

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

Basic Financial Statements and Supplementary Information
June 30, 2012 and 2011

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, 2012

<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 years ended June 30, 2012 and 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.

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. 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 2012 and 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2012 and 2011, and the results of its operations, changes in net assets, and its 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 September 20, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express and opinion or provide any assurance.

Our audit was conducted for the purpose of forming and opinion on the basic financial statements as a whole. The other supplementary statements (Exhibits 1-6) are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

SEIM JOHNSON, LLP

Omaha, Nebraska,
September 20, 2012.

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis June 30, 2012 and 2011

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, 2012 and 2011. This discussion and analysis should be read in conjunction with financial statements, which begin on page 7.

Financial Highlights

- The Hospital's net assets increased in 2012 by \$268,465 or 5%. In 2011, net assets decreased by \$352,891 or 6%.
- The Hospital reported a decrease in operating loss for 2012 of \$512,208 at a loss of \$1,287,063 compared to a loss of \$1,799,271 in 2011.
- The Hospital's non-operating revenues increased by \$109,248 in 2012 compared to 2011.

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 increased this past year by \$268,468 or 5% as shown in **Table 1**.

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis June 30, 2012 and 2011

Table 1: Assets, Liabilities, and Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets:					
Total current assets	\$ 8,112,851	8,129,485	7,798,142	(16,634)	0%
Capital assets, net	14,885,060	15,953,614	16,482,891	(1,068,554)	-7%
Assets limited as to use or restricted	2,111,828	1,367,676	1,216,438	744,152	54%
Other non-current assets	368,794	397,999	430,415	(29,205)	-7%
Total assets	<u>\$ 25,478,533</u>	<u>25,848,774</u>	<u>25,927,886</u>	<u>(370,241)</u>	<u>-1%</u>
Liabilities:					
Long-term debt	\$ 16,184,755	16,669,738	17,267,174	(484,983)	-3%
Estimated third-party payor settlements	213,352	707,500	208,000	(494,148)	-70%
Other current and non-current liabilities	3,529,249	3,188,824	2,817,109	340,425	11%
Total liabilities	19,927,356	20,566,062	20,292,283	(638,706)	-3%
Net Assets:					
Net assets	5,551,177	5,282,712	5,635,603	268,465	5%
Total liabilities and net assets	<u>\$ 25,478,533</u>	<u>25,848,774</u>	<u>25,927,886</u>	<u>(370,241)</u>	<u>-1%</u>

Operating Results and Changes in Net Assets

In 2012, the Hospital's operating revenue increased by \$1,174,952 and the loss from operations improved by \$512,208. Total net assets increased by \$268,465 or 5% as shown in **Table 2**. The majority of this increase is caused by a decrease of debt.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:					
Net patient service revenue	\$ 18,348,598	17,842,230	16,562,761	506,368	3%
Provision for bad debt	(1,111,749)	(1,183,619)	(875,060)	71,870	-6%
Other operating revenue	729,080	132,366	129,988	596,714	82%
Total operating revenue	<u>17,965,929</u>	<u>16,790,977</u>	<u>15,817,689</u>	<u>1,174,952</u>	<u>7%</u>
Operating Expenses:					
Salaries and employee benefits	10,750,325	10,189,032	9,293,571	561,293	5%
Purchased services and other	6,307,304	6,325,582	6,513,959	(18,278)	0%
Depreciation and amortization	1,398,490	1,249,034	1,301,446	149,456	11%
Interest	796,873	826,600	771,916	(29,727)	-4%
Total operating expenses	<u>19,252,992</u>	<u>18,590,248</u>	<u>17,880,892</u>	<u>662,744</u>	<u>3%</u>
Operating income (loss)	<u>(1,287,063)</u>	<u>(1,799,271)</u>	<u>(2,063,203)</u>	<u>512,208</u>	<u>-40%</u>
Non-Operating Revenue and Expenses:					
County tax revenue	1,429,464	1,383,351	1,320,098	46,113	3%
Investment income	67,161	48,704	19,236	18,457	27%
Other non-operating revenue	58,703	14,025	1,451	44,678	76%
Total non-operating revenue, net	<u>1,555,328</u>	<u>1,446,080</u>	<u>1,340,785</u>	<u>109,248</u>	<u>7%</u>
Excess of revenue over (under) expenses	<u>268,265</u>	<u>(353,191)</u>	<u>(722,418)</u>	<u>621,456</u>	<u>232%</u>
Capital grants and contributions	<u>200</u>	<u>300</u>	<u>27,015</u>	<u>(100)</u>	<u>-33%</u>
Increase (decrease) in net assets	268,465	(352,891)	(695,403)	621,356	231%
Net assets – beginning of year	5,282,712	5,635,603	6,331,006	(352,891)	-7%
Net assets – end of year	<u>\$ 5,551,177</u>	<u>5,282,712</u>	<u>5,635,603</u>	<u>268,465</u>	<u>5%</u>

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis June 30, 2012 and 2011

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 2012 salaries and benefit costs totaled \$10,750,325. In 2011 salaries and benefit costs totaled \$10,189,032. Part of the reason for the increase of 5.5% is that the Hospital had an increase in the IPERS contribution and there was a wage increase in February.

