

**Story County Hospital and
Long-Term Care Facility**
Nevada, Iowa

**Financial Statements
June 30, 2011 and 2010**

Together with Independent Auditor's Report

Story County Hospital and Long-Term Care Facility

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Story County Hospital and Long-Term Care Facility

Officials
June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Trustees:		
David Anderson	Chairman	December 2014
Glenda Bradshaw	Member	December 2016
Gaylan Scofield	Secretary / Treasurer	December 2016
Elizabeth Hertz	Member	December 2012
Patrick Sheets	Vice Chairman	December 2012
James Wright Jr.	Member	December 2016
Rick Hugdahl	Member	December 2014
Hospital Officials:		
Todd Willert	Chief Executive Officer	
Jane Ramthun	Chief Financial Officer	

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of Story County Hospital and Long-Term Care Facility (Hospital) as of and for the year ended June 30, 2011, as listed in the table of contents. 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 audit. The financial statements of the Hospital for the year ended June 30, 2010, were audited by other auditors whose report, dated October 22, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 audit provide a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2011, and the results of its operations, changes in net assets, and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2011 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, 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.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 6 and page 24 are not required parts of the basic financial statements but are supplementary information required by the Government 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. We did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. Other supplementary information included in Exhibits 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

SEIM JOHNSON, LLP

Omaha, Nebraska,
September 23, 2011.

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis June 30, 2011 and 2010

This discussion and analysis of Story County Hospital and Long-Term Care Facility (Hospital) financial performance provides an overview of financial activities for the fiscal years ended June 30, 2011 and 2010. This discussion and analysis should be read in conjunction with financial statements, which begin on page 7.

Financial Highlights

- The Hospital's net assets decreased in 2011 by \$352,891 or 6%. In 2010, net assets decreased by \$695,403 or 11%.
- The Hospital reported a decrease in operating loss for 2011 of \$263,932 at a loss of \$1,799,271 compared to a loss of \$2,063,203 in 2010.
- The Hospital's non-operating revenues increased by \$105,295 in 2011 compared to 2010.

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 financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Analysis of the Hospital's finances begins on page 7. The Balance Sheet and the Statement of Revenue, Expenses, and Changes in Net Assets report information about the Hospital's resources and activities in a way that helps answer the question of whether the Hospital, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue 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. Over time, increases or decreases in net assets are an indicator of whether its financial health is improving or deteriorating. To access the overall health of the Hospital, non-financial factors, such as changes in the patient base of the Hospital and measures of the quality of service it provides to the community, as well as local economic factors, need to be considered.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

Net Assets

The Hospital's net assets are the difference between assets and liabilities reported in the Balance Sheet on page 7. The Hospital's net assets decreased this past year by \$352,891 or 6% as shown in **Table 1**.

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis June 30, 2011 and 2010

Table 1: Assets, Liabilities, and Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets:					
Total current assets	\$ 8,129,485	7,798,142	7,704,027	331,343	4%
Capital assets, net	15,953,614	16,482,891	15,679,928	(529,277)	-3%
Assets limited as to use or restricted	1,367,676	1,216,438	3,759,505	151,238	12%
Other non-current assets	397,999	430,415	471,793	(32,416)	-8%
Total assets	\$ 25,848,774	25,927,886	27,615,253	(79,112)	0%
Liabilities:					
Long-term debt	\$ 16,669,738	17,267,174	17,459,366	(597,436)	-3%
Estimated third-party payor settlements	707,500	208,000	169,000	499,500	240%
Other current and non-current liabilities	3,188,824	2,817,109	3,655,881	371,715	13%
Total liabilities	20,566,062	20,292,283	21,284,247	273,779	1%
Net Assets:					
Net assets	5,282,712	5,635,603	6,331,006	(352,891)	-6%
Total liabilities and net assets	\$ 25,848,774	25,927,886	27,615,253	(79,112)	0%

Operating Results and Changes in Net Assets

In 2011, the Hospital's operating revenue increased by \$973,288 and the loss from operations improved by \$263,932. Total net assets decreased by \$352,891 or 6% as shown in **Table 2**. The majority of this decrease is caused by depreciation of capital assets.

Table 2: Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:					
Net patient service revenue	\$ 17,842,230	16,562,761	14,474,383	1,279,469	7%
Provision for bad debt	(1,183,619)	(875,060)	(701,564)	(308,559)	26%
Other operating revenue	132,366	129,988	140,708	2,378	2%
Total operating revenue	16,790,977	15,817,689	13,913,527	973,288	6%
Operating Expenses:					
Salaries and employee benefits	10,189,032	9,293,571	8,507,712	895,461	9%
Purchased services and other	6,325,582	6,513,959	5,616,106	(188,377)	-3%
Depreciation and amortization	1,249,034	1,301,446	552,664	(52,412)	-4%
Interest	826,600	771,916	82,986	54,684	7%
Total operating expenses	18,590,248	17,880,892	14,759,468	709,356	4%
Operating income (loss)	(1,799,271)	(2,063,203)	(845,941)	263,932	

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Non-Operating Revenue and Expenses					
County tax revenue	1,383,351	1,320,098	1,252,331	63,253	5%
Investment income	48,704	19,236	77,435	29,468	61%
Other non-operating revenue	14,025	1,451	(9,795)	12,574	90%
Total non-operating revenue, net	<u>1,446,080</u>	<u>1,340,785</u>	<u>1,319,971</u>	<u>105,295</u>	<u>7%</u>
Excess of revenue over (under) expenses	(353,191)	(722,418)	474,030	369,227	-105%
Capital grants and contributions	<u>300</u>	<u>27,015</u>	<u>126,306</u>	(26,715)	-99%
Increase (decrease) in net assets	(352,891)	(695,403)	600,336	342,512	-97%
Net assets – beginning of year	<u>5,635,603</u>	<u>6,331,006</u>	<u>5,730,670</u>	<u>(695,403)</u>	<u>-12%</u>
Net assets – end of year	<u>\$ 5,282,712</u>	<u>5,635,603</u>	<u>6,331,006</u>	<u>(352,891)</u>	<u>-7%</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income —generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The primary components affecting operating income are:

- Rate and volume increases.
- Medicare/Medicaid Cost Report Settlements and other third party contractual relationships.
- Salary adjustments to stay competitive.
- Employee health insurance.
- Professional/Physician contracts for ancillary departments.

