009

Assets

	<u>2010</u>	<u>2009</u>
Current Assets		
Cash and cash equivalents	\$ 1,294,427	\$ 1,616,614
Short-term investments	1,154,894	436,331
Current funds held by trustee	1,040,353	746,115
Patient accounts receivable, net of allowance; 2010 – \$741,799, 2009 – \$634,111	3,087,600	2,718,352
Property taxes receivable	1,354,134	1,304,556
Other receivables	6,092	2,400
Pledges receivable, current portion	193,420	472,886
Supplies	254,839	258,410
Prepaid expenses	211,053	167,465
	<u>8,596,812</u>	<u>7,723,129</u>
Total current assets		
	<u>8,596,812</u>	<u>7,723,129</u>
Noncurrent Cash, Deposits, Pledges and Investments		
Resident trust funds	8,486	9,184
Externally restricted by donors	282,382	480,888
Pledges receivable, net of allowances	7,598	20,521
Held by trustee	221,273	3,247,481
	<u>519,739</u>	<u>3,758,074</u>
Capital Assets, net	<u>16,482,891</u>	<u>15,679,928</u>
Other Assets		
Deferred financing costs (net of amortization; 2010 - \$61,178, 2009 - \$32,723)	422,817	451,272
	<u>422,817</u>	<u>451,272</u>
Total Assets	<u>\$ 26,022,259</u>	<u>\$ 27,612,403</u>

Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>
Current Liabilities		
Current maturities of long-term debt	\$ 530,795	\$ 288,885
Accounts payable	581,194	886,931
Accounts payable - construction	-	569,878
Accrued expenses	967,668	882,482
Estimated amounts due to third-party payers	208,000	169,000
Deferred revenue for property taxes	<u>1,354,134</u>	<u>1,304,556</u>
Total current liabilities	3,641,791	4,101,732
Long-term Debt	16,736,379	17,170,481
Other Long-term Liabilities		
Resident trust funds	<u>8,486</u>	<u>9,184</u>
Total liabilities	<u>20,386,656</u>	<u>21,281,397</u>
Net Assets		
Invested in capital assets, net of related debt	1,007,255	1,955,399
Restricted expendable		
Capital acquisitions	787,731	1,246,516
Debt service	1,062,844	1,055,120
By contributors and grantors	119,350	141,922
Unrestricted	<u>2,658,423</u>	<u>1,932,049</u>
Total net assets	<u>5,635,603</u>	<u>6,331,006</u>
Total Liabilities and Net Assets	<u>\$ 26,022,259</u>	<u>\$ 27,612,403</u>

Story County Hospital and Long-Term Care Facility
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 16,700,918	\$ 14,605,617
Provision for uncollectible accounts	(867,830)	(698,320)
Net patient service revenue	15,833,088	13,907,297
Operating Expenses		
Salaries and wages	7,570,659	7,008,038
Employee benefits	1,702,635	1,486,263
Medical professional fees	1,706,869	1,536,942
Insurance	152,318	158,765
Supplies and other	4,741,958	3,960,656
Depreciation and amortization	1,301,446	552,664
Total operating expenses	17,175,885	14,703,328
Operating Loss	(1,342,797)	(796,031)
Nonoperating Revenues (Expenses)		
Property taxes	1,320,098	1,252,331
Investment income	19,236	77,434
Noncapital grants and gifts	47,480	42,722
Other	5,481	(19,440)
Interest	(771,916)	(82,986)
Total nonoperating revenues	620,379	1,270,061
Excess of Revenues Over (Under) Expenses Before Capital Grants and Gifts	(722,418)	473,730
Capital Grants and Gifts	27,015	126,306
Increase (Decrease) in Net Assets	(695,403)	600,336
Net Assets, Beginning of Year	6,331,006	5,730,670
Net Assets, End of Year	\$ 5,635,603	\$ 6,331,006

