

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2004 AND 2003

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
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STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
BOARD OF TRUSTEES
JUNE 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Anderson	Chairperson	2008
James Axline	Vice-Chairperson	2006
William Tufford	Secretary/Treasurer	2006
Pat Allen	Trustee	2004
Paula Teig	Trustee	2004
Glenda Bradshaw	Trustee	2004
Meg Tait	Trustee	2008

* * * * *

Todd Willert	Administrator
Steve Taylor	Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Story County Hospital and Long-Term Care Facility as of June 30, 2004 and 2003, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Story County Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Story County Hospital and Long-Term Care Facility as of June 30, 2004 and 2003, and the changes in financial position and cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 1 to the financial statements, Story County Hospital and Long-Term Care Facility adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of June 30, 2004. The financial statements as of and for the year ended June 30, 2003, have been reclassified to conform to the current year presentation.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 20, 2004 on our consideration of Story County Hospital and Long-Term Care Facility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 3 through page 8 and page 25 are not a required part of the basic financial statements, but is supplementary information required U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurements and presentations of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Story County Hospital and Long Term Care Facility's basic financial statements. The supplementary information from pages 26 to 32 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. The statistical data contained in the schedule of statistics on page 33 has been summarized from the Hospital's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.


LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 20, 2004

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

This section of the annual audited financial report represents management's discussion and analysis of the Hospital's financial performance during the fiscal year ended June 30, 2004 and 2003. The analysis will focus on the Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2004 and 2003 financial report includes the following audited financial statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements
- Required Supplementary Information
- Other Supplementary Information

Financial Highlights

- The Hospital's total assets increased by \$773,665 or 12.5% in 2004 and decreased by \$97,483 or 1.6% in 2003.
- Contractual allowances decreased by 4.98% in 2004, and 2.86% in 2003 due to the Critical Access Hospital designation.
- Net revenues increased by \$1,671,638 (15.5%) in 2004 and by \$549,606 (6.43%) in 2003.
- These favorable changes allowed the hospital to pay off its short term debt (warrants) and have a positive cash balance for the first time in many years.
- The Hospital's net assets increased 18.6% in 2004 and 1.3% in 2003.
- The Hospital reported positive operating income of \$551,523 in 2004 and a loss of \$5,668 in 2003. This represents an increase of \$557,191 in 2004 and a \$39,198 increase in 2003.

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

These financial statements report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the hospital's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the hospital that determines the hospital's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Also, supporting supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Net Patient Service Revenues and Other Revenue
- Schedule of Operating Expenses
- Schedules of Age Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Comparative Statistics

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

There was one significant change in the Hospital's accounting policies for the year ended June 30, 2004. The amount to qualify for an item as a capital expenditure increased from \$1,500 to \$5,000 dollars.

Financial Analysis of the Hospital

The information from the financial statements has been summarized in the tables below. Tables 1 and 2 report the net assets of the Hospital and the changes in them. Increases or decreases in net assets are one indicator of whether or not the hospital's financial health is improving. Other non-financial factors can also have an effect on the hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment in Story County and the surrounding areas.

Table 1: Assets, Liabilities, and Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current Assets	\$ 2,721,398	\$ 1,670,298	\$ 1,784,861
Noncurrent Cash and Investments	54,984	97,510	112,726
Capital Assets, Net	3,208,494	3,390,117	3,356,241
Succeeding Year Property Tax Receivable	945,839	999,125	1,000,705
Other Assets	<u>14,500</u>	<u>14,500</u>	<u>14,500</u>
Total Assets	<u><u>\$ 6,945,215</u></u>	<u><u>\$ 6,171,550</u></u>	<u><u>\$ 6,269,033</u></u>
Liabilities:			
Total Current Liabilities	\$ 1,340,234	\$ 1,075,810	\$ 1,244,418
Long-Term Debt (Less Current Maturities)	1,338,144	1,391,475	1,354,065
Deferred Revenue from Succeeding Year Property Tax Receivable	945,839	999,125	1,000,705
Other Liabilities	<u>3,943</u>	<u>5,474</u>	<u>5,618</u>
Total Liabilities	<u>3,628,160</u>	<u>3,471,884</u>	<u>3,604,806</u>
Total Net Assets	<u>3,317,055</u>	<u>2,699,666</u>	<u>2,664,227</u>
Total Liabilities and Net Assets	<u><u>\$ 6,945,215</u></u>	<u><u>\$ 6,171,550</u></u>	<u><u>\$ 6,269,033</u></u>

The Current Asset category increased significantly during 2004 (up by \$1,051,100) following a decline in 2003 (down by \$114,563). It was due to Cash and Cash Equivalents, which increased \$701,745 in 2004, and decreased \$27,412 in 2002. Accounts receivable also increased by \$383,423 in 2004.