A component of the Hospital's costs is expenses for salaries and benefits. In 2011 salaries and benefit costs totaled \$10,189,032. In 2010 salaries and benefit costs totaled \$9,293,571. Part of the reason for the increase of 9% is that the Hospital added 12.86 full time equivalent employees.

The Hospital at times provides care for patients who have little or no health insurance or other means of repayment. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital.

Non-operating Revenues and Expenses

Non-operating revenues consist primarily of property taxes levied for the Hospital, interest revenue, and investment earnings. The county tax levy amounted to \$1,383,351 in 2011 and \$1,320,098 in 2010.

Cash Flows

Changes in cash flows are consistent with changes in operating income and non-operating revenues and expenses, discussed earlier. Cash flows provided by operating activities increase in 2011 due to reduction in patient accounts receivable and increase in estimated third-party payor settlements.

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis June 30, 2011 and 2010

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Hospital had \$15,953,614 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2011, the Hospital purchased new equipment costing \$692,000. Approximately \$2,511,000 was spent to acquire new equipment in 2010.

Debt

At fiscal year-end, the Hospital had nearly \$16,670,000 in debt outstanding. No new debt was issued in 2011. The Hospital entered into a capital lease agreement in 2010.

Other Economic Factors

The 2011 fiscal year provided the Hospital substantial challenges due to federal program reimbursement requirements, pressures from other insurers, and the fluctuation of patient demand.

Inflation continued in 2011 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals.

Contacting Hospital Financial Management

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of the Hospital finances. Questions about this report or requests for additional information should be directed to:

Story County Hospital
Attn: Todd Willert, CEO
640 S. 19th Street
Nevada IA 50201
515-382-2111

Story County Hospital and Long-Term Care Facility

Balance Sheets June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,481,132	1,273,057
Short-term investments	1,684,714	1,154,894
Assets limited as to use or restricted, current portion	366,664	357,426
Receivables -		
Patients, net of estimated uncollectible accounts of \$711,362 in 2011 and \$859,602 in 2010, respectively	2,609,666	2,990,464
Other	6,263	8,855
Pledges, current portion	34,610	193,420
Inventories	269,900	254,839
Other current assets	258,729	211,053
Succeeding year property tax receivable	1,417,807	1,354,134
Total current assets	<u>8,129,485</u>	<u>7,798,142</u>
Pledges receivable, net of current portion	2,864	7,598
Assets limited as to use or restricted	1,367,676	1,216,438
Capital assets, net	15,953,614	16,482,891
Deferred financing costs	395,135	422,817
Total assets	<u>\$ 25,848,774</u>	<u>25,927,886</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 529,663	530,795
Accounts payable	694,070	483,971
Accrued salaries, vacation and benefits payable	1,005,008	905,592
Estimated third-party payor settlements	707,500	208,000
Accrued interest payable	63,664	64,926
Deferred revenue for succeeding year property tax receivable	1,417,807	1,354,134
Total current liabilities	<u>4,417,712</u>	<u>3,547,418</u>
Resident trust funds	8,275	8,486
Long-term debt, net of unamortized discount and current portion	16,140,075	16,736,379
Total liabilities	<u>20,566,062</u>	<u>20,292,283</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	1,325,431	1,257,272
Restricted	1,716,726	2,161,393
Unrestricted	2,240,555	2,216,938
Total net assets	<u>5,282,712</u>	<u>5,635,603</u>
Total liabilities and net assets	<u>\$ 25,848,774</u>	<u>25,927,886</u>

See notes to financial statements

Story County Hospital and Long-Term Care Facility

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 17,842,230	16,562,761
Provision for bad debt	<u>(1,183,619)</u>	<u>(875,060)</u>
Net patient service revenue	16,658,611	15,687,701
Other operating revenue	<u>132,366</u>	<u>129,988</u>
Total operating revenue	<u>16,790,977</u>	<u>15,817,689</u>
OPERATING EXPENSES:		
Salaries	8,287,032	7,608,053
Employee benefits	1,902,000	1,685,518
Professional fees and purchased services	1,672,903	1,608,660
Supplies and other	4,511,652	4,752,981
Insurance	141,027	152,318
Depreciation and amortization	1,249,034	1,301,446
Interest	<u>826,600</u>	<u>771,916</u>
Total operating expenses	<u>18,590,248</u>	<u>17,880,892</u>
OPERATING LOSS	<u>(1,799,271)</u>	<u>(2,063,203)</u>
NONOPERATING REVENUE (EXPENSES):		
County tax revenues	1,383,351	1,320,098
Investment income	48,704	19,236
Noncapital grants and contributions	72,069	47,480
Fundraising, net	(19,353)	(59,677)
Other, net	<u>(38,691)</u>	<u>13,648</u>
Nonoperating revenues, net	<u>1,446,080</u>	<u>1,340,785</u>
EXCESS EXPENSES OVER REVENUE BEFORE GRANTS AND CONTRIBUTIONS	(353,191)	(722,418)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>300</u>	<u>27,015</u>
DECREASE IN NET ASSETS	(352,891)	(695,403)
NET ASSETS, Beginning of year	<u>5,635,603</u>	<u>6,331,006</u>
NET ASSETS, End of year	<u>\$ 5,282,712</u>	<u>5,635,603</u>