Story County Hospital and Long-Term Care Facility
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Activities		
Receipts from and on behalf of patients	\$ 15,502,840	\$ 14,034,588
Payments to and on behalf of employees	(9,188,108)	(8,462,503)
Payments to suppliers and contractors	(6,946,899)	(5,833,305)
Other receipts, net	47,360	19,691
Net cash used in operating activities	(584,807)	(241,529)
Noncapital Financing Activities		
Property taxes	1,320,098	1,252,331
Noncapital grants and gifts	47,480	42,722
Other	5,481	(19,440)
Net cash provided by noncapital financing activities	1,373,059	1,275,613
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(306,116)	(426,875)
Interest paid on capital debt and leases	(771,916)	(82,986)
Purchase of capital assets	(2,583,658)	(10,298,087)
Capital grants and gifts	27,015	412,578
Net cash used in capital and related financing activities	(3,634,675)	(10,395,370)
Investing Activities		
Proceeds from sale of investments	2,421,167	9,775,336
Investment income	19,236	77,434
Net cash provided by investing activities	2,440,403	9,852,770
Increase (Decrease) in Cash and Cash Equivalents	(406,020)	491,484
Cash and Cash Equivalents, Beginning of Year	1,900,649	1,409,165
Cash and Cash Equivalents, End of Year	\$ 1,494,629	\$ 1,900,649

Story County Hospital and Long-Term Care Facility
Statements of Cash Flows (Continued)
Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,294,427	\$ 1,616,614
Cash and cash equivalents in noncurrent cash and investments	200,202	284,035
Total cash and cash equivalents	\$ 1,494,629	\$ 1,900,649
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (1,342,797)	\$ (796,031)
Depreciation and amortization	1,301,446	552,664
Loss on sale of assets	51,750	8,685
Changes in operating assets and liabilities		
Patient accounts receivable, net	(369,248)	131,377
Other receivables	(53,270)	(30,938)
Supplies	3,571	(15,589)
Prepaid expenses	(43,588)	(22,789)
Estimated amounts due from and to third-party payers	39,000	(4,086)
Accounts payable and accrued expenses	(171,671)	(64,822)
Net cash used in operating activities	\$ (584,807)	\$ (241,529)
 Supplemental Cash Flows Information		
Interest paid	\$ 833,052	\$ 852,266
Capital acquisitions included in accounts payable	-	569,878
Capital lease obligations incurred for equipment	107,904	-

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2010 and 2009

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, 2010 and 2009

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009

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>2010</u>	<u>2009</u>
Total interest expense incurred on borrowings for project interest income from investment of proceeds of borrowings for project	\$ 66,426	\$ 749,365
	<u>4,090</u>	<u>293,257</u>
Net interest cost capitalized	<u>\$ 62,336</u>	<u>\$ 456,108</u>
Interest capitalized, net	\$ 62,336	\$ 456,108
Interest charged to expense	<u>771,916</u>	<u>82,986</u>
Total interest incurred	<u>\$ 834,252</u>	<u>\$ 539,094</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2010 and 2009

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.

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.

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 \$384,433 and \$435,035 for 2010 and 2009, respectively.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2010 and 2009

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 2009 financial statements to conform to the 2010 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

- ◆ **Medicare.** The Hospital is recognized as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at 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 53% and 50% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2010 and 2009, respectively. Laws and regulations governing Medicare and Medicaid Programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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, 2010 and 2009

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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, the Hospital's investment in money market mutual funds (Northern Institutional Government Select shares) constituted 8% and 65%, 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>2010</u>	<u>2009</u>
Carrying value		
Deposits	\$ 3,712,367	\$ 3,484,875
Investments	289,448	3,051,738
	<u>\$ 4,001,815</u>	<u>\$ 6,536,613</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,294,427	\$ 1,616,614
Resident Trust Agreement	8,486	9,184
Externally restricted by donors	282,382	480,888
Short-term investments	1,154,894	436,331
Current funds held by trustee	1,040,353	746,115
Held by trustee	221,273	3,247,481
	<u>\$ 4,001,815</u>	<u>\$ 6,536,613</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2010 and 2009

Investment Income

Interest income for the years ended June 30, 2010 and 2009, amounted to \$14,324 and \$41,799, respectively. Unrealized gains (losses) on investments for the years ended June 30, 2010 and 2009 was \$4,912 and \$35,635, 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, 2010 and 2009 consisted of:

	2010	2009
Medicare	\$ 1,301,878	\$ 1,074,987
Medicaid	301,073	343,323
Other third-party payers	897,029	727,372
Patients	1,329,419	1,206,781
	<u>3,829,399</u>	<u>3,352,463</u>
Less allowance for uncollectible accounts	741,799	634,111
	<u>\$ 3,087,600</u>	<u>\$ 2,718,352</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 2010 and 2009. Pledges receivable consisted of the following:

