

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2005 AND 2004**

**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, 2005

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
David Anderson	Chairperson	2008
James Axline	Vice-Chairperson	2006
William Tufford	Secretary/Treasurer	2006
Glenda Bradshaw	Trustee	2010
Michael Nusbaum	Trustee	2010
Gaylan Scofield	Trustee	2010
Meg Tait	Trustee	2008

\* \* \* \* \*

Todd Willert	Administrator
Maggie Hamilton-Beyer	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 and for the years ended June 30, 2005 and 2004, 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 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, 2005 and 2004, and the changes in financial position and cash flows thereof for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 26, 2005 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 or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 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 25 to 31 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 32 has been summarized from the Hospital's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.

A handwritten signature in black ink that reads "Larson, Allen, Weishaar & Co., LLP". The signature is written in a cursive, flowing style.

**LARSON, ALLEN, WEISHAIR & CO., LLP**

Austin, Minnesota  
August 26, 2005

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

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, 2005 and 2004. 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, 2005 and 2004 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 \$278,265 or 4.0% in 2005 and by \$773,665 or 12.5% in 2004.
- Contractual allowances as a percent of Total Patient Revenues increased by 4.26% in 2005, and decreased by 4.62% in 2004.
- Net patient revenues decreased by \$479,601 (4.45%) in 2005 and increased by \$1,671,638 (15.5%) in 2004.
- Favorable changes in 2004 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 cash balance of the hospital in 2005 remains about the same as the prior year and the hospital did not use any warrants for fiscal support during the past year of operations.
- Patient Receivables, Less Allowance for Uncollectible Accounts decreased by \$198,498 or 11.8% in 2005.
- The Hospital's net assets decreased \$169,419 or 4.8% in 2005 and increased \$617,389 or 22.8% in 2004.

The Hospital reported an operating loss of \$1,180,565 in 2005 compared to a loss of \$452,529 in 2004. The current operating loss was driven by reductions in inpatient and long term care activity coupled with a significant increase in contractual adjustments. Finally, hospital costs overall in 2005 experienced minimal growth of 2.0% compared to 2004.

**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.

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**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

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
- Schedules of Inventories and Prepaid Expenses
- Comparative Statistics

**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>2005</u>	<u>2004</u>	<u>2003</u>
<b>Assets:</b>			
Current Assets	\$ 2,535,908	\$ 2,721,398	\$ 1,670,298
Noncurrent Cash and Investments	41,748	54,984	97,510
Capital Assets, Net	3,642,172	3,208,494	3,390,117
Succeeding Year Property Tax Receivable	989,152	945,839	999,125
Other Assets	14,500	14,500	14,500
<b>Total Assets</b>	<u><u>\$ 7,223,480</u></u>	<u><u>\$ 6,945,215</u></u>	<u><u>\$ 6,171,550</u></u>
<b>Liabilities:</b>			
Total Current Liabilities	\$ 1,877,436	\$ 1,340,234	\$ 1,075,810
Long-Term Debt (Less Current Maturities)	1,196,528	1,338,144	1,391,475
Deferred Revenue from Succeeding Year			
Property Tax Receivable	989,152	945,839	999,125
Other Liabilities	4,728	3,943	5,474
<b>Total Liabilities</b>	<u><u>4,067,844</u></u>	<u><u>3,628,160</u></u>	<u><u>3,471,884</u></u>
<b>Net Assets:</b>			
Invested in Capital Assets Net of Related Debt	2,318,644	1,764,350	1,884,642
Restricted			
By Contributors and Grantors	37,020	51,041	92,036
Unrestricted	799,972	1,501,664	722,988
<b>Total Net Assets</b>	<u><u>3,155,636</u></u>	<u><u>3,317,055</u></u>	<u><u>2,699,666</u></u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 7,223,480</u></u>	<u><u>\$ 6,945,215</u></u>	<u><u>\$ 6,171,550</u></u>

Total Assets have increased by 4.0% or \$278,265 in 2005. Current Asset category decreased slightly during 2005 (down by \$185,490) following an increase in 2004 (up by \$1,051,100). Accounts receivable have decreased by \$198,498 or 11.8% in 2005. Also, due to improved cash flow of the last two years, the hospital has been able to make much needed capital purchases as indicated by the increase in capital assets, net found above.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

The current ratio (current assets divided by current liabilities) for 2005 was 1.35 down from 2.03 in 2004. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred.