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 \$1,429,464 in 2012 and \$1,383,351 in 2011.

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 decreased in 2012 due to reduction in accounts payable and decrease in estimated third-party payor settlements.

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the Hospital had \$14,885,060 invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. In 2012, the Hospital purchased new equipment costing \$462,000. Approximately \$692,000 was spent to acquire new equipment in 2011.

Debt

At fiscal year-end, the Hospital had nearly \$16,185,000 in debt outstanding. There was no new debt issued in 2012 and the Hospital consolidated and refinanced two existing loans.

Other Economic Factors

The 2012 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 2012 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.

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis June 30, 2012 and 2011

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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,818,989	1,481,132
Short-term investments	1,011,480	1,684,714
Assets limited as to use or restricted, current portion	375,825	366,664
Receivables -		
Patients, net of estimated uncollectible accounts of \$818,338 in 2012 and \$711,362 in 2011, respectively	2,377,151	2,609,666
Other	10,284	6,263
Pledges, current portion	13,232	34,610
Inventories	287,100	269,900
Other current assets	208,998	258,729
Succeeding year property tax receivable	<u>2,009,792</u>	<u>1,417,807</u>
Total current assets	8,112,851	8,129,485
Pledges receivable, net of current portion	543	2,864
Assets limited as to use or restricted	2,111,828	1,367,676
Capital assets, net	14,885,060	15,953,614
Deferred financing costs	<u>368,251</u>	<u>395,135</u>
Total assets	<u>\$ 25,478,533</u>	<u>25,848,774</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 469,948	529,663
Accounts payable	389,214	694,070
Accrued salaries, vacation and benefits payable	1,059,666	1,005,008
Estimated third-party payor settlements	213,352	707,500
Accrued interest payable	64,000	63,664
Deferred revenue for succeeding year property tax receivable	<u>2,009,792</u>	<u>1,417,807</u>
Total current liabilities	4,205,972	4,417,712
Resident trust funds	6,577	8,275
Long-term debt, net of unamortized discount and current portion	<u>15,714,807</u>	<u>16,140,075</u>
Total liabilities	<u>19,927,356</u>	<u>20,566,062</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	741,860	1,325,431
Restricted - expendable	1,586,221	1,720,776
Unrestricted	<u>3,223,096</u>	<u>2,236,505</u>
Total net assets	<u>5,551,177</u>	<u>5,282,712</u>
Total liabilities and net assets	<u>\$ 25,478,533</u>	<u>25,848,774</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 18,348,598	17,842,230
Provision for bad debt	(1,111,749)	(1,183,619)
Net patient service revenue	17,236,849	16,658,611
Other operating revenue	729,080	132,366
Total operating revenue	<u>17,965,929</u>	<u>16,790,977</u>
OPERATING EXPENSES:		
Salaries	8,644,751	8,287,032
Employee benefits	2,105,574	1,902,000
Professional fees and purchased services	1,701,992	1,672,903
Supplies and other	4,476,525	4,511,652
Insurance	128,787	141,027
Depreciation and amortization	1,398,490	1,249,034
Interest	796,873	826,600
Total operating expenses	<u>19,252,992</u>	<u>18,590,248</u>
OPERATING LOSS	<u>(1,287,063)</u>	<u>(1,799,271)</u>
NONOPERATING REVENUE (EXPENSES):		
County tax revenues	1,429,464	1,383,351
Investment income	67,161	48,704
Noncapital grants and contributions	90,679	72,069
Fundraising, net	(47,723)	(19,353)
Other, net	15,747	(38,691)
Nonoperating revenues, net	<u>1,555,328</u>	<u>1,446,080</u>
EXCESS REVENUE OVER (UNDER) EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	268,265	(353,191)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>200</u>	<u>300</u>
INCREASE (DECREASE) IN NET ASSETS	268,465	(352,891)
NET ASSETS, Beginning of year	<u>5,282,712</u>	<u>5,635,603</u>
NET ASSETS, End of year	<u>\$ 5,551,177</u>	<u>5,282,712</u>