	2010	2009
Due within one year	\$ 193,420	\$ 499,163
Due in two to five years	19,937	20,373
	<u>213,357</u>	<u>519,536</u>
Less allowance for uncollectible pledges	12,339	26,129
	<u>\$ 201,018</u>	<u>\$ 493,407</u>

Story County Hospital and Long-Term Care Facility
Notes to Financial Statements
June 30, 2010 and 2009

Note 6: Capital Assets

Capital assets activity for the years ended June 30, 2010 and 2009 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2010					
Land	\$ 423,286			\$ 940	\$ 424,226
Land improvements	97,523			1,167,520	1,265,043
Buildings and leasehold improvements	5,039,456			11,281,651	16,321,107
Fixed equipment	2,228,094	\$ 146,585	\$ (90,906)	489,724	2,773,497
Major movable equipment	3,055,744	240,779	(194,307)	687,286	3,789,502
Construction in progress	11,919,753	1,734,320	(15,733)	(13,627,121)	11,219
	<u>22,763,856</u>	<u>2,121,684</u>	<u>(300,946)</u>	<u>-</u>	<u>24,584,594</u>
Less accumulated depreciation					
Land improvements	74,343	103,437			177,780
Buildings and leasehold improvements	3,290,753	660,756			3,951,509
Fixed equipment	1,322,313	158,893	(87,088)		1,394,118
Major movable equipment	2,396,519	349,306	(167,529)		2,578,296
	<u>7,083,928</u>	<u>1,272,392</u>	<u>(254,617)</u>	<u>-</u>	<u>8,101,703</u>
Capital assets, net	<u>\$ 15,679,928</u>	<u>\$ 849,292</u>	<u>\$ (46,329)</u>	<u>\$ -</u>	<u>\$ 16,482,891</u>
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>

Story County Hospital and Long-Term Care Facility
Notes to Financial Statements
June 30, 2010 and 2009

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, 2010 and 2009:

	Beginning Balance	2010		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Note payable U.S. Bank (A)	\$ 101,262	\$ -	\$ (23,924)	\$ 77,338	\$ 24,300
Note payable State Bank & Trust – MOB (B)	675,006	-	(117,466)	557,540	123,320
Note payable State Bank & Trust (C)	690,388	-	(42,495)	647,893	44,639
Capital lease obligations (D)	80,960	107,904	(98,215)	90,649	19,523
Zearing Note (E)	100,867	-	(13,600)	87,267	13,600
Hospital revenue refunding bonds series 2008A (G)	8,085,000	-	-	8,085,000	-
USDA Rural Development hospital revenue note (H)	184,870	-	(10,416)	174,454	10,413
Hospital revenue bonds series 2008B (I)	<u>7,605,000</u>	<u>-</u>	<u>-</u>	<u>7,605,000</u>	<u>295,000</u>
Total long-term debt	17,523,353	<u>\$ 107,904</u>	<u>\$ (306,116)</u>	17,325,141	<u>\$ 530,795</u>
Less unamortized discount	<u>(63,987)</u>			<u>(57,967)</u>	
	<u>\$17,459,366</u>			<u>\$17,267,174</u>	

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2010 and 2009

	Beginning Balance	2009		Ending Balance	Current Portion
		Additions	Deductions		
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 (E)	114,467	-	(13,600)	100,867	13,600
SBT-LOC Dairyland (F)	150,000	-	(150,000)	-	-
Hospital revenue refunding bonds series 2008A (G)	8,085,000	-	-	8,085,000	-
USDA Rural Development hospital revenue note (H)	195,171	-	(10,301)	184,870	10,400
Hospital revenue bonds series 2008B (I)	<u>7,605,000</u>	<u>-</u>	<u>-</u>	<u>7,605,000</u>	<u>-</u>
Total long-term debt	17,950,228	<u>\$ -</u>	<u>\$ (426,875)</u>	17,523,353	<u>\$ 288,885</u>
Less unamortized discount	<u>(69,971)</u>			<u>(63,987)</u>	
	<u>\$17,880,257</u>			<u>\$17,459,366</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 phone system. The lease requires monthly payments of principal and interest through July 2014 and has an effective interest rate of 8.17%.
- (E) 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.
- (F) 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.