See notes to financial statements

Story County Hospital and Long-Term Care Facility

Statements of Cash Flows For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 17,538,909	15,455,085
Cash paid for employee salaries and benefits	(8,187,616)	(7,522,867)
Cash paid to suppliers and contractors	(8,077,628)	(8,646,555)
Other receipts and payments, net	<u>132,366</u>	<u>129,988</u>
Net cash provided by (used in) operating activities	<u>1,406,031</u>	<u>(584,349)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	72,069	47,480
Fundraising, net	144,191	219,789
Other, net	(38,302)	25,873
County tax receipts	<u>1,383,351</u>	<u>1,320,098</u>
Net cash provided by noncapital financing activities	<u>1,561,309</u>	<u>1,613,240</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment, net	(692,375)	(2,510,913)
Interest payments	(827,862)	(771,916)
Principal payments on long-term debt	<u>(597,436)</u>	<u>(300,096)</u>
Net cash used in capital and related financing activities	<u>(2,117,673)</u>	<u>(3,582,925)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in investments and assets limited as to use or restricted, net	(690,296)	2,213,193
Investment income	<u>48,704</u>	<u>19,236</u>
Net cash provided by (used in) investing activities	<u>(641,592)</u>	<u>2,232,429</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	208,075	(321,605)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,273,057</u>	<u>1,594,662</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,481,132</u>	<u>1,273,057</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
The Hospital entered into capital lease obligations for new equipment	--	107,904

See notes to financial statements

Story County Hospital and Long-Term Care Facility

Statements of Cash Flows (Continued) For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (1,799,271)	(2,063,203)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,249,034	1,301,446
Interest expense included in operating expenses	826,600	771,916
(Increase) decrease in current assets -		
Receivables -		
Patients	380,798	(271,616)
Other	2,592	(4,101)
Inventories	(15,061)	3,571
Other current assets	(47,676)	(43,588)
Increase (decrease) in current liabilities -		
Accounts payable	210,099	(402,960)
Accrued salaries, vacation and benefits payable	99,416	85,186
Estimated third-party payor settlements	499,500	39,000
Net cash provided by (used in) operating activities	\$ <u>1,406,031</u>	<u>(584,349)</u>

See notes to financial statements

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a description of the reporting entity and a summary of significant accounting policies of Story County Hospital and Long-Term Care Facility (Hospital). These policies are in accordance with generally accepted accounting principles. The Hospital is a Critical Access Hospital, operating with 17 acute-care beds and 80 long-term care beds. The Hospital also has related health care ancillary and outpatient services.

A. Reporting Entity

Generally accepted accounting principles require the financial reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. 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.

B. Industry Environment

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

C. Basis of Presentation

The Balance Sheets display the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

Restricted net assets – This component of net assets results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activities, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees and under debt agreements.

G. Investments

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of expenses over revenue unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of expenses over revenue unless the investments are trading securities. Periodically the Hospital reviews its investments to determine whether any unrealized losses are other than temporary. During 2011 and 2010, there were no investment declines that were determined to be other than temporary.

H. Patient Receivables, Net

Net patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

I. Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

J. Property Tax Receivable

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 year 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.

K. Assets Limited as to Use or Restricted

Assets limited as to use or restricted include the following:

By Board of Trustees - Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and debt retirement. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

By Donors - These funds are maintained by the Hospital according to the terms of donor restrictions to a specific time period or purpose.

By Debt Agreements - These funds are reserve funds held as security for the Series 2008A and 2008B bonds. These funds are used for the payment of principal and interest on the Series 2008A and 2008B bonds when insufficient funds are available in the sinking or construction funds.

L. Fair Value of Financial Instruments

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use or restricted, accounts receivable, and accounts payable approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities. The carrying value of long-term debt approximates fair value since the interest rates closely reflect current market rates.

M. Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

Land improvements	5 to 30 years
Buildings and building improvements	5 to 40 years
Equipment, computers and furniture	3 to 20 years

The Hospital's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of expenses over revenue, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

N. Deferred Financing Costs

Deferred financing costs related to the issuance of the Hospital revenue refunding bonds are being amortized over the life of the related bonds under the straight-line and effective interest method. Amortization expense of \$27,682 and \$28,455 for 2011 and 2010, respectively, is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net assets.

O. *Compensated Absences*

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. Accrued compensated absences payable at June 30, 2011 and 2010 was \$511,012 and \$458,971, respectively.

P. *Income Taxes*

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Story, Iowa. As such, the Hospital is exempt from paying income taxes. 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.

Q. *Excess of Expenses Over Revenue*

The statements of revenue, expenses and changes in net assets include excess of expenses over revenue as a performance indicator. Changes in unrestricted net assets that are excluded from excess of expenses over revenue, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

R. *Net Patient Service Revenue*

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

S. *Grants and Contributions*

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

T. *Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination. Charges excluded from patient service revenue under the Hospital's charity care policy were \$384,534 and \$384,433, for 2011 and 2010, respectively.

U. *County Tax Revenue*

Taxes are included in nonoperating gains when received and distributed by the Country Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

V. *Risk Management*

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

W. *Reclassification*

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 reporting format.

X. *Subsequent Events*

The Hospital considered events occurring through September 23, 2011 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

(2) Cash, Investments and Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2011 and 2010 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.