See notes to financial statements

Story County Hospital and Long-Term Care Facility

Statements of Cash Flows For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 16,975,216	17,538,909
Cash paid for employee salaries and benefits	(8,590,093)	(8,187,616)
Cash paid to suppliers and contractors	(8,689,224)	(8,077,628)
Other receipts and payments, net	729,080	132,366
	<u>424,979</u>	<u>1,406,031</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	90,679	72,069
Fundraising, net	(24,024)	144,191
Other, net	14,450	(38,302)
County tax receipts	1,429,464	1,383,351
	<u>1,510,569</u>	<u>1,561,309</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment, net	(303,253)	(692,375)
Interest payments	(796,537)	(827,862)
Proceeds from issuance of long-term debt	953,833	--
Principal payments on long-term debt	(1,438,816)	(597,436)
	<u>(1,584,773)</u>	<u>(2,117,673)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in investments and assets limited as to use or restricted, net	(80,079)	(690,296)
Investment income	67,161	48,704
	<u>(12,918)</u>	<u>(641,592)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	337,857	208,075
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,481,132</u>	<u>1,273,057</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,818,989</u>	<u>1,481,132</u>

See notes to financial statements

Story County Hospital and Long-Term Care Facility

Statements of Cash Flows (Continued) For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,287,063)	(1,799,271)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,398,490	1,249,034
Interest expense included in operating expenses	796,873	826,600
(Increase) decrease in current assets -		
Receivables -		
Patients	232,515	380,798
Other	(4,021)	2,592
Inventories	(17,200)	(15,061)
Other current assets	49,731	(47,676)
Increase (decrease) in current liabilities -		
Accounts payable	(304,856)	210,099
Accrued salaries, vacation and benefits payable	54,658	99,416
Estimated third-party payor settlements	(494,148)	499,500
Net cash provided by operating activities	<u>\$ 424,979</u>	<u>1,406,031</u>

See notes to financial statements

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2012 and 2011

(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, 2012 and 2011

Restricted – Expendable 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.

Pursuant to Section 1600 of the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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 2012 and 2011, 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, 2012 and 2011

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.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2012 and 2011

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:

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 \$26,883 and \$27,682 for 2012 and 2011, 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, 2012 and 2011 was \$470,564 and \$511,012, 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, 2012 and 2011

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 \$342,133 and \$384,534, for 2012 and 2011, 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 2011 financial statements have been reclassified to conform to the 2012 reporting format.

X. *Subsequent Events*

The Hospital considered events occurring through September 20, 2012 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, 2012 and 2011

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

The Hospital's deposits in banks at June 30, 2012 and 2011 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, 2012 and 2011, 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, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Investments:		
Operating reserves:		
Cash and cash equivalents	\$ 597	382
Certificates of deposit	1,010,883	1,684,332
Total investments	<u>1,011,480</u>	<u>1,684,714</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ 1,044,470	348,055
By Donor:		
Cash and cash equivalents	115,282	55,068
Corporate stock	106,674	84,262
	<u>\$ 221,956</u>	<u>139,330</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
By Debt Agreements:		
Reserve accounts:		
Cash and cash equivalents	\$ 18,500	18,500
Certificates of deposit	1,086,577	1,074,315
Government money market funds	116,150	154,140
	<u>1,221,227</u>	<u>1,246,955</u>
Total assets limited as to use or restricted	2,487,653	1,734,340
Less amounts required to meet current obligations	<u>375,825</u>	<u>366,664</u>
Long-term portion	<u>\$ 2,111,828</u>	<u>1,367,676</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2012 and 2011 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 57,281	39,511
Change in unrealized gain, net	<u>9,880</u>	<u>9,193</u>
Total investment return	<u>\$ 67,161</u>	<u>48,704</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, 2010.

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, 2012 and 2011

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

	<u>2012</u>	<u>2011</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 5,610,232	5,137,122
Outpatient	13,172,859	11,755,361
Long-term care	3,637,369	3,589,024
Clinics	<u>3,101,690</u>	<u>2,728,852</u>
Total gross patient service revenue	<u>25,522,150</u>	<u>23,210,359</u>
Deductions from patient service revenue:		
Medicare	3,174,913	2,380,584
Medicaid	1,253,174	936,478
Other payors	2,403,332	1,666,533
Charity care	<u>342,133</u>	<u>384,534</u>
Total deductions from patient service revenue	<u>7,173,552</u>	<u>5,368,129</u>
Net patient service revenue before provision for bad debt	<u>\$ 18,348,598</u>	<u>17,842,230</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 27% and 16%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2012 compared to 33% for Medicare and 18% for Medicaid in 2011. 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) Other Revenue

Other revenue for the years ended June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Electronic health record incentive payments	\$ 616,032	--
Meals sold	29,110	43,377
Wellness programs	55,276	59,459
Space rental	--	5,100
Other	<u>28,962</u>	<u>24,430</u>
	<u>\$ 729,080</u>	<u>132,366</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2012 and 2011

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2012, the Hospital qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee.