Story County Hospital and Long-Term Care Facility
Notes to Financial Statements
June 30, 2010 and 2009

- (G) 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, 2010), reset at five year intervals, collateralized by hospital revenues other than taxation.
- (H) 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.
- (I) 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, 2010	Total to be Paid	Principal	Interest
2011	\$ 1,348,580	\$ 530,795	\$ 817,785
2012	1,324,805	553,818	770,987
2013	1,348,341	574,157	774,184
2014	1,317,856	570,109	747,747
2015	1,177,907	448,395	729,512
2016 – 2020	5,732,600	2,395,678	3,336,922
2021 – 2025	5,246,092	2,432,189	2,813,903
2026 – 2030	3,925,270	1,735,000	2,190,270
2031 – 2035	2,021,250	-	2,021,250
2036 – 2038	9,264,063	8,085,000	1,179,063
	<u>\$ 32,706,764</u>	<u>\$ 17,325,141</u>	<u>\$ 15,381,623</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.

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, 2010, the Hospital was in compliance with the required covenants.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2010 and 2009

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 \$486,661 and \$384,342 at June 30, 2010 and 2009, 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, Post Office Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members are required to contribute 4.3% and 4.1% of their annual covered salaries and the Hospital is required to contribute 6.65% and 6.35% of annual covered payroll for 2010 and 2009, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2010, 2009 and 2008 were \$497,000, \$441,000 and \$394,000, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.65% of annual covered salaries for 2010.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2010 and 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, 2010, excluding the Story County Hospital Foundation:

	Actual	Accrual Adjustments	Cash Basis	Budget	Difference
Revenues					
Amount to be raised					
by taxation	\$ 1,320,098	\$ -	\$ 1,320,098	\$ 1,369,676	\$ 49,578
Other revenues/ receipts	16,119,025	(330,248)	15,788,777	17,727,869	1,939,092
Total revenues	17,439,123	(330,248)	17,108,875	19,097,545	1,988,670
Less expenses/ disbursements	17,888,124	211,688	18,099,812	18,714,267	614,455
Change in net assets	(449,001)	(541,936)	(990,937)	383,278	1,374,215
Net assets, beginning of year	4,976,245	(2,503,586)	2,472,659	2,472,659	-
Net assets, end of year	\$ 4,527,244	\$ (3,045,522)	\$ 1,481,722	\$ 2,855,937	\$ 1,374,215

Supplementary Information

Story County Hospital and Long-Term Care Facility
Combining Balance Sheet
June 30, 2010

Assets

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 1,285,185	\$ 9,242		\$ 1,294,427
Short-term investments	524,894	630,000		1,154,894
Current held by trustee	1,040,353			1,040,353
Patient accounts receivable, net of allowance; 2010 – \$741,799	3,087,600			3,087,600
Property taxes receivable	1,354,134			1,354,134
Other receivables	6,092			6,092
Pledges receivable, current portion		193,420		193,420
Supplies	254,839			254,839
Prepaid expenses	206,234	4,819		211,053
	<u>7,759,331</u>	<u>837,481</u>		<u>8,596,812</u>
Noncurrent Cash, Deposits, Pledges and Investments				
Resident trust agreement	8,486			8,486
Externally restricted by donors	30,427	251,955		282,382
Pledges receivable, net of allowances Held by trustee	221,273	7,598		221,273
	<u>260,186</u>	<u>259,553</u>		<u>519,739</u>
Capital Assets, net	<u>16,482,891</u>	<u>-</u>		<u>16,482,891</u>
Other Assets				
Deferred financing costs (net of amortization; 2010 - \$61,178)	422,817			422,817
Total Assets	<u>\$ 24,925,225</u>	<u>\$ 1,097,034</u>	<u>\$ -</u>	<u>\$ 26,022,259</u>

Liabilities and Net Assets

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 530,795			\$ 530,795
Accounts payable	581,194			581,194
Accrued expenses	967,668			967,668
Estimated amounts due to third-party payers	208,000			208,000
Deferred revenue for property taxes	<u>1,354,134</u>			<u>1,354,134</u>
Total current liabilities	3,641,791			3,641,791
Long-term Debt	16,736,379			16,736,379
Other Long-term Liabilities				
Resident trust fund	<u>8,486</u>			<u>8,486</u>
Total liabilities	<u>20,386,656</u>			<u>20,386,656</u>
Net Assets				
Invested in capital assets, net of related debt	1,007,255			1,007,255
Restricted expendable				
Capital acquisitions		\$ 787,731		787,731
Debt service	1,062,844			1,062,844
By contributors and grantors	28,684	90,666		119,350
Unrestricted	<u>2,439,786</u>	<u>218,637</u>		<u>2,658,423</u>
Total net assets	<u>4,538,569</u>	<u>1,097,034</u>		<u>5,635,603</u>
Total Liabilities and Net Assets	<u>\$ 24,925,225</u>	<u>\$ 1,097,034</u>	<u>\$ -</u>	<u>\$ 26,022,259</u>