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

The Hospital manages the following risks in accordance with their formal investment policy:

Credit Risk: Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2011 and 2010, the Hospital is invested in certificate of deposits and mutual funds that are not rated.

Interest Rate Risk: The Hospital has a formal investment policy that limits investment maturities to 397 days or less as a means of managing its exposure to fair value losses arising from changes in interest rates for current operating funds (funds which are reasonably expected to be used for the operation of the hospital within fifteen months). Other investments are to have maturities consistent with the needs of the Hospital.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Hospital's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Hospital's agent in the Hospital's name.

The composition of investments and assets limited as to use or restricted as of June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Investments:		
Operating reserves:		
Cash and cash equivalents	\$ 382	2,308
Certificates of deposit	1,684,332	1,152,586
Total investments	<u>\$ 1,684,714</u>	<u>1,154,894</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for capital improvements:		
Cash and cash equivalents	<u>\$ 348,055</u>	<u>--</u>
By Donor:		
Cash and cash equivalents	55,068	200,202
Corporate stock	84,262	90,660
	<u>139,330</u>	<u>290,868</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
By Debt Agreements:		
Reserve accounts:		
Cash and cash equivalents	18,500	21,370
Certificates of deposit	1,074,315	1,062,844
Government money market funds	154,140	198,782
	<u>1,246,955</u>	<u>1,282,996</u>
 Total assets limited as to use or restricted	 1,734,340	 1,573,864
 Less amounts required to meet current obligations	 <u>366,664</u>	 <u>357,426</u>
 Long-term portion	 \$ <u>1,367,676</u>	 <u>1,216,438</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 39,511	14,324
Change in unrealized gain, net	<u>9,193</u>	<u>4,912</u>
 Total investment return	 \$ <u>48,704</u>	 <u>19,236</u>

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2009.

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. This basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

The following illustrates the Hospital's patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 5,137,122	4,737,387
Outpatient	11,755,361	10,195,989
Long-term care	3,589,024	3,334,013
Clinics	<u>2,728,852</u>	<u>2,472,684</u>
Total gross patient service revenue	<u>23,210,359</u>	<u>20,740,073</u>
Deductions from patient service revenue:		
Medicare	2,380,584	1,611,836
Medicaid	936,478	743,228
Other payors	1,666,533	1,437,815
Charity care	<u>384,534</u>	<u>384,433</u>
Total deductions from patient service revenue	<u>5,368,129</u>	<u>4,177,312</u>
Net patient service revenue before provision for bad debt	<u>\$ 17,842,230</u>	<u>16,562,761</u>

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 33% and 18%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2011 compared to 36% for Medicare and 16% for Medicaid in 2010. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation.

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Patient receivables	\$ 3,932,792	4,595,055
Less estimated third-party contractual adjustments	(611,764)	(744,989)
Less allowance for doubtful accounts	<u>(711,362)</u>	<u>(859,602)</u>
	<u>\$ 2,609,666</u>	<u>2,990,464</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

The Hospital is located in Nevada, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	24%	37%
Medicaid	11	10
Other third-party payors	31	27
Private pay	34	26
	<u>100%</u>	<u>100%</u>

(5) Pledges Receivable

During November 2006, the Foundation began a capital campaign to assist in funding the construction of a new hospital facility. A discount rate of 6% was used in 2011 and 2010. Pledges receivable consisted of the following:

	<u>2011</u>	<u>2010</u>
Due within one year	\$ 34,610	193,420
Due in two to five years	5,200	19,937
	<u>39,810</u>	<u>213,357</u>
Less allowance for uncollectible pledges	<u>(2,336)</u>	<u>(12,339)</u>
	<u>\$ 37,474</u>	<u>201,018</u>

(6) Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010 were as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2011</u>
Capital assets, not being depreciated:				
Land	\$ 424,226	10,000	(112,604)	321,622
Construction in progress	11,219	704,567	(584,833)	130,953
Total capital assets, not being depreciated	<u>435,445</u>	<u>714,567</u>	<u>(697,437)</u>	<u>452,575</u>
Capital assets, being depreciated:				
Land improvements	1,265,043	--	--	1,265,043
Building and leasehold improvements	16,321,107	34,158	--	16,355,265
Fixed equipment	2,773,497	37,189	(70,289)	2,740,397
Major movable equipment	3,789,502	619,708	(453,294)	3,955,916
Total capital assets, being depreciated	<u>24,149,149</u>	<u>691,055</u>	<u>(523,583)</u>	<u>24,316,621</u>
Less accumulated depreciation:				
Land improvements	177,780	112,005	--	289,785
Building and leasehold improvements	3,951,509	711,735	--	4,663,244
Fixed equipment	1,394,118	132,618	(62,552)	1,464,184
Major movable equipment	2,578,296	264,994	(444,921)	2,398,369
Total accumulated depreciation	<u>8,101,703</u>	<u>1,221,352</u>	<u>(507,473)</u>	<u>8,815,582</u>
Total capital assets, being depreciated, net	<u>16,047,446</u>	<u>(530,297)</u>	<u>(16,110)</u>	<u>15,501,039</u>
Total capital assets, net	<u>\$ 16,482,891</u>	<u>184,270</u>	<u>(713,547)</u>	<u>15,953,614</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 423,286	940	--	424,226
Construction in progress	11,919,753	1,734,320	(13,642,854)	11,219
Total capital assets, not being depreciated	<u>12,343,039</u>	<u>1,735,260</u>	<u>(13,642,854)</u>	<u>435,445</u>
Capital assets, being depreciated:				
Land improvements	97,523	1,167,520	--	1,265,043
Building and leasehold improvements	5,039,456	11,281,651	--	16,321,107
Fixed equipment	2,228,094	636,309	(90,906)	2,773,497
Major movable equipment	3,055,744	928,065	(194,307)	3,789,502
Total capital assets, being depreciated	<u>10,420,817</u>	<u>14,013,545</u>	<u>(285,213)</u>	<u>24,149,149</u>
Less accumulated depreciation:				
Land improvements	74,343	103,437	--	177,780
Building and leasehold improvements	3,290,753	660,756	--	3,951,509
Fixed equipment	1,322,313	159,492	(87,687)	1,394,118
Major movable equipment	2,396,519	349,306	(167,529)	2,578,296
Total accumulated depreciation	<u>7,083,928</u>	<u>1,272,991</u>	<u>(255,216)</u>	<u>8,101,703</u>
Total capital assets, being depreciated, net	<u>3,336,889</u>	<u>12,740,554</u>	<u>(29,997)</u>	<u>16,047,446</u>
Total capital assets, net	<u>\$ 15,679,928</u>	<u>14,475,814</u>	<u>(13,672,851)</u>	<u>16,482,891</u>