The EHR incentive payment will be earned and received through various payments through 2015. The incentive amount is computed using several elements, one of which includes using the value of un-depreciated assets required to implement the EHR system. The Hospital has elected to record \$616,032 of the incentive payment as other operating revenue in the period earned, and defer approximately \$152,000 related to future Medicare reimbursement. In addition, the Iowa Department of Health and Human Services (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2014. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

(5) Composition of Patient Receivables

Patient receivables as of June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Patient receivables	\$ 3,962,791	3,932,792
Less estimated third-party contractual adjustments	(767,302)	(611,764)
Less allowance for doubtful accounts	<u>(818,338)</u>	<u>(711,362)</u>
	<u>\$ 2,377,151</u>	<u>2,609,666</u>

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>2012</u>	<u>2011</u>
Medicare	24%	24%
Medicaid	10	11
Other third-party payors	34	31
Private pay	<u>32</u>	<u>34</u>
	<u>100%</u>	<u>100%</u>

(6) 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 2012 and 2011. Pledges receivable consisted of the following:

	<u>2012</u>	<u>2011</u>
Due within one year	\$ 13,232	34,610
Due in two to five years	<u>1,300</u>	<u>5,200</u>
	14,532	39,810
Less allowance for uncollectible pledges	<u>(757)</u>	<u>(2,336)</u>
	<u>\$ 13,775</u>	<u>37,474</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2012 and 2011

(7) Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011 were as follows:

	June 30, 2011	Additions	Transfers and Disposals	June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 321,622	--	--	321,622
Construction in progress	130,953	113,917	(210,563)	34,307
Total capital assets, not being depreciated	<u>452,575</u>	<u>113,917</u>	<u>(210,563)</u>	<u>355,929</u>
Capital assets, being depreciated:				
Land improvements	1,265,043	--	--	1,265,043
Building and leasehold improvements	16,355,265	--	--	16,355,265
Fixed equipment	2,740,397	7,042	--	2,747,439
Major movable equipment	3,955,916	454,046	(102,481)	4,307,481
Total capital assets, being depreciated	<u>24,316,621</u>	<u>461,088</u>	<u>(102,481)</u>	<u>24,675,228</u>
Less accumulated depreciation:				
Land improvements	289,785	110,207	--	399,992
Building and leasehold improvements	4,663,244	712,560	--	5,375,804
Fixed equipment	1,464,184	132,170	(602)	1,595,752
Major movable equipment	2,398,369	416,670	(40,490)	2,774,549
Total accumulated depreciation	<u>8,815,582</u>	<u>1,371,607</u>	<u>(41,092)</u>	<u>10,146,097</u>
Total capital assets, being depreciated, net	<u>15,501,039</u>	<u>(910,519)</u>	<u>(61,389)</u>	<u>14,529,131</u>
Total capital assets, net	<u>\$ 15,953,614</u>	<u>(796,602)</u>	<u>(271,952)</u>	<u>14,885,060</u>

	June 30, 2010	Additions	Transfers and Disposals	June 30, 2011
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, 2012 and 2011

(8) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2012 and 2011 consisted of the following:

	June 30, 2011	Borrowings	Payments	June 30, 2012	Due Within One Year
U.S. Bank (A)	\$ 52,175	--	(26,461)	25,714	25,714
State Bank & Trust - MOB (B)	434,245	--	(434,245)	--	--
State Bank & Trust (C)	603,259	--	(603,259)	--	--
Zearing Note (E)	73,667	--	(13,600)	60,067	13,600
Series 2008A (F)	8,085,000	--	--	8,085,000	--
USDA Rural Development (G)	163,588	--	(11,340)	152,248	11,323
Series 2008B (H)	7,310,000	--	(305,000)	7,005,000	315,000
State Bank & Trust (I)	--	953,833	(50,440)	903,393	104,311
	<u>\$ 16,721,934</u>	<u>953,833</u>	<u>(1,444,345)</u>	16,231,422	<u>469,948</u>
Less unamortized discount	(52,196)			(46,667)	
	<u>\$ 16,669,738</u>			<u>16,184,755</u>	
	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>	16,721,934	<u>529,663</u>
Less unamortized discount	(57,967)			(52,196)	
	<u>\$ 17,267,174</u>			<u>16,669,738</u>	

- (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%; This note was refinanced in November 2011.
- (C) The note payable to the bank requires monthly payments of \$6,292 with interest at 4.85%; This note was refinanced in November 2011.
- (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 2012.
- (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, 2012), reset at five year intervals (next reset is May 2013), collateralized by hospital revenues other than taxation.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2012 and 2011

- (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.
- (I) The note payable to the bank requires monthly payments of \$11,766 with interest at 4.25%; collateralized by revenues; due December 2019.