The current ratio (current assets divided by current liabilities) for 2004 was 2.03 up from 1.55 in 2003. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

Table 2: Statement of Revenues, Expenses & Changes in Net Assets

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 11,905,511	\$ 10,262,206	\$ 9,995,236
Operating Expenses	<u>11,353,988</u>	<u>10,267,874</u>	<u>10,040,102</u>
Operating Income (Loss)	551,523	(5,668)	(44,866)
Non-Operating Revenues (Expenses)	<u>65,866</u>	<u>41,007</u>	<u>9,608</u>
Excess (Deficit) of Revenues over Expenses before Capital Grants and Contributions	617,389	35,339	(35,258)
Capital Grants and Contributions	<u>-</u>	<u>100</u>	<u>-</u>
Increase (Decrease) in Net Assets	617,389	35,439	(35,258)
Net Assets, Beginning of Year	<u>2,699,666</u>	<u>2,664,227</u>	<u>2,699,485</u>
Net Assets, End of Year	<u>\$ 3,317,055</u>	<u>\$ 2,699,666</u>	<u>\$ 2,664,227</u>

Operating Revenue increased by \$1,643,305 (13.8%) in 2004, and \$266,970 (2.7%) in 2003. Although acute days were virtually unchanged from 2003, patient volume for skilled days was up by 20.1% which brought with it a 24% increase (\$125,726) in gross revenue. Additionally, since contractual discounts are favorable for skilled days, the favorable cash flow effect was compounded and caused an overpayment from Medicare. (Note that the overpayment from Medicare has been reserved and is reflected in these financial statements.)

Other substantial revenue increases came from the surgery departments (operating room, recovery, and anesthesiology), where outpatient procedures were up by 30.1% from 2003 (the increase in procedures was also felt in the Central Supply department). Radiology was up due to the use of the mobile MRI for the first time and more frequent availability of the mobile CT. Rehabilitation was up again from the prior fiscal year by \$134,822.

Net patient service revenue made up 90.5% of the total revenue in 2004 and 88.7% in 2003. To arrive at net patient service revenue contractual adjustments have been deducted from gross patient service revenue due to agreements with third party payors such as Medicare Medicaid (Title XIX) and Blue Cross. Critical Access Hospital status increased reimbursement substantially from Medicare and Medicaid through a reduction in the contractual adjustment from 21.54% in 2002 to 13.97% (12.35% excluding the provision for bad debts) in 2004. The low percentage in 2004 contains a favorable prior year adjustment of \$372,235, without which the contractual discount would have been 16.95% (15.33% excluding the provision for bad debts).

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Table 3: Net Patient Service Revenue and Contractual Adjustments

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Patient Service Revenues	\$ 12,525,544	\$ 11,182,676	\$ 10,842,677
Contractual Adjustments and Provisions for Bad Debt	1,750,227	2,078,997	2,335,438
Net Patient Service Revenue	<u>\$ 10,775,317</u>	<u>\$ 9,103,679</u>	<u>\$ 8,507,239</u>
Contractual Adjustments as a Percent of Revenues	<u>13.97%</u>	<u>18.59%</u>	<u>21.54%</u>

Operating income (total operating revenue less total operating expenses divided by total operating revenue) was \$551,523 or 4.63% of total operating revenue in 2004 compared to an operating loss of \$5,668 or (0.06%) in 2003.

Other operating revenue decreased by \$28,333 or 2.4% in 2004 and decreased by \$64,367 or 5.3% in 2003. As in prior years, county tax revenue continues to decline as directed by the Board of Trustees (the amount for FYE 2005 is \$945,839). Miscellaneous contributions have fluctuated from year-to-year. Table 4 shows the detail for this category.

Table 4: Other Revenues

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Other Revenue:			
County Tax Apportionments	1,004,052	1,005,227	1,045,094
Meals Sold	26,992	26,121	25,253
Meals on Wheels	21,631	21,141	27,640
Dietary Consulting	9,646	5,100	7,310
Medical Records Transcripts	5,034	3,631	2,643
Social Service Consulting	2,383	2,401	2,546
Miscellaneous	60,456	94,906	112,408
Total Other Revenues	<u>\$ 1,130,194</u>	<u>\$ 1,158,527</u>	<u>\$ 1,222,894</u>

Total operating expenses increased by \$1,086,114 or 10.6% in 2004 and increased \$492,875 or 5.0% in 2003. The biggest change was in personnel expense (\$426,740, a 7.2% increase), mostly from wage increases processed in November of 2003 (3.8% over the prior year). We also had a volume variance in FTE's of 1.5%, mostly in Long Term Care (increased by 1.84 FTE's) which dramatically reduced its use of contract employees from \$120,810 to \$36,641 (a \$84,169 reduction). We pay about 55% more for agency staff versus our own.

Operating expenses are shown by department on the Schedule of Operating Expenses; please see pages 29 and 30 of the audited financial statements. Significant changes included insurance cost increasing by 90% over the prior year expense. (The cost of liability insurance increased substantially from \$92,002 in 2002, to \$119,812 in 2003, and \$227,682 in 2004.) The Mercy Contract for the Network agreement finally began charging a network fee of \$15,000 in 2003, and is currently \$25,000 in 2004.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Hospital Statistical Data

Table 5 shows the Hospital's statistical data. In comparison, there is a direct correlation between utilization changes and revenue changes except in long term care data where there was a decrease of 1,563 days but revenue increased by \$18,126 or 0.6%. This is a result of resident room rates being increased in 2004. Other changes in operations included those mentioned in radiology, greater CT availability (CT procedures increased from 177 to 186), and new this year MRI scans (126 were done).