Story County Hospital and Long-Term Care Facility
Combining Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2010

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 16,700,918			\$ 16,700,918
Provision for uncollectible accounts	(867,830)			(867,830)
Net patient service revenue	<u>15,833,088</u>			<u>15,833,088</u>
Operating Expenses				
Salaries and wages	7,554,354	\$ 16,305		7,570,659
Employee benefits	1,702,635			1,702,635
Medical professional fees	1,706,869			1,706,869
Insurance	152,318			152,318
Supplies and other	4,698,586	43,372		4,741,958
Depreciation and amortization	1,301,446			1,301,446
Total operating expenses	<u>17,116,208</u>	<u>59,677</u>		<u>17,175,885</u>
Operating Loss	<u>(1,283,120)</u>	<u>(59,677)</u>		<u>(1,342,797)</u>
Nonoperating Revenues (Expenses)				
Property taxes	1,320,098			1,320,098
Investment income	27,821	(8,585)		19,236
Noncapital grants and gifts	10,684	36,796		47,480
Other	3,432	2,049		5,481
Interest	(771,916)			(771,916)
Total nonoperating revenues (expenses)	<u>590,119</u>	<u>30,260</u>		<u>620,379</u>
Deficit of Revenues Over Expenses Before Capital Grants and Gifts	(693,001)	(29,417)		(722,418)
Capital Grants and Gifts	11,325	15,690		27,015
Transfer (To) From Affiliate	<u>244,000</u>	<u>(244,000)</u>		<u>-</u>
Decrease in Net Assets	(437,676)	(257,727)		(695,403)
Net Assets, Beginning of Year	<u>4,976,245</u>	<u>1,354,761</u>		<u>6,331,006</u>
Net Assets, End of Year	<u>\$ 4,538,569</u>	<u>\$ 1,097,034</u>	<u>\$ -</u>	<u>\$ 5,635,603</u>

Story County Hospital and Long-Term Care Facility
Schedules of Patient Service Revenues – Hospital Only
Years Ended June 30, 2010 and 2009

	2010				2009			
	Total	Inpatient	Outpatient	LTC	Total	Inpatient	Outpatient	LTC
Daily Patient Services								
Medical and surgical	\$ 790,921	\$ 463,319	\$ 327,602		\$ 620,054	\$ 401,368	\$ 218,686	
Swing-bed	944,432	944,432			975,363	975,363		
Long-term care	2,971,537			\$ 2,971,537	2,936,200			\$ 2,936,200
	<u>4,706,890</u>	<u>1,407,751</u>	<u>327,602</u>	<u>2,971,537</u>	<u>4,531,617</u>	<u>1,376,731</u>	<u>218,686</u>	<u>2,936,200</u>
Other Professional Services								
Operating and recovery room	1,232,732	267,943	964,789		1,227,646	141,239	1,086,407	
Anesthesiology	133,586	23,900	109,686		159,620	23,019	136,601	
Radiology	2,055,635	150,113	1,905,522		1,743,252	154,452	1,588,800	
Laboratory	2,110,936	307,144	1,803,792		1,928,792	297,500	1,631,292	
Respiratory therapy	132,081	118,408	13,673		157,102	141,250	15,852	
Physical therapy	1,414,992	405,996	1,008,996		1,323,108	349,463	973,645	
Occupational therapy	338,590	168,078	170,512		277,461	148,925	128,536	
Speech therapy	9,213	5,150	4,063		18,571	6,263	12,308	
Electrocardiology	117,132	5,400	111,732		114,887	4,835	110,052	
Medical and surgical supplies	1,809,650	923,400	845,062	41,188	1,391,097	610,459	750,275	30,363
Pharmacy	1,708,678	910,798	545,844	252,036	1,624,778	881,075	466,422	277,281
Clinic	2,474,191		2,474,191		2,413,703	275	2,413,428	
Emergency room	1,405,077	7,002	1,398,075		1,067,747	5,772	1,061,975	
Ambulance	851,283		851,283		682,323		682,323	
Acupuncture	112,641		112,641		103,484		103,484	
Wellness center	34,734		34,734		35,161		35,161	
Orthopedic	101,273	27,624	73,649					
Miscellaneous	128,916		128,916		133,423		133,423	
	<u>16,171,340</u>	<u>3,320,956</u>	<u>12,557,160</u>	<u>293,224</u>	<u>14,402,155</u>	<u>2,764,527</u>	<u>11,329,984</u>	<u>307,644</u>
Gross Patient Service Revenue	20,878,230	\$ 4,728,707	\$ 12,884,762	\$ 3,264,761	18,933,772	\$ 4,141,258	\$ 11,548,670	\$ 3,243,844
Contractual Adjustments	(4,177,312)				(4,328,155)			
Net Patient Service Revenue before Provision for Uncollectible Accounts								
Provision for Uncollectible Accounts	16,700,918				14,605,617			
Net Patient Service Revenue	(867,830)				(698,320)			
	<u>\$ 15,833,088</u>				<u>\$ 13,907,297</u>			