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, 2012, the Hospital was in compliance with the required covenants.

A summary of the Hospital's future principal and interest payments as of June 30, 2012 is as follows:

Year	Principal	Interest	Total
2013	\$ 470,447	785,444	1,255,891
2014	459,829	761,923	1,221,752
2015	480,149	739,887	1,220,036
2016	495,644	721,146	1,216,790
2017	508,565	701,291	1,209,856
2018 – 2022	2,488,793	3,177,375	5,666,168
2023 – 2027	2,637,995	2,595,591	5,233,586
2028 – 2032	1,205,000	1,967,500	3,172,500
2033 – 2037	--	1,871,250	1,871,250
2038 – 2039	7,485,000	374,250	7,859,250
	<u>\$ 16,231,422</u>	<u>13,695,657</u>	<u>29,927,079</u>

(9) Net Asset Balances

Restricted, expendable net assets are restricted for the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
By donors for capital assets	\$ 364,993	473,821
By debt agreement -		
Debt service reserve fund	1,086,578	1,074,315
Interest reserve fund	67,845	71,228
Construction reserve fund	22,026	57,480
Principal reserve fund	44,779	43,932
	<u>\$ 1,586,221</u>	<u>1,720,776</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2012 and 2011

(10) 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.

(11) 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.

Plan members are required to contribute 5.38% of their annual salary and the Hospital is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$688,000, \$572,000 and \$504,000, respectively, equal to the required contributions for each year.

(12) 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 2016. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2012, that have initial lease terms in excess of one year:

2013	\$ 270,226
2014	88,736
2015	4,588
2016	<u>2,040</u>
	<u>\$ 365,590</u>

(13) 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 \$630,194 and \$616,434 as of June 30, 2012 and 2011, respectively.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements June 30, 2012 and 2011

(14) 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, 2012

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, 2012, 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	\$ 1,429,464	--	1,429,464	1,414,006	15,458
Add: Other revenues / receipts	18,137,520	692,000	18,829,520	19,260,094	(430,574)
Less: Expenses / disbursements	<u>19,241,963</u>	<u>692,842</u>	<u>19,934,805</u>	<u>20,101,857</u>	<u>167,052</u>
Net	325,021	(842)	324,179	572,243	<u>(247,222)</u>
Balance beginning of year	<u>4,592,770</u>	<u>(3,119,059)</u>	<u>1,473,711</u>	<u>4,617,691</u>	
Balance end of year	<u>\$ 4,917,791</u>	<u>(3,119,901)</u>	<u>1,797,890</u>	<u>5,189,934</u>	

See accompanying independent auditor's report

Combining Balance Sheet
June 30, 2012

ASSETS	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 1,797,891	21,098	--	1,818,989
Short-term investments	586,480	425,000	--	1,011,480
Assets limited as to use or restricted, current portion	375,825	--	--	375,825
Receivables -				
Patients, net of estimated uncollectible accounts of \$818,338 in 2012	2,377,151	--	--	2,377,151
Other	10,284	--	--	10,284
Pledges, current portion	--	13,232	--	13,232
Inventories	287,100	--	--	287,100
Other current assets	206,411	2,587	--	208,998
Succeeding year property tax receivable	2,009,792	--	--	2,009,792
Total current assets	7,650,934	461,917	--	8,112,851
Pledges receivable, net of current portion	--	543	--	543
Assets limited as to use or restricted	1,940,902	170,926	--	2,111,828
Capital assets, net	14,885,060	--	--	14,885,060
Deferred financing costs	368,251	--	--	368,251
Total assets	<u>\$ 24,845,147</u>	<u>633,386</u>	<u>--</u>	<u>25,478,533</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term debt	\$ 469,948	--	--	469,948
Accounts payable	389,214	--	--	389,214
Accrued salaries, vacation and benefits payable	1,059,666	--	--	1,059,666
Estimated third-party payor settlements	213,352	--	--	213,352
Accrued interest payable	64,000	--	--	64,000
Deferred revenue for succeeding year property tax receivable	2,009,792	--	--	2,009,792
Total current liabilities	4,205,972	--	--	4,205,972
Resident trust funds	6,577	--	--	6,577
Long-term debt, net of unamortized discount and current portion	15,714,807	--	--	15,714,807
Total liabilities	<u>19,927,356</u>	<u>--</u>	<u>--</u>	<u>19,927,356</u>
Commitments and contingencies				
Net assets:				
Invested in capital assets, net of related debt	741,860	--	--	741,860
Restricted - Expendable	1,221,228	364,993	--	1,586,221
Unrestricted	2,954,703	268,393	--	3,223,096
Total net assets	<u>4,917,791</u>	<u>633,386</u>	<u>--</u>	<u>5,551,177</u>
Total liabilities and net assets	<u>\$ 24,845,147</u>	<u>633,386</u>	<u>--</u>	<u>25,478,533</u>