Table 5: Statistical Data

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Patient Days			
Acute	401	409	482
Swing Bed	3,028	2,665	3,046
Long Term Care	24,460	26,023	25,368
Total	<u>27,889</u>	<u>29,097</u>	<u>28,896</u>
Admissions			
Acute	130	136	170
Swing Bed	113	99	104
Long Term Care	30	38	86
Total	<u>273</u>	<u>273</u>	<u>360</u>
Discharges			
Acute	128	136	173
Swing Bed	111	95	109
Long Term Care	33	41	85
Total	<u>272</u>	<u>272</u>	<u>367</u>
Average Length of Stay, Acute Beds	<u>3.12</u>	<u>3.07</u>	<u>2.76</u>
Acute and Swing	25	25	25
Long Term Care	80	80	80
Occupancy Percentage			
Acute and Swing, Based on 25 Beds	37.5%	33.7%	38.7%
Long Term Care, Based on 80 Beds	83.5%	89.1%	86.9%

The Hospital's Cash Flows

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier. Most importantly, the hospital was able to pay off its short term debt for the first time in many years and have a cash balance of \$739,010 at June 30, 2004.

Net accounts receivable days increased to 55 from 50 in 2003. The increase came from accounts that were in aging categories over 90 days old. This issue was already being addressed with our own collection staff but was discussed in detail with the auditors. The plan calls for handling all current accounts as they arise, and specific attention to the old accounts over 180 days. We expect the accounts will be resolved in 60 days.

Capital Assets

At June 30, 2004, the Hospital had \$3,208,494 invested in capital assets net of accumulated depreciation. In 2004, the Hospital expended \$248,747 to purchase new equipment. In 2003 the Hospital purchased new equipment costing \$451,474.

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**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004**

Long Term Debt

Table 6 shows a summary of the Hospital's long term debt outstanding.

Table 6: Long Term Debt

	<u>2004</u>	<u>2003</u>	<u>2002</u>
F&M Bank	\$ 75,966	\$ 104,061	\$ 136,050
US Bank	204,289	150,843	-
State Bank & Trust	1,163,889	1,233,205	1,297,342
Capital Lease Obligations	-	17,366	67,773
Total Long Term Debt	<u>\$ 1,444,144</u>	<u>\$ 1,505,475</u>	<u>\$ 1,501,165</u>

Each of the loans may be paid off in whole or in part before maturation. The US Bank loan was still being drawn at fiscal year end 2003. Since then the acute renovation project was completed and the loan is now being repaid on an amortization schedule. The State Bank & Trust loan for the Medical Office Building was at a 6% interest rate, however, it was renegotiated for 4.85% effective on August 1, 2004.

Economic Factors

The Hospital dramatically improved its financial position during the current year. However, the current condition of the economy continues to be a concern for Hospital officials. Some of the realities that may potentially become challenges for the Hospital are as follows:

- Expenses will continue to increase as the economy improves, we anticipate that healthcare workplace shortages will occur as individuals have more choices in the economy.
- State government may legislate to reduce the amount of reimbursement due for Title XIX SNF and LTC patients.
- Facilities at the Hospital require constant maintenance, upkeep, and replacement. The average age of our plant continues to increase, and resources will need to replace outdated plant and equipment.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.
- Potential changes in federal and state reimbursement for patient services.

The Hospital anticipates the current fiscal year will be much like the last, but without the favorable contractual adjustments. Management will maintain a close watch over resources to maintain the Hospital's ability to react to unknown issues.

Contacting the Hospital

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Administration at Story County Medical Center, 630 6th Street, Nevada, IA, 50201.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
BALANCE SHEETS
JUNE 30, 2004 AND 2003**

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 739,010	\$ 37,265
Patient Receivables, Less Allowance for Uncollectible Accounts (2004, \$306,903; 2003, \$271,903)	1,671,528	1,288,105
Other Receivables	20,874	40,504
Inventories	210,615	204,591
Prepaid Expenses	79,371	99,833
Total Current Assets	2,721,398	1,670,298
 NONCURRENT CASH AND INVESTMENTS		
Restricted by Resident Trust Agreement	3,943	5,474
Restricted by Contributors and Donors	51,041	92,036
Total Noncurrent Cash and Investments	54,984	97,510
 CAPITAL ASSETS, NET		
	3,208,494	3,390,117
 OTHER ASSETS		
Succeeding Year Property Tax Receivable	945,839	999,125
Other assets	14,500	14,500
Total Other Assets	960,339	1,013,625
 Total Assets	 \$ 6,945,215	 \$ 6,171,550

See accompanying Notes to Financial Statements.

	<u>2004</u>	<u>2003</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 106,000	\$ 114,000
Warrants Payable, Bank	-	150,000
Accounts Payable	269,109	220,986
Accrued Expenses	573,990	532,800
Due to Third-Party Payors	391,135	58,024
Total Current Liabilities	<u>1,340,234</u>	<u>1,075,810</u>
OTHER LIABILITIES		
Deferred Revenue For Succeeding Year Property Tax	945,839	999,125
Resident Trust Fund	3,943	5,474
Total Other Liabilities	<u>949,782</u>	<u>1,004,599</u>
LONG-TERM DEBT		
Capital Lease Obligations	-	17,366
Notes Payable	1,444,144	1,488,109
Less Current Maturities	(106,000)	(114,000)
Total Long-Term Debt	<u>1,338,144</u>	<u>1,391,475</u>
Total Liabilities	3,628,160	3,471,884
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	1,764,350	1,884,642
Restricted		
By Contributors and Grantors	51,041	92,036
Unrestricted	1,501,664	722,988
Total Net Assets	<u>3,317,055</u>	<u>2,699,666</u>
Total Liabilities and Net Assets	<u>\$ 6,945,215</u>	<u>\$ 6,171,550</u>