(7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2011 and 2010 consisted of the following:

	June 30, 2010	Borrowings	Payments	June 30, 2011	Due Within One Year
U.S. Bank (A)	\$ 77,338	--	(25,163)	52,175	26,460
State Bank & Trust - MOB (B)	557,540	--	(123,295)	434,245	129,436
State Bank & Trust (C)	647,893	--	(44,634)	603,259	44,615
Capital Lease Obligations (D)	90,649	--	(90,649)	--	--
Zearing Note (E)	87,267	--	(13,600)	73,667	13,600
Series 2008A (F)	8,085,000	--	--	8,085,000	--
USDA Rural Development (G)	174,454	--	(10,866)	163,588	10,552
Series 2008B (H)	7,605,000	--	(295,000)	7,310,000	305,000
	<u>\$ 17,325,141</u>	<u>--</u>	<u>(603,207)</u>	<u>16,721,934</u>	<u>529,663</u>
Less unamortized discount	<u>(57,967)</u>			<u>(52,196)</u>	
	<u>\$ 17,267,174</u>			<u>16,669,738</u>	
	June 30, 2009	Borrowings	Payments	June 30, 2010	Due Within One Year
U.S. Bank (A)	\$ 101,262	--	(23,924)	77,338	24,300
State Bank & Trust - MOB (B)	675,006	--	(117,466)	557,540	123,320
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
Series 2008A (F)	8,085,000	--	--	8,085,000	--
USDA Rural Development (G)	184,870	--	(10,416)	174,454	10,413
Series 2008B (H)	7,605,000	--	--	7,605,000	295,000
	<u>17,523,353</u>	<u>107,904</u>	<u>(306,116)</u>	<u>17,325,141</u>	<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, 2011 and 2010

- (A) The note payable to the bank requires monthly payments of \$2,375 with interest at 4.99%; collateralized by revenues; due May 2013.
- (B) The note payable to the bank requires monthly payments of \$13,300 with interest at 4.85%; collateralized by revenues; due May 2015.
- (C) The note payable to the bank requires 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%. This lease was paid off in February 2011.
- (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) 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, 2011), reset at five year intervals (next reset is May 2013), collateralized by hospital revenues other than taxation.
- (G) 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.
- (H) Series 2008B Revenue Bonds, issued in the original amount of \$7,605,000 as serial bonds due in varying amounts through 2028 with interest at 3.30% to 5.05%, collateralized by hospital revenues other than taxation.

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. In accordance with the bond agreements, the Hospital has established debt service, construction, principal, and interest reserve funds that are included on the balance sheet as assets limited as to use or restricted. 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, 2011, the Hospital was in compliance with the required covenants.

A summary of the Hospital's future principal and interest payments as of June 30, 2011 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 529,665	744,517	1,274,182
2013	551,240	734,766	1,286,006
2014	545,251	723,388	1,268,639
2015	447,154	716,266	1,163,420
2016	434,034	708,816	1,142,850
2017 – 2021	2,413,477	3,325,616	5,739,093
2022 – 2026	2,531,113	2,905,897	5,437,010
2027 – 2031	1,785,000	2,172,025	3,957,025
2032 – 2036	--	1,871,250	1,871,250
2037 – 2038	7,485,000	748,500	8,233,500
	<u>\$ 16,721,934</u>	<u>14,651,041</u>	<u>31,372,975</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

The Hospital capitalized 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. A summary of interest expense during the years ended June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Interest cost:		
Expense incurred on borrowing for project	\$ --	66,426
Proceeds on borrowings for project	--	4,090
	<u> </u>	<u> </u>
Capitalized Expense	--	62,336
	826,600	771,916
	<u> </u>	<u> </u>
	\$ 826,600	834,252
	<u> </u>	<u> </u>

(8) Net Asset Balances

Temporarily restricted net assets are restricted for the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
By donors for capital assets	\$ 469,771	878,397
By debt agreement -		
Debt service reserve fund	1,074,315	1,062,844
Interest reserve fund	71,228	141,312
Construction reserve fund	57,480	57,470
Principal reserve fund	43,932	--
	<u> </u>	<u> </u>
	\$ 1,716,726	2,161,393
	<u> </u>	<u> </u>

(9) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and \$3,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare 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.

(10) Pension Plan

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2011 and 2010

Plan members are required to contribute 4.50% of their annual salary and the Hospital is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$572,000, \$504,000, and \$442,000, respectively, equal to the required contributions for each year.