See accompanying independent auditor's report

**Combining Schedule of Revenue, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012**

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
OPERATING REVENUE:				
Net patient service revenue before provision for bad debt	\$ 18,348,598	--	--	18,348,598
Provision for bad debt	(1,111,749)	--	--	(1,111,749)
Net patient service revenue	17,236,849	--	--	17,236,849
Other operating revenue	729,080	--	--	729,080
Total operating revenue	17,965,929	--	--	17,965,929
OPERATING EXPENSES:				
Salaries	8,644,751	--	--	8,644,751
Employee benefits	2,105,574	--	--	2,105,574
Professional fees and purchased services	1,701,992	--	--	1,701,992
Supplies and other	4,476,525	--	--	4,476,525
Insurance	128,787	--	--	128,787
Depreciation and amortization	1,398,490	--	--	1,398,490
Interest	796,873	--	--	796,873
Total operating expenses	19,252,992	--	--	19,252,992
OPERATING LOSS	(1,287,063)	--	--	(1,287,063)
NONOPERATING REVENUE (EXPENSES):				
County tax revenues	1,429,464	--	--	1,429,464
Investment income	35,117	32,044	--	67,161
Noncapital grants and contributions	27,446	63,233	--	90,679
Fundraising, net	--	(47,723)	--	(47,723)
Other, net	11,029	4,718	--	15,747
Nonoperating revenues, net	1,503,056	52,272	--	1,555,328
EXCESS REVENUE OVER EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	215,993	52,272	--	268,265
CAPITAL GRANTS AND CONTRIBUTIONS	200	--	--	200
TRANSFERS (TO) FROM AFFILIATES	108,828	(108,828)	--	--
INCREASE (DECREASE) IN NET ASSETS	325,021	(56,556)	--	268,465
NET ASSETS, Beginning of year	4,592,770	689,942	--	5,282,712
NET ASSETS, End of year	\$ 4,917,791	633,386	--	5,551,177

See accompanying independent auditor's report

Story County Hospital and Long-Term Care Facility

Exhibit 3

Patient Service Revenue
For the Years Ended June 30, 2012 and 2011

	2012				2011			
	Inpatient	Outpatient	Long-term care	Total	Inpatient	Outpatient	Long-term care	Total
DAILY PATIENT SERVICES:								
Medical and surgical	\$ 653,761	286,069	--	939,830	622,028	491,566	--	1,113,594
Swing-bed	1,163,917	--	--	1,163,917	923,492	--	--	923,492
Long-term care	--	--	3,180,854	3,180,854	--	--	3,175,313	3,175,313
	<u>1,817,678</u>	<u>286,069</u>	<u>3,180,854</u>	<u>5,284,601</u>	<u>1,545,520</u>	<u>491,566</u>	<u>3,175,313</u>	<u>5,212,399</u>
OTHER PROFESSIONAL SERVICES:								
Emergency	25,985	1,976,531	--	2,002,516	9,615	1,675,949	--	1,685,564
Operating and recovery room	210,008	1,965,480	--	2,175,488	141,714	1,212,445	--	1,354,159
Anesthesiology	22,546	345,841	--	368,387	14,970	130,414	--	145,384
Radiology	279,926	2,575,184	--	2,855,110	214,916	2,378,267	--	2,593,183
Laboratory	470,687	2,049,804	--	2,520,491	405,090	1,947,760	2,387	2,355,237
Physical therapy	360,075	1,057,734	--	1,417,809	326,770	981,509	--	1,308,279
Speech therapy	15,192	26,273	--	41,465	7,145	6,151	--	13,296
Occupational therapy	178,261	226,913	--	405,174	153,444	148,881	--	302,325
Electrocardiology	10,959	207,289	--	218,248	12,445	148,385	--	160,830
Medical and surgical supplies	1,016,256	610,026	128,942	1,755,224	1,025,610	685,523	129,886	1,841,019
Pharmacy	1,145,582	500,875	327,573	1,974,030	1,214,704	729,017	281,438	2,225,159
Orthopedic	56,257	197,617	--	253,874	65,179	198,532	--	263,711
Ambulance	820	968,450	--	969,270	--	855,438	--	855,438
Clinics	--	3,101,690	--	3,101,690	--	2,728,852	--	2,728,852
Sleep study	--	--	--	--	--	--	--	--
Miscellaneous	--	178,773	--	178,773	--	165,524	--	165,524
	<u>3,792,554</u>	<u>15,988,480</u>	<u>456,515</u>	<u>20,237,549</u>	<u>3,591,602</u>	<u>13,992,647</u>	<u>413,711</u>	<u>17,997,960</u>
GROSS PATIENT SERVICE REVENUE \$	<u>5,610,232</u>	<u>16,274,549</u>	<u>3,637,369</u>	<u>25,522,150</u>	<u>5,137,122</u>	<u>14,484,213</u>	<u>3,589,024</u>	<u>23,210,359</u>
LESS CONTRACTUAL ADJUSTMENTS				(7,173,552)				(5,368,129)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				18,348,598				17,842,230
PROVISION FOR BAD DEBT				(1,111,749)				(1,183,619)
NET PATIENT SERVICE REVENUE				<u>17,236,849</u>				<u>16,658,611</u>