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of \$202,924 in 2004 and \$280,238 in 2003)	\$ 10,775,317	\$ 9,103,679
Other Revenues	1,130,194	1,158,527
Total Revenues	11,905,511	10,262,206
EXPENSES		
Salaries and Wages	5,201,184	4,903,857
Employee Benefits	1,136,907	1,007,494
Professional Fees	1,435,789	1,234,843
Utilities	206,179	179,195
Management, Legal, and Accounting Fees	65,883	47,218
Insurance	227,682	119,812
Supplies and Miscellaneous	2,549,904	2,259,438
Depreciation	426,835	419,269
Interest	103,625	96,748
Total Expenses	11,353,988	10,267,874
OPERATING INCOME (LOSS)	551,523	(5,668)
NON-OPERATING GAINS		
Investment Income	1,412	3,359
Grants	13,976	1,500
Contributions	49,738	36,048
Gain on Sale of Property and Equipment	740	100
Total Non-operating Income	65,866	41,007
EXCESS OF REVENUES AND GAINS OVER EXPENSES AND LOSSES	617,389	35,339
Capital Contributions and Grants	-	100
Increase in Net Assets	617,389	35,439
Net Assets Beginning of Year	2,699,666	2,664,227
Net Assets End of Year	\$ 3,317,055	\$ 2,699,666

See accompanying Notes to Financial Statements.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 10,725,005	\$ 9,271,373
Cash Paid to Employees	(6,297,753)	(5,906,320)
Cash Paid to Suppliers	(4,403,246)	(3,908,945)
Cash Paid for Interest	(102,773)	(99,391)
Other Receipts and Payments, Net	1,130,194	1,158,527
Net Cash Provided by Operating Activities	<u>1,051,427</u>	<u>515,244</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Restricted and Unrestricted Contributions and Grants	63,714	37,648
Warrant Proceeds	650,000	550,000
Warrant Principal Payments	(800,000)	(700,000)
Net Cash Used by Non-Capital Financing Activities	<u>(86,286)</u>	<u>(112,352)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(248,747)	(451,475)
Cash Received from Sale of Property and Equipment	4,276	-
Payments on Long Term Debt	(134,491)	(146,559)
Proceeds from Issuance of Long Term Debt	73,159	150,843
Net Cash Used by Capital and Related Financing Activities	<u>(305,803)</u>	<u>(447,191)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in Noncurrent Cash and Investments	40,995	13,528
Interest Income	1,412	3,359
Net Cash Provided by Financing Activities	<u>42,407</u>	<u>16,887</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	701,745	(27,412)
Cash and Cash Equivalents - Beginning	<u>37,265</u>	<u>64,677</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 739,010</u>	<u>\$ 37,265</u>

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003**

	2004	2003
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income (Loss) from Operations	\$ 551,523	\$ (5,668)
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	426,835	419,269
Decrease (Increase) in -		
Patient Receivables	(383,423)	104,347
Other Receivables	19,630	18,061
Inventories	(6,024)	19,086
Prepaid Expenses	20,462	(59,666)
Due from Third-Party Payors	-	5,323
Increase (Decrease) in -		
Accounts Payable	48,123	(45,920)
Accrued Salaries, Wages, Benefits and Other	41,190	5,031
Third Party Payor Settlements Payable	333,111	58,024
	<u>\$ 1,051,427</u>	<u>\$ 517,887</u>

See accompanying Notes to Financial Statements.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hospital is a county public hospital in the city of Nevada, Iowa, organized under Chapter 347, Code of Iowa. Services are provided primarily to residents of Story and surrounding counties in central Iowa.

A. Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions, and authorities. The Hospital has also considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Government Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the organization to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the organization. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Accounting

Basis of accounting refers to when revenues 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 U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting the financial activity of its proprietary funds, 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 Procedures.

The Hospital has adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*; and Statement No. 38, *Certain Financial Statement Note Disclosures* in these financial statements effective July 1, 2003. These financial statements as of and for the year ended June 30, 2003 have been reclassified to conform to the current year's presentation. The GASB pronouncements established financial reporting standards for state and local government entities. The impact of this accounting change primarily relates to the format of the financial statements, presentations of net assets, and the inclusion of management's discussion and analysis.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the balance sheets:

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Hospital considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Patient Receivables - Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts and contractual adjustments from third party payors. The Hospital provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is generally required within 30 days. Accounts past due 90 days are individually analyzed for collectibility and those deemed uncollectible are written off on a monthly basis.

Inventory - Inventory is valued at cost using the first-in, first-out method.

Capital Assets, Net – Capital Assets are stated on the basis of cost. The provisions for depreciation are computed on the straight-line basis over the estimated useful lives of the depreciable assets. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets.

Succeeding Year 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.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Net Assets (Continued)

Deferred Revenue for Succeeding Year Property Receivable – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

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

E. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Organization's principal activity. In addition, county tax apportionments received are also included in operating revenues. Other revenues, including interest income, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Contributions

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

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Net Patient Service Revenue

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. Medicare and Medicaid cost reports have been settled through June 30, 2001.

G. 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. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. Charity care provided during the years ended June 30, 2004 and 2003 was \$122,449 and \$82,683, respectively.