(11) Commitments and Contingencies

Litigation – The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Hospital's future financial position or results from operations.

Operating Leases – The Hospital leases certain equipment under operating leases expiring at various dates though December 2015. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2011, that have initial lease terms in excess of one year:

2012	\$ 286,451
2013	247,185
2014	88,736
2015	4,588
2016	<u>2,040</u>
	<u>\$ 629,000</u>

(12) Deferred Compensation Plan

The Hospital offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all Hospital employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The plan complies with IRC Section 457, which requires the plan to hold its assets in trust. Under these requirements, the Hospital does not own the amounts deferred by employees and, therefore, the liability and corresponding investment is not reflected in the financial statements. The plan assets totaled \$616,434 and \$486,661 as of June 30, 2011 and 2010, respectively.

(13) Risks and Uncertainties

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Story County Hospital and Long-Term Care Facility

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets – Budget and Actual (Accrual Basis) June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2011, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 1,383,351	--	1,383,351	1,414,006	(30,655)
Add: Other revenues / receipts	17,299,789	879,998	18,179,787	19,260,094	(1,080,307)
Less: Expenses / disbursements	<u>18,628,939</u>	<u>727,173</u>	<u>19,356,112</u>	<u>20,101,857</u>	<u>745,745</u>
Net	54,201	152,825	207,026	572,243	<u>(518,042)</u>
Balance beginning of year	<u>4,538,569</u>	<u>(3,253,384)</u>	<u>1,285,185</u>	<u>4,617,691</u>	
Balance end of year	<u>\$ 4,592,770</u>	<u>(3,100,559)</u>	<u>1,492,211</u>	<u>5,189,934</u>	

Combining Balance Sheet
June 30, 2011

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,473,711	7,421	--	1,481,132
Short-term investments	1,147,444	537,270	--	1,684,714
Assets limited as to use or restricted, current portion	366,664	--	--	366,664
Receivables -				
Patients, net of estimated uncollectible accounts of \$711,362 in 2011	2,609,666	--	--	2,609,666
Other	6,263	--	--	6,263
Pledges, current portion	--	34,610	--	34,610
Inventories	269,900	--	--	269,900
Other current assets	255,573	3,156	--	258,729
Succeeding year property tax receivable	1,417,807	--	--	1,417,807
Total current assets	7,547,028	582,457	--	8,129,485
Pledges receivable, net of current portion	--	2,864	--	2,864
Assets limited as to use or restricted	1,263,055	104,621	--	1,367,676
Capital assets, net	15,953,614	--	--	15,953,614
Deferred financing costs	395,135	--	--	395,135
Total assets	<u>\$ 25,158,832</u>	<u>689,942</u>	<u>--</u>	<u>25,848,774</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term debt	\$ 529,663	--	--	529,663
Accounts payable	694,070	--	--	694,070
Accrued salaries, vacation and benefits payable	1,005,008	--	--	1,005,008
Estimated third-party payor settlements	707,500	--	--	707,500
Accrued interest payable	63,664	--	--	63,664
Deferred revenue for succeeding year property tax receivable	1,417,807	--	--	1,417,807
Total current liabilities	4,417,712	--	--	4,417,712
Resident trust funds	8,275	--	--	8,275
Long-term debt, net of unamortized discount and current portion	16,140,075	--	--	16,140,075
Total liabilities	<u>20,566,062</u>	<u>--</u>	<u>--</u>	<u>20,566,062</u>
Commitments and contingencies				
Net assets:				
Invested in capital assets, net of related debt	1,325,431	--	--	1,325,431
Restricted	1,246,955	473,821	--	1,720,776
Unrestricted	2,020,384	216,121	--	2,236,505
Total net assets	4,592,770	689,942	--	5,282,712
Total liabilities and net assets	<u>\$ 25,158,832</u>	<u>689,942</u>	<u>--</u>	<u>25,848,774</u>

**Combining Schedule of Revenue, Expenses and Changes in Net Assets
For the Year Ended June 30, 2011**

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
OPERATING REVENUE:				
Net patient service revenue before provision for bad debt	\$ 17,842,230	--	--	17,842,230
Provision for bad debt	(1,183,619)	--	--	(1,183,619)
Net patient service revenue	16,658,611	--	--	16,658,611
Other operating revenue	132,366	--	--	132,366
Total operating revenue	<u>16,790,977</u>	<u>--</u>	<u>--</u>	<u>16,790,977</u>
OPERATING EXPENSES:				
Salaries	8,287,032	--	--	8,287,032
Employee benefits	1,902,000	--	--	1,902,000
Professional fees and purchased services	1,672,903	--	--	1,672,903
Supplies and other	4,511,652	--	--	4,511,652
Insurance	141,027	--	--	141,027
Depreciation and amortization	1,249,034	--	--	1,249,034
Interest	826,600	--	--	826,600
Total operating expenses	<u>18,590,248</u>	<u>--</u>	<u>--</u>	<u>18,590,248</u>
OPERATING LOSS	<u>(1,799,271)</u>	<u>--</u>	<u>--</u>	<u>(1,799,271)</u>
NONOPERATING REVENUE (EXPENSES):				
County tax revenues	1,383,351	--	--	1,383,351
Investment income	43,192	5,512	--	48,704
Noncapital grants and contributions	60,744	11,325	--	72,069
Fundraising, net	--	(19,353)	--	(19,353)
Other, net	(38,691)	--	--	(38,691)
Nonoperating revenues, net	<u>1,448,596</u>	<u>(2,516)</u>	<u>--</u>	<u>1,446,080</u>
EXCESS REVENUE OVER (UNDER) EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	(350,675)	(2,516)	--	(353,191)
CAPITAL GRANTS AND CONTRIBUTIONS	300	--	--	300
TRANSFERS (TO) FROM AFFILIATES	404,576	(404,576)	--	--
INCREASE (DECREASE) IN NET ASSETS	54,201	(407,092)	--	(352,891)
NET ASSETS, Beginning of year	<u>4,538,569</u>	<u>1,097,034</u>	<u>--</u>	<u>5,635,603</u>
NET ASSETS, End of year	<u>\$ 4,592,770</u>	<u>689,942</u>	<u>--</u>	<u>5,282,712</u>