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Electronic health record incentive payments	\$ 616,032	--
Meals sold	29,110	43,377
Wellness programs	55,276	59,459
Space rental	--	5,100
Other	<u>28,662</u>	<u>24,430</u>
	<u>\$ 729,080</u>	<u>132,366</u>

See accompanying independent auditor's report

**Departmental Expenses
For the Years Ended June 30, 2012 and 2011**

	2012			2011		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
NURSING SERVICES:						
Nursing administration	\$ 91,639	2,872	94,511	93,099	3,008	96,107
Adults and pediatrics	1,002,911	256,243	1,259,154	1,043,209	255,875	1,299,084
Operating room	400,064	299,898	699,962	335,119	313,309	648,428
Emergency service	482,320	538,131	1,020,451	327,348	504,436	831,784
	<u>1,976,934</u>	<u>1,097,144</u>	<u>3,074,078</u>	<u>1,798,775</u>	<u>1,076,628</u>	<u>2,875,403</u>
OTHER PROFESSIONAL SERVICES:						
Laboratory	304,379	321,971	626,350	301,045	318,033	619,078
Central supply	85,700	563,592	649,292	83,926	499,358	583,284
Social service	144,966	2,005	146,971	144,621	2,533	147,154
Electrocardiology	70,508	84,377	154,885	42,260	58,842	101,102
Radiology	220,873	466,721	687,594	220,848	380,257	601,105
Pharmacy	59,592	579,791	639,383	65,218	743,967	809,185
Anesthesiology	63,250	34,740	97,990	--	66,708	66,708
Physical therapy	--	565,607	565,607	--	514,679	514,679
Speech therapy	--	34,283	34,283	--	7,224	7,224
Occupational therapy	--	143,104	143,104	--	108,505	108,505
Medical records	233,724	48,387	282,111	187,968	51,564	239,532
Zearing clinic	220,607	75,052	295,659	220,119	50,808	270,927
Nevada clinic	1,371,339	158,129	1,529,468	1,238,835	102,774	1,341,609
Maxwell clinic	136,071	35,017	171,088	138,676	18,019	156,695
Slater clinic	88,609	33,612	122,221	98,590	25,739	124,329
Ambulance	192,946	47,413	240,359	278,547	47,763	326,310
Wellness center	95,987	2,781	98,768	118,099	11,505	129,604
Acupuncture	74,170	18,453	92,623	66,753	20,746	87,499
Long-term care	1,584,016	113,677	1,697,693	1,544,119	189,132	1,733,251
Orthopedic	--	164,450	164,450	--	169,681	169,681
	<u>4,946,737</u>	<u>3,493,162</u>	<u>8,439,899</u>	<u>4,749,624</u>	<u>3,387,837</u>	<u>8,137,461</u>
GENERAL SERVICES:						
Plant operation and maintenance	160,956	364,779	525,735	151,284	421,707	572,991
Dietary	417,018	265,830	682,848	442,118	289,990	732,108
Housekeeping	227,468	52,384	279,852	225,750	57,544	283,294
Laundry	42,738	9,969	52,707	41,423	13,740	55,163
	<u>848,180</u>	<u>692,962</u>	<u>1,541,142</u>	<u>860,575</u>	<u>782,981</u>	<u>1,643,556</u>
ADMINISTRATIVE SERVICES						
	<u>741,685</u>	<u>906,321</u>	<u>1,648,006</u>	<u>770,538</u>	<u>937,109</u>	<u>1,707,647</u>
NONDEPARTMENTAL:						
Employee benefits	131,215	2,105,574	2,236,789	107,520	1,902,000	2,009,520
Depreciation and amortization	--	1,398,490	1,398,490	--	1,249,034	1,249,034
Interest	--	785,801	785,801	--	826,600	826,600
Insurance	--	128,787	128,787	--	141,027	141,027
	<u>131,215</u>	<u>4,418,652</u>	<u>4,549,867</u>	<u>107,520</u>	<u>4,118,661</u>	<u>4,226,181</u>
TOTAL EXPENSES	\$ <u>8,644,751</u>	<u>10,608,241</u>	<u>19,252,992</u>	<u>8,287,032</u>	<u>10,303,216</u>	<u>18,590,248</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2012 and 2011**