H. County Tax Revenue

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

I. Reclassification of 2003 Data

Data in the 2003 financial statements have been reclassified to conform with the 2004 basis of presentation. The reclassifications have no effect on the previously reported net income or equity.

NOTE 2 NET PATIENT SERVICE REVENUES

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 follows.

Medicare

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 2 NET PATIENT SERVICE REVENUES (CONTINUED)

Medicaid

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports.

Other

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

A summary of patient service revenue and contractual adjustments is as follows:

	<u>2004</u>	<u>2003</u>
Total Patient Service Revenue	\$ 12,525,544	\$ 11,182,676
Contractual Adjustments:		
Medicare	1,238,099	999,471
Medicaid	(239,203)	322,844
Provision for Bad Debt	202,924	280,238
Other	<u>548,407</u>	<u>476,444</u>
Total Contractual Adjustments and Bad Debt	<u>1,750,227</u>	<u>2,078,997</u>
Net Patient Service Revenues	<u>\$ 10,775,317</u>	<u>\$ 9,103,679</u>

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Receivable from Patients and Their Insurance Carriers	\$ 943,728	\$ 826,010
Receivable from Medicare	542,211	451,315
Receivable from Medicaid	<u>492,492</u>	<u>282,683</u>
Total Patient Receivables	1,978,431	1,560,008
Less Allowance for Doubtful Accounts	<u>(306,903)</u>	<u>(271,903)</u>
Patient Receivables, Net	<u>\$ 1,671,528</u>	<u>\$ 1,288,105</u>

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 4 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2004 and 2003 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's cash and cash equivalents and investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's cash and cash equivalents and investments are all Category 1 which means that the cash and cash equivalents and investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name.

At June 30, 2004 and 2003, the Hospital had bank balances as follows:

	<u>2004</u>	<u>2003</u>
Insured or Collateralized by Iowa Insurance Trust	\$ 942,962	\$ 263,959
Carrying Amount	<u>\$ 793,994</u>	<u>\$ 134,775</u>

The carrying amount of deposits and investments shown above are included in the Hospital's balance sheet as follows:

	<u>2004</u>	<u>2003</u>
Deposits	\$ 793,994	\$ 134,775
	<u>\$ 793,994</u>	<u>\$ 134,775</u>

Included in the following balance sheet captions

Cash and Cash Equivalents	\$ 739,010	\$ 37,265
Noncurrent Cash and Investments		
Restricted by Resident Trust Agreement	3,943	5,474
Restricted by Contributors and Donors	51,041	92,036
	<u>\$ 793,994</u>	<u>\$ 134,775</u>

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 5 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2004 and 2003 are as follows:

	June 30, 2003	Additions	Transfers and Retirements	June 30, 2004
Capital Assets				
Land and Land Improvements	\$ 107,601	\$ -	\$ 17,265	\$ 124,866
Building	4,758,082	10,273	-	4,768,355
Fixed Equipment	1,489,418	59,350	-	1,548,768
Major Movable Equipment	2,467,622	179,124	(44,267)	2,602,479
Construction in Progress	17,265	-	(17,265)	-
Totals	8,839,988	248,747	(44,267)	9,044,468
Accumulated Depreciation				
Land Improvements	45,371	3,927	-	49,298
Building	2,470,499	163,596	-	2,634,095
Fixed Equipment	1,039,048	55,268	-	1,094,316
Major Movable Equipment	1,894,953	204,044	(40,732)	2,058,265
Total	5,449,871	\$ 426,835	\$ (40,732)	5,835,974
	<u>\$ 3,390,117</u>			<u>\$ 3,208,494</u>
	June 30, 2002	Additions	Transfers and Retirements	June 30, 2003
Capital Assets				
Land and Land Improvements	\$ 107,601	\$ -	\$ -	\$ 107,601
Building	4,456,021	11,969	290,092	4,758,082
Fixed Equipment	1,480,167	9,251	-	1,489,418
Major Movable Equipment	2,286,956	145,216	35,450	2,467,622
Construction in Progress	56,098	286,709	(325,542)	17,265
Totals	8,386,843	453,145	-	8,839,988
Accumulated Depreciation				
Land Improvements	41,426	3,945	-	45,371
Building	2,315,868	154,631	-	2,470,499
Fixed Equipment	980,773	58,275	-	1,039,048
Major Movable Equipment	1,692,535	202,418	-	1,894,953
Total	5,030,602	\$ 419,269	\$ -	5,449,871
	<u>\$ 3,356,241</u>			<u>\$ 3,390,117</u>

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 6 LONG-TERM DEBT

A schedule of changes in long-term debt for 2004 and 2003 is as follows:

	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Note Payable to F & M Bank	\$ 104,061	\$ -	\$ (28,095)	\$ 75,966	\$ 15,000
Note Payable to U.S. Bank	150,843	73,159	(19,713)	204,289	18,000
Note Payable to State Bank and Trust	1,233,205	-	(69,316)	1,163,889	73,000
Obligations Under Capital Lease	<u>17,366</u>	<u>-</u>	<u>(17,366)</u>	<u>-</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 1,505,475</u>	<u>\$ 73,159</u>	<u>\$ (134,490)</u>	<u>\$ 1,444,144</u>	<u>\$ 106,000</u>