Story County Hospital and Long-Term Care Facility

Exhibit 3

Patient Service Revenue
For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Inpatient	Outpatient	Long-term care	Total	Inpatient	Outpatient	Long-term care	Total
DAILY PATIENT SERVICES:								
Medical and surgical	\$ 622,028	491,566	--	1,113,594	477,427	357,716	--	835,143
Swing-bed	923,492	--	--	923,492	900,210	--	--	900,210
Long-term care	--	--	3,175,313	3,175,313	--	--	2,971,537	2,971,537
	<u>1,545,520</u>	<u>491,566</u>	<u>3,175,313</u>	<u>5,212,399</u>	<u>1,377,637</u>	<u>357,716</u>	<u>2,971,537</u>	<u>4,706,890</u>
OTHER PROFESSIONAL SERVICES:								
Emergency	9,615	1,675,949	--	1,685,564	7,002	1,398,075	--	1,405,077
Operating and recovery room	141,714	1,055,401	--	1,197,115	267,943	964,789	--	1,232,732
Anesthesiology	14,970	130,414	--	145,384	23,900	109,686	--	133,586
Radiology	214,916	2,378,267	--	2,593,183	149,750	1,905,885	--	2,055,635
Laboratory	405,090	2,004,321	2,387	2,411,798	307,144	1,803,480	312	2,110,936
Physical therapy	326,770	981,509	--	1,308,279	405,699	1,033,425	--	1,439,124
Speech therapy	7,145	6,151	--	13,296	5,150	4,063	--	9,213
Occupational therapy	153,444	148,881	--	302,325	168,078	170,512	--	338,590
Electrocardiology	12,445	148,385	--	160,830	5,400	113,239	--	118,639
Medical and surgical supplies	1,025,610	685,523	129,886	1,841,019	1,081,262	752,380	110,128	1,943,770
Pharmacy	1,214,704	729,017	281,438	2,225,159	910,798	540,768	252,036	1,703,602
Orthopedic	65,179	198,532	--	263,711	27,624	73,649	--	101,273
Ambulance	--	855,438	--	855,438	--	851,283	--	851,283
Clinics	--	2,728,852	--	2,728,852	--	2,472,684	--	2,472,684
Sleep study	--	153,749	--	153,749	--	--	--	--
Miscellaneous	--	112,258	--	112,258	--	117,039	--	117,039
	<u>3,591,602</u>	<u>13,992,647</u>	<u>413,711</u>	<u>17,997,960</u>	<u>3,359,750</u>	<u>12,310,957</u>	<u>362,476</u>	<u>16,033,183</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>5,137,122</u>	<u>14,484,213</u>	<u>3,589,024</u>	<u>23,210,359</u>	<u>4,737,387</u>	<u>12,668,673</u>	<u>3,334,013</u>	<u>20,740,073</u>
LESS CONTRACTUAL ADJUSTMENTS				(5,368,129)				(4,177,312)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				17,842,230				16,562,761
PROVISION FOR BAD DEBT				(1,183,619)				(875,060)
NET PATIENT SERVICE REVENUE				<u>16,658,611</u>				<u>15,687,701</u>

Other Operating Revenue
For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Meals sold	\$ 43,377	34,343
Wellnes programs	59,459	36,937
Space rental	5,100	4,675
Other	<u>24,430</u>	<u>54,033</u>
	<u>\$ 132,366</u>	<u>129,988</u>