ANALYSIS OF AGING:

Days Since Discharge	2012		2011	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,014,829	50.84 %	1,878,439	47.76 %
31 - 60	654,995	16.53	556,022	14.14
61 - 90	237,492	5.99	377,586	9.60
91 - 120	279,454	7.05	253,326	6.44
121 and over	776,021	19.58	867,419	22.06
	<u>3,962,791</u>	<u>99.99 %</u>	<u>3,932,792</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(818,338)		(711,362)	
Allowance for contractual adjustments	<u>(767,302)</u>		<u>(611,764)</u>	
	<u>\$ 2,377,151</u>		<u>2,609,666</u>	

	2012	2011
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 711,361	859,602
Provision of uncollectible accounts	1,111,749	1,183,619
Recoveries of accounts previously written off	(179,583)	(126,932)
Accounts written off	<u>(825,189)</u>	<u>(1,204,927)</u>
Balance, end of year	<u>\$ 818,338</u>	<u>711,362</u>

See accompanying independent auditor's report

**Inventory/Prepaid Expenses
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
INVENTORY:		
Pharmacy	\$ 115,678	112,574
Central store	41,735	43,994
Laboratory	48,618	43,336
Operating room	38,232	34,213
Dietary	19,473	15,663
Radiology	5,570	5,536
Emergency room	4,075	4,528
Other	<u>13,719</u>	<u>10,056</u>
	<u>\$ 287,100</u>	<u>269,900</u>
	<u>2012</u>	<u>2011</u>
PREPAID EXPENSES:		
Insurance	\$ 44,481	49,058
Maintenance contracts	<u>164,518</u>	<u>209,671</u>
	<u>\$ 208,999</u>	<u>258,729</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Patient days:		
Adult and pediatric -		
Medicare	483	537
All other	260	276
Swing-bed -		
Skilled	1,771	1,602
Intermediate	399	624
Long-term care	<u>20,081</u>	<u>21,506</u>
Total	<u><u>22,994</u></u>	<u><u>24,545</u></u>
Patient discharges:		
Hospital adult and pediatric -		
Medicare	147	169
All other	<u>97</u>	<u>87</u>
Total	<u><u>244</u></u>	<u><u>256</u></u>
Average length of stay (based on discharge days):		
Hospital adult and pediatric -		
Medicare	3.29 days	3.18 days
All other	2.68 days	3.17 days
Surgical procedures	625	566
Emergency room visits	3,526	3,599
Number of employees - full-time equivalents	188.94	188.23

**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, 2012 and 2011, and have issued our report thereon, dated September 20, 2012. 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, 2012 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.

We noted certain matters that we reported to management of the Hospital in a separate letter dated September 20, 2012.

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 20, 2012.

Story County Hospital and Long-Term Care Facility

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

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-12

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-12

Official Depositories: A resolution naming official depositories has been adopted by the Board. However, an instance of non-compliance related to the official depositories was noted. Deposit limits at a financial institution were exceeded.

Recommendation: We recommend that Management monitor deposits at the resolution-approved financial institutions.

Response: Management is aware of the excess deposits and reduced deposits subsequent to the balance sheet date.

Conclusion: Response accepted.

III-B-12

Certified Budget: Hospital disbursements during the year ended June 30, 2012 did not exceed amounts budgeted

III-C-12

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-12

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

III-E-12

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.

Story County Hospital and Long-Term Care Facility

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

III-F-12

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

III-G-12

Deposits and Investments: We noted two instances of noncompliance with the deposit and investments provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

III-H-12

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, 2012**

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Jeremy J. Behrens, CHFP, CPA, Senior Manager

Becky S. Hoffman, Staff Auditor

Bryce A. Arp, Staff Auditor