	Balance July 1, 2002	Additions	(Payments)	Balance June 30, 2003	Amounts Due Within One Year
Note Payable to F & M Bank	\$ 5,115	\$ -	\$ (5,115)	\$ -	\$ -
Note Payable to F & M Bank	130,935	-	(26,874)	104,061	28,095
Note Payable to U.S. Bank	-	150,843	-	150,843	-
Note Payable to State Bank and Trust	1,297,342	-	(64,137)	1,233,205	68,539
Obligations Under Capital Lease	<u>67,773</u>	<u>-</u>	<u>(50,407)</u>	<u>17,366</u>	<u>17,366</u>
Total Long-Term Debt	<u>\$ 1,501,165</u>	<u>\$ 150,843</u>	<u>\$ (146,533)</u>	<u>\$ 1,505,475</u>	<u>\$ 114,000</u>

The note payable to F & M Bank requires a semi-annual payment of principal and interest with interest at the rate of 4.52%. Principal and interest payments are due through November 2006. The note is secured by equipment.

The note payable to U.S. Bank is a construction loan with a limit of \$275,000. The note requires monthly interest payments during the construction period with interest at the rate of 4.99%.

The note payable to State Bank and Trust requires a semi-annual payment of principal and interest with interest at the rate of 6.00%. Principal and interest payments are due through May 2015. The note was for the construction of the new medical office building. During the year ended June 30, 2003 the Hospital capitalized interest expense of \$4,683. There was no interest capitalized in 2004.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 6 LONG-TERM DEBT (CONTINUED)

The Hospital leased computer equipment under a capital lease arrangement. The lease required monthly payments of principal and interest through November 2003, and had an effective interest rate of 4.90%.

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

Years Ending June 30:	Long Term Debt	
	Principal	Interest
2005	\$ 106,000	\$ 81,000
2006	112,000	75,000
2007	118,000	69,000
2008	124,000	63,000
2009	131,000	56,000
2010-2014	655,000	168,000
2015-2019	198,144	12,000
	<u>\$ 1,444,144</u>	<u>\$ 524,000</u>

The following is the leased equipment by major class at June 30, 2004 and 2003:

	2004	2003
Equipment	\$ -	\$ 331,256
Less Accumulated Depreciation	-	(253,963)
Net Property Under Capital Lease	<u>\$ -</u>	<u>\$ 77,293</u>

NOTE 7 WARRANTS PAYABLE

The warrants Payable at June 30, 2003 represented obligations of the Hospital issued under Chapter 74 of the Code of Iowa. The unsecured obligations had interest rates of 2.75%. There were no warrants outstanding at June 30, 2004.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 8 PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were approximately \$292,000, \$274,000, and \$249,000, respectively, equal to the required contributions for each year.

NOTE 9 DEFERRED COMPENSATION AGREEMENTS

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

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

The agreements are funded with various mutual fund investments, stated at fair market value. The fair market value of the plan was \$340,444 and \$252,954 at June 30, 2004 and 2003, respectively.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Hospital 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. There has been no significant reduction in insurance coverage from the previous year in any of the Hospital's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Hospital has insurance coverage to provide protection for professional liability losses on a claims made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE 11 SUBSEQUENT EVENT

Subsequent to year end the Hospital was approved for an \$800,000 line of credit loan for the purpose of purchasing new equipment. To date no funds have been drawn under this loan agreement.

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REQUIRED SUPPLEMENTARY INFORMATION

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**STORY COUNTY HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2004**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 1,004,052	\$ -	\$ 1,004,052	\$ 999,125	\$ 4,927
Estimated Other Revenues/ Receipts	<u>10,967,325</u>	<u>717,378</u>	<u>11,684,703</u>	<u>9,987,492</u>	<u>1,697,211</u>
	11,971,377	717,378	12,688,755	10,986,617	1,702,138
Expenses/Disbursements	<u>11,353,988</u>	<u>633,022</u>	<u>11,987,010</u>	<u>12,000,000</u>	<u>(12,990)</u>
Net	617,389	84,356	701,745	(1,013,383)	1,715,128
Balance Beginning of Year	<u>2,699,666</u>	<u>(2,662,401)</u>	<u>37,265</u>	<u>120,442</u>	<u>(83,177)</u>
Balance End of Year	<u>\$ 3,317,055</u>	<u>\$ (2,578,045)</u>	<u>\$ 739,010</u>	<u>\$ (892,941)</u>	<u>\$ 1,631,951</u>

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following the 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.

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OTHER SUPPLEMENTARY INFORMATION

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003**

	TOTAL	
	2004	2003
PATIENT CARE SERVICES		
Medical and Surgical	\$ 266,098	\$ 269,285
Swing Bed	651,216	519,539
Long-Term Care	2,597,972	2,617,594
Total	3,515,286	3,406,418
 OTHER PROFESSIONAL SERVICES		
Operating & Recovery Room	841,230	743,486
Anesthesiology	383,124	242,950
Radiology	801,978	602,012
Laboratory	1,201,003	1,032,812
Respiratory Therapy	89,064	97,923
 Physical Therapy	1,236,628	1,070,064
Occupational Therapy	203,453	218,911
Speech Therapy	8,412	22,701
Electrocardiology	85,581	86,900
 Medical and Surgical Supplies	920,906	694,553
Pharmacy	1,121,173	937,280
Clinic	1,340,724	1,238,347
Emergency Room	358,483	327,584
 Ambulance	420,117	461,781
Psychologist	9,491	7,456
Acupuncture	74,517	48,723
Wellness Center	36,823	25,457
Total	9,132,707	7,858,940
 Subtotal	12,647,993	11,265,358
 Charity Care	(122,449)	(82,682)
 Total Patient Service Revenues	12,525,544	11,182,676
 Adjustments to Patient Services Revenues	(1,750,227)	(2,078,997)
 Net Patient Service Revenues	\$ 10,775,317	\$ 9,103,679