Story County Hospital and Long-Term Care Facility
Schedules of Operating Expenses – Hospital Only
Years Ended June 30, 2010 and 2009

	2010			2009		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 92,222	\$ 84,831	\$ 7,391	\$ 78,151	\$ 71,933	\$ 6,218
Adults and pediatrics	1,318,499	1,036,422	282,077	1,211,760	984,606	227,154
Operating room	843,862	244,335	599,527	455,293	232,006	223,287
Emergency	731,595	239,901	491,694	600,141	180,218	419,923
	<u>2,986,178</u>	<u>1,605,489</u>	<u>1,380,689</u>	<u>2,345,345</u>	<u>1,468,763</u>	<u>876,582</u>
Other Professional Services						
Central supply	369,369	57,435	311,934	381,322	52,091	329,231
Medical records	226,308	173,697	52,611	208,287	170,209	38,078
Social service	144,785	140,263	4,522	136,313	134,793	1,520
Long-term care	1,603,550	1,380,622	222,928	1,570,960	1,244,089	326,871
Anesthesiology	41,406	-	41,406	58,879	-	58,879
Radiology	466,341	197,123	269,218	436,581	185,159	251,422
Laboratory	642,344	287,227	355,117	617,839	297,483	320,356
Respiratory therapy	26,346	12,979	13,367	39,374	12,979	26,395
Physical therapy	583,175	-	583,175	543,842	-	543,842
Occupational therapy	123,206	-	123,206	97,620	-	97,620
Speech pathology	5,512	-	5,512	17,125	-	17,125
Electrocardiology	51,477	37,346	14,131	52,948	36,947	16,001
Pharmacy	674,071	50,808	623,263	646,452	37,376	609,076
Zearing clinic	243,917	179,005	64,912	275,963	209,459	66,504
Nevada clinic	1,395,447	1,258,697	136,750	1,345,398	1,182,902	162,496
Maxwell clinic	179,912	140,331	39,581	204,403	148,476	55,927
Slater clinic	121,227	76,132	45,095	101,284	66,816	34,468
After-hours clinic	-	-	-	5,247	-	-
Ambulance	311,296	258,537	52,759	322,711	264,851	57,860
Wellness center	125,129	109,417	15,712	151,667	141,242	10,425
Psychologist	116	-	116	154	-	154
Acupuncture	96,730	63,965	32,765	89,613	58,853	30,760
Orthopedic	67,004	-	67,004	-	-	-
	<u>7,498,668</u>	<u>4,423,584</u>	<u>3,075,084</u>	<u>7,303,982</u>	<u>4,248,972</u>	<u>3,055,010</u>
General Services						
Operation of plant	585,311	144,419	440,892	436,112	152,062	284,050
Laundry and linen	64,296	38,387	25,909	54,720	40,191	14,529
Housekeeping	279,062	216,215	62,847	252,991	207,839	45,152
Dietary	791,814	410,460	381,354	580,156	333,701	246,455
	<u>1,720,483</u>	<u>809,481</u>	<u>911,002</u>	<u>1,323,979</u>	<u>733,793</u>	<u>590,186</u>
Administrative Services	1,754,480	715,800	1,038,680	1,508,699	540,653	968,046
Employee Benefits	1,702,635	-	1,702,635	1,486,263	-	1,486,263
Depreciation	1,301,446	-	1,301,446	552,664	-	552,664
Insurance	152,318	-	152,318	158,765	-	158,765
	<u>\$ 17,116,208</u>	<u>\$ 7,554,354</u>	<u>\$ 9,561,854</u>	<u>\$ 14,679,697</u>	<u>\$ 6,992,181</u>	<u>\$ 7,687,516</u>