**Departmental Expenses
For the Years Ended June 30, 2011 and 2010**

	2011			2010		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
NURSING SERVICES:						
Nursing administration	\$ 93,243	7,429	100,672	85,666	7,525	93,191
Adults and pediatrics	1,043,209	255,875	1,299,084	1,023,344	289,302	1,312,646
Operating room	335,119	314,509	649,628	244,565	289,856	534,421
Emergency service	327,348	504,436	831,784	239,901	490,655	730,556
	<u>1,798,919</u>	<u>1,082,249</u>	<u>2,881,168</u>	<u>1,593,476</u>	<u>1,077,338</u>	<u>2,670,814</u>
OTHER PROFESSIONAL SERVICES:						
Laboratory	301,045	318,033	619,078	287,227	323,005	610,232
Central supply	83,926	499,358	583,284	85,688	708,363	794,051
Social service	144,621	2,533	147,154	140,263	4,522	144,785
Electrocardiology	42,260	24,491	66,751	37,346	13,955	51,301
Radiology	220,848	380,257	601,105	197,123	268,774	465,897
Pharmacy	65,218	743,967	809,185	50,808	623,263	674,071
Anesthesiology	--	65,508	65,508	--	41,006	41,006
Physical therapy	--	514,679	514,679	--	565,436	565,436
Speech therapy	--	7,224	7,224	--	5,512	5,512
Occupational therapy	--	108,505	108,505	--	123,111	123,111
Sleep study	--	34,351	34,351	--	--	--
Medical records	187,968	51,564	239,532	173,697	52,611	226,308
Zearing clinic	225,203	50,808	276,011	179,005	51,130	230,135
Nevada clinic	1,238,835	102,774	1,341,609	1,258,697	118,791	1,377,488
Maxwell clinic	138,676	18,019	156,695	140,331	33,783	174,114
Slater clinic	93,506	25,739	119,245	76,169	34,620	110,789
Ambulance	278,547	47,763	326,310	258,537	51,908	310,445
Wellness center	118,099	11,505	129,604	109,417	14,453	123,870
Acupuncture	66,753	20,746	87,499	63,965	19,099	83,064
Long-term care	1,544,119	189,132	1,733,251	1,380,622	222,749	1,603,371
Orthopedic	--	169,681	169,681	--	67,004	67,004
	<u>4,749,624</u>	<u>3,386,637</u>	<u>8,136,261</u>	<u>4,438,895</u>	<u>3,343,095</u>	<u>7,781,990</u>
GENERAL SERVICES:						
Plant operation and maintenance	151,284	421,707	572,991	144,419	447,216	591,635
Dietary	442,118	289,990	732,108	410,460	381,470	791,930
Housekeeping	225,750	57,544	283,294	216,215	62,847	279,062
Laundry	41,423	13,740	55,163	38,387	25,909	64,296
	<u>860,575</u>	<u>782,981</u>	<u>1,643,556</u>	<u>809,481</u>	<u>917,442</u>	<u>1,726,923</u>
ADMINISTRATIVE SERVICES	770,394	932,688	1,703,082	691,807	1,023,766	1,715,573
NONDEPARTMENTAL:						
Employee benefits	107,520	1,902,000	2,009,520	74,394	1,685,518	1,759,912
Depreciation and amortization	--	1,249,034	1,249,034	--	1,301,446	1,301,446
Interest	--	826,600	826,600	--	771,916	771,916
Insurance	--	141,027	141,027	--	152,318	152,318
	<u>107,520</u>	<u>4,118,661</u>	<u>4,226,181</u>	<u>74,394</u>	<u>3,911,198</u>	<u>3,985,592</u>
TOTAL EXPENSES	\$ 8,287,032	10,303,216	18,590,248	7,608,053	10,272,839	17,880,892

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2011 and 2010**

ANALYSIS OF AGING:

Days Since Discharge	2011		2010	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,878,439	47.76 %	1,814,420	39.49 %
31 - 60	556,022	14.14	475,545	10.35
61 - 90	377,586	9.60	489,877	10.66
91 - 120	253,326	6.44	598,040	13.01
121 and over	867,419	22.06	1,217,173	26.49
	<u>3,932,792</u>	<u>100.00 %</u>	<u>4,595,055</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(711,362)		(859,602)	
Allowance for contractual adjustments	<u>(611,764)</u>		<u>(744,989)</u>	
	<u>\$ 2,609,666</u>		<u>2,990,464</u>	

	2011	2010
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 859,602	829,828
Provision of uncollectible accounts	1,183,619	875,062
Recoveries of accounts previously written off	(126,932)	(99,169)
Accounts written off	<u>(1,204,927)</u>	<u>(746,119)</u>
Balance, end of year	<u>\$ 711,362</u>	<u>859,602</u>

**Inventory/Prepaid Expenses
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
INVENTORY:		
Pharmacy	\$ 112,574	99,779
Central store	43,994	44,862
Laboratory	43,336	39,792
Operating room	34,213	33,896
Dietary	15,663	19,519
Radiology	5,536	3,319
Emergency room	4,528	4,299
Other	<u>10,056</u>	<u>9,373</u>
	<u>\$ 269,900</u>	<u>254,839</u>
	<u>2011</u>	<u>2010</u>
PREPAID EXPENSES:		
Insurance	\$ 49,058	49,876
Maintenance contracts	<u>209,671</u>	<u>161,177</u>
	<u>\$ 258,729</u>	<u>211,053</u>

**Financial and Statistical Highlights
For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Patient days:		
Adult and pediatric -		
Medicare	537	406
All other	276	251
Swing-bed -		
Skilled	1,602	1,766
Intermediate	624	472
Long-term care	<u>21,506</u>	<u>21,406</u>
Total	<u><u>24,545</u></u>	<u><u>24,301</u></u>
Patient discharges:		
Hospital adult and pediatric -		
Medicare	169	137
All other	<u>87</u>	<u>103</u>
Total	<u><u>256</u></u>	<u><u>240</u></u>
Average length of stay (based on discharge days):		
Hospital adult and pediatric -		
Medicare	3.18 days	2.96 days
All other	3.17 days	2.43 days
Surgical procedures	566	534
Emergency room visits	3,599	3,618
Number of employees - full-time equivalents	188.23	175.34

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

To the 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 (Hospital) as of and for the years ended June 30, 2011 and 2010, and have issued our report thereon, dated September 23, 2011. 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 of the Hospital's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Hospital and other parties to who the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

SEIM JOHNSON, LLP

Omaha, Nebraska,
September 23, 2011.

Story County Hospital and Long-Term Care Facility

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2011

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) The audit did not disclose any deficiencies, significant deficiencies, or material weaknesses in internal control over financial reporting.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-11

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-11

Official Depositories: 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, 2011.

III-B-11

Certified Budget: Hospital disbursements during the year ended June 30, 2011 did not exceed amounts budgeted

III-C-11

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-11

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

III-E-11

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

III-F-11

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

Story County Hospital and Long-Term Care Facility

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2011

III-G-11

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

III-H-11

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Story County Hospital and Long-Term Care Facility

**Audit Staff
For the Year Ended June 30, 2011**

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Jeremy J. Behrens, CHFP, CPA, Manager

Becky S. Hoffman, Staff Auditor