INPATIENT		OUTPATIENT		LONG-TERM CARE	
2004	2003	2004	2003	2004	2003
\$ 205,770	\$ 203,166	\$ 60,328	\$ 66,119	\$ -	\$ -
651,216	519,539	-	-	-	-
-	-	-	-	2,597,972	2,617,594
<u>856,986</u>	<u>722,705</u>	<u>60,328</u>	<u>66,119</u>	<u>2,597,972</u>	<u>2,617,594</u>
103,221	166,619	738,009	576,867	-	-
42,067	49,296	341,057	193,654	-	-
79,329	63,022	722,649	538,990	-	-
170,203	150,812	1,030,800	882,000	-	-
82,892	90,944	6,172	6,979	-	-
271,177	170,623	965,451	899,441	-	-
107,002	80,053	96,451	138,858	-	-
3,203	8,473	5,209	14,228	-	-
1,284	3,839	84,297	83,061	-	-
398,720	297,571	454,768	359,076	67,418	37,906
432,980	321,703	381,053	298,136	307,140	317,441
-	-	1,340,724	1,238,347	-	-
2,944	13,780	355,539	313,804	-	-
-	-	420,117	461,781	-	-
-	-	9,491	7,456	-	-
-	-	74,517	48,723	-	-
-	-	36,823	25,457	-	-
<u>1,695,022</u>	<u>1,416,735</u>	<u>7,063,127</u>	<u>6,086,858</u>	<u>374,558</u>	<u>355,347</u>
<u>\$ 2,552,008</u>	<u>\$ 2,139,440</u>	<u>\$ 7,123,455</u>	<u>\$ 6,152,977</u>	<u>\$ 2,972,530</u>	<u>\$ 2,972,941</u>

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**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE
REVENUES AND OTHER REVENUES
YEARS ENDED JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUE		
Contractual Adjustments - Medicare	\$ 1,238,099	\$ 999,471
Contractual Adjustments - Medicaid	(239,203)	322,844
Provision for Bad Debts	202,924	280,238
Other Allowances and Adjustments	548,407	476,444
Total Adjustments	<u>\$ 1,750,227</u>	<u>\$ 2,078,997</u>
 OTHER REVENUES		
Tax Apportionments	\$ 1,004,052	\$ 1,005,227
Meals Sold	26,992	26,121
Meals on Wheels	21,631	21,141
Dietary Consulting	9,646	5,100
Medical Records Transcripts	5,034	3,631
Social Service Consulting	2,383	2,401
Miscellaneous	60,456	94,906
Total Other Revenues	<u>\$ 1,130,194</u>	<u>\$ 1,158,527</u>

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2004 AND 2003**

	SALARIES	
	2004	2003
Capital Related Costs - Building and Fixtures	\$ -	\$ -
Capital Related Costs - Moveable Equipment	-	-
Employee Benefits	-	-
Administrative and General	272,645	263,970
Operation of Plant	128,916	114,521
Laundry and Linen	19,884	17,635
Housekeeping	181,455	175,089
Dietary	281,186	264,277
Nursing Administration	-	-
Central Supply	46,859	46,153
Medical Records	76,276	74,421
Social Service	89,816	84,064
Adults and Pediatrics	724,340	700,144
Long-Term Care	1,297,508	1,212,480
Operating Room	216,080	220,739
Anesthesiology	-	-
Radiology	116,172	106,107
Laboratory	214,430	197,960
Respiratory Therapy	12,480	12,480
Physical Therapy	-	-
Occupational Therapy	-	-
Speech Pathology	-	-
Electrocardiology	17,594	31,043
Pharmacy	22,281	19,554
Zearing Clinic	128,787	116,771
Nevada Clinic	877,656	781,987
Maxwell Clinic	104,017	98,343
After-Hours Clinic	743	682
Emergency	59,960	46,243
Ambulance	179,836	198,273
Wellness Center	79,838	76,625
Psychologist	374	1,424
Acupuncture	52,051	42,872
Interest Expense	-	-
TOTAL	<u>\$ 5,201,184</u>	<u>\$ 4,903,857</u>

OTHER		TOTAL	
2004	2003	2004	2003
\$ 222,793	\$ 216,849	\$ 222,793	\$ 216,849
204,042	202,419	204,042	202,419
1,136,907	1,007,494	1,136,907	1,007,494
746,491	572,235	1,019,136	836,205
253,530	222,395	382,446	336,916
93,941	41,957	113,825	59,592
40,049	36,939	221,504	212,028
240,488	208,273	521,674	472,550
92,182	83,010	92,182	83,010
166,391	123,859	213,250	170,012
17,372	16,083	93,648	90,504
2,549	1,080	92,365	85,144
80,977	84,804	805,317	784,948
152,407	199,359	1,449,915	1,411,839
165,869	100,837	381,949	321,576
125,863	72,766	125,863	72,766
218,660	184,526	334,832	290,633
234,941	197,001	449,371	394,961
14,113	16,209	26,593	28,689
501,460	456,997	501,460	456,997
75,662	91,021	75,662	91,021
7,481	13,615	7,481	13,615
14,999	6,548	32,593	37,591
516,483	464,482	538,764	484,036
92,623	69,343	221,410	186,114
198,170	162,054	1,075,826	944,041
49,733	35,293	153,750	133,636
-	-	743	682
305,104	309,831	365,064	356,074
49,731	48,820	229,567	247,093
6,135	5,963	85,973	82,588
4,004	3,653	4,378	5,077
18,029	11,554	70,080	54,426
103,625	96,748	103,625	96,748
<u>\$ 6,152,804</u>	<u>\$ 5,364,017</u>	<u>\$ 11,353,988</u>	<u>\$ 10,267,874</u>