Story County Hospital and Long-Term Care Facility

Schedules of Patient Receivables and Allowance for Uncollectible Accounts Years Ended June 30, 2010 and 2009

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2010	2009	2010	2009
Days Since Discharge				
0 – 30	\$ 1,853,773	\$ 1,563,577	40 %	36 %
31 – 60	485,612	446,484	10	11
61 – 90	500,246	397,272	11	9
91 – 120	610,698	268,585	13	6
Over four months	1,241,862	1,627,970	26	38
	4,692,191	4,303,888	100 %	100 %
Less contractual allowances	862,792	951,425		
	3,829,399	3,352,463		
Less allowance for uncollectible accounts	741,799	634,111		
	\$ 3,087,600	\$ 2,718,352		

Allowance for Uncollectible Accounts

	2010	2009
Balance, beginning of year	\$ 634,111	\$ 694,423
Provision for year (before reduction for recoveries)	966,999	789,885
Recoveries of accounts previously written off	99,169	91,565
Reclassification to contractual adjustments	107,914	52,297
	1,808,193	1,628,170
Less accounts written off	1,066,394	994,059
Balance, end of year	\$ 741,799	\$ 634,111

Story County Hospital and Long-Term Care Facility
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2010 and 2009

Supplies

	<u>2010</u>	<u>2009</u>
Central stores	\$ 44,862	\$ 42,488
Pharmacy	99,779	91,092
Laboratory	39,792	41,419
Dietary	19,519	22,542
Operating room	33,896	40,793
Emergency room	4,299	2,121
Radiology	3,319	5,642
Other	9,373	12,313
	<u>\$ 254,839</u>	<u>\$ 258,410</u>

Prepaid Expenses

	<u>2010</u>	<u>2009</u>
Insurance	\$ 49,876	\$ 37,476
Maintenance and other	161,177	129,989
	<u>\$ 211,053</u>	<u>\$ 167,465</u>

Story County Hospital and Long-Term Care Facility
Schedule of Officials
Year Ended June 30, 2010

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, 2010 and 2009

	2010	2009
Patient Days (Exclusive of Swing-bed)		
Medicare	399	407
Medicaid	59	22
Private and other	199	170
	<u>657</u>	<u>599</u>
Medicare and Medicaid Percent	<u>69.7%</u>	<u>71.6%</u>
Percent of Occupancy (Acute)	<u>10.0%</u>	<u>6.8%</u>
Discharges (Exclusive of Swing-bed)		
Medicare	146	118
Medicaid	23	9
Private and other	71	62
	<u>240</u>	<u>189</u>
Average Length of Stay in Days	<u>2.7</u>	<u>3.2</u>

**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, 2010, and have issued our report thereon dated October 22, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

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

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 October 22, 2010.

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, 2010 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, 2010. 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, 2010.

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, 2010 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 others within the Hospital and is not intended to be, and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City, Missouri
October 22, 2010

Story County Hospital and Long-Term Care Facility
Schedule of Findings and Responses
Year Ended June 30, 2010

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, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

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

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

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

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

Deficiencies

Journal Entries

During our testing, we noted there is no review of journal entries posted by the Chief Financial Officer. We recommend procedures be developed for review of these entries by the Chief Executive Officer or the ability of the Chief Financial Officer to post journal entries be removed. Changing this process will allow management to perform a proper formal review of all entries posted by the personnel they are supervising.

Additionally, we noted the accounting system currently allows one-sided journal entries and journal entries with duplicate numbers to be posted in the general ledger. We recommend controls be implemented that prevent one-sided and duplicate entries from being posted. These controls along with a proper review of journal entries will assist in reducing the number of correcting journal entries posted during the year.

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.

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 financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

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 protracted economic decline continues to present difficult circumstances and challenges for the health care industry. As a result, hospitals are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, 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, including:

- Challenge the quality and values of investments
- Review and monitor allowances for uncollectible accounts
- Evaluate financing needs and liquidity plans

* * * * *

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