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE
FROM PATIENTS AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2004 AND 2003**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2004		2003	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 1,027,777	48.2 %	\$ 973,946	55.3 %
31-60 Days	217,411	10.2	308,644	17.5
61-90 Days	100,279	4.7	119,393	6.8
91 Days and Over	786,381	36.9	359,713	20.4
Total Accounts Receivable	<u>\$ 2,131,848</u>	<u>100.0 %</u>	<u>\$ 1,761,696</u>	<u>100.0 %</u>
ALLOWANCES				
Contractual - Medicare	\$ 162,107		\$ 127,107	
Medicaid and Others	(8,690)		74,581	
Doubtful Accounts	306,903		271,903	
Net Accounts Receivable	<u>\$ 1,671,528</u>		<u>\$ 1,288,105</u>	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>\$ 30,077</u>		<u>\$ 25,709</u>	
Days of net Revenue in net Accounts Receivable at Year End	<u>56</u>		<u>50</u>	

Analysis of Allowance for Doubtful Accounts

	2004		2003	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 271,903		\$ 263,812	
Add:				
Provision for Doubtful Accounts	202,924	2.16 %	280,238	3.19 %
Recoveries Previously Written Off	82,532	0.88 %	75,992	0.87 %
	<u>285,456</u>		<u>356,230</u>	
Deduct:				
Accounts Written Off	<u>(250,456)</u>	(2.67)%	<u>(348,139)</u>	(3.97)%
Ending Balance	<u>\$ 306,903</u>		<u>\$ 271,903</u>	

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
FOR THE JUNE 30, 2004 AND 2003**

	<u>2004</u>	<u>2003</u>
INVENTORIES		
Central Stores	\$ 49,620	\$ 58,613
Pharmacy	55,047	48,974
Laboratory	36,027	38,855
Dietary	13,112	12,488
Operating Room	31,465	31,235
Emergency Room	5,051	3,507
Radiology	5,561	4,241
Other	<u>14,732</u>	<u>6,678</u>
 Total Inventories	 <u>\$ 210,615</u>	 <u>\$ 204,591</u>
 PREPAID EXPENSES		
Employee Health Insurance	\$ 42,428	\$ 37,010
Maintenance	9,907	9,592
Other	<u>27,036</u>	<u>53,231</u>
 Total Prepaid Expenses	 <u>\$ 79,371</u>	 <u>\$ 99,833</u>

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
SCHEDULES OF COMPARATIVE STATISTICS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)**

	<u>2004</u>	<u>2003</u>
ACUTE		
Admissions	130	136
Discharges	128	136
Average Length of Stay	3.1	3.0
Patient Days	401	409
Occupancy Percentage	4.39%	4.48%
Beds	25	25
SWING BED		
Admissions	113	99
Discharges	111	95
Patient Days	2,065	2,256
LONG-TERM CARE		
Admissions	30	38
Discharges	33	41
Patient Days	24,460	26,023
Occupancy Percent	83.77%	89.12%
Beds	80	80

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the accompanying financial statements of Story County Hospital and Long-Term Care Facility as of June 30, 2004 and 2003, which collectively comprise Story County Hospital and Long-Term Care Facility's basic financial statements have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, 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 Story County Hospital and Long-Term Care Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Story County Hospital and Long-Term Care Facility's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance 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 non-compliance that are required to be reported under *Government Auditing Standards*.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Story County Hospital and Long-Term Care Facility and other parties to whom Story County Hospital and Long-Term Care Facility may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Larson, Allen, Weishair & Co., LLP
LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
August 20, 2004

**STORY COUNTY HOSPITAL
AND LONG-TERM CARE FACILITY
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004**

- 04-1 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, 2004.
- 04-2 Certified Budget -
Hospital revenues and disbursements during the year ended June 30, 2004 did not exceed amounts budgeted.
- 04-3 Questionable Expenditures -
We noted no expenditures that we believe may constitute unlawful expenditures from public funds as defined in an Attorney General's opinion dated April 25, 1979.
- 04-4 Travel Expense -
No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- 04-5 Business Transactions -
No business transactions between the Hospital and Hospital officials and/or employees that are considered to be a conflict of interest were noted.
- 04-6 Board Minutes -
No transactions were found that we believe should have been approved in the Board minutes but were not.
- 04-7 Deposits and Investments -
No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.
- 04-8 Publication of Bills Allowed and Salaries-
Chapter 347.13(15) of the Code of Iowa states "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 newspapers the schedule of salaries paid by job classification and category...". The Hospital did publish the required schedules of bills allowed for all quarters and the annual schedule of salaries.