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>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues:			
Net Patient Service Revenue	\$ 10,295,716	\$ 10,775,317	\$ 9,103,679
Other Revenues	118,411	126,142	153,300
Total Revenues	<u>10,414,127</u>	<u>10,901,459</u>	<u>9,256,979</u>
Operating Expenses:			
Salaries and Wages	5,613,415	5,207,803	4,905,671
Employee Benefits	1,265,885	1,136,907	1,007,494
Professional Fees	1,403,783	1,434,129	1,233,409
Utilities	214,991	206,179	179,195
Management, Legal, and Accounting Fees	54,530	65,883	47,218
Insurance	204,526	227,682	119,812
Supplies and Miscellaneous	2,380,456	2,544,945	2,259,059
Depreciation	381,328	426,835	419,268
Interest	75,778	103,625	96,748
Total Expenses	<u>11,594,692</u>	<u>11,353,988</u>	<u>10,267,874</u>
Operating Income (Loss)	(1,180,565)	(452,529)	(1,010,895)
Non-Operating Revenues (Expenses)	<u>1,004,146</u>	<u>1,069,918</u>	<u>1,046,234</u>
Excess (Deficit) of Revenues over Expenses before Capital Grants and Contributions	(176,419)	617,389	35,339
Capital Grants and Contributions	<u>15,000</u>	-	<u>100</u>
Increase (Decrease) in Net Assets	(161,419)	617,389	35,439
Net Assets, Beginning of Year	<u>3,317,055</u>	<u>2,699,666</u>	<u>2,664,227</u>
Net Assets, End of Year	<u>\$ 3,155,636</u>	<u>\$ 3,317,055</u>	<u>\$ 2,699,666</u>

Operating Revenue decreased by \$487,332 (4.5%) in 2005, and increased \$1,644,480 (17.8%) in 2004. This change was driven by a 5.50% decrease in acute and swing bed patient days coupled with a 6.22% reduction in Long Term Care resident days of care. Additionally, contractual discounts for the Medicare program changed only slightly, but Medicaid discounts increased dramatically due to payment rate changes from 2004 to 2005.

Other revenue increases came from Laboratory, Occupational Therapy, Emergency Room, Acupuncture, Wellness Center and most of all the addition of the Slater Medical Clinic. Volumes reported for Occupational Therapy were up by 40.99% in 2005.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

Net patient service revenue made up 92.1% of the total revenue in 2005 and 92.0% in 2004. 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. As mentioned previously, net patient service revenues decreased due to some reductions in patient volumes in service lines along with a sharp increase in contractual allowances for Medicaid due to a rate change.

**Table 3: Net Patient Service Revenue and Contractual Adjustments**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total Patient Service Revenues	\$ 12,592,511	\$ 12,525,544	\$ 11,182,676
Contractual Adjustments and Provisions for Bad Debt	2,296,795	1,750,227	2,078,997
Net Patient Service Revenue	<u>\$ 10,295,716</u>	<u>\$ 10,775,317</u>	<u>\$ 9,103,679</u>
Contractual Adjustments as a Percent of Revenues	<u>18.24%</u>	<u>13.97%</u>	<u>18.59%</u>

Operating losses (total operating revenue less total operating expenses divided by total operating revenue) was \$1,180,565 or -11.3% of total operating revenue in 2005 compared to an operating loss of \$452,529 or -4.17% in 2004.

Other operating revenue decreased by \$7,731 or 6.1% in 2005 and decreased by \$27,158 or 17.7% in 2004. Miscellaneous contributions have fluctuated from year-to-year. Table 4 shows the detail for this category.

**Table 4: Other Revenues**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Other Revenue:			
Meals Sold	\$ 29,321	\$ 26,992	\$ 26,121
Meals on Wheels	18,429	21,631	21,141
Dietary Consulting	9,892	9,646	5,100
Medical Records Transcripts	2,817	5,034	3,631
Social Service Consulting	6,112	2,383	2,401
Miscellaneous	51,840	60,456	94,906
Total Other Revenues	<u>\$ 118,411</u>	<u>\$ 126,142</u>	<u>\$ 153,300</u>

Total operating expenses increased by \$204,704 or 2.0% in 2005 and increased \$1,086,114 or 10.6% during 2004. The only other line item on the income statement experiencing an increase in 2005 was utilities. The following expense line items (page 11 of the audited financial statements) were down in 2005 compared to the prior year: Professional Fees, Management, Legal and Accounting Fees, Insurance, Supplies and Miscellaneous, Depreciation and Interest.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**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 1,522 days but revenue increased by \$54,894 or 2.1%. This is a result of resident room rates being increased in 2005.

**Table 5: Statistical Data**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Patient Days</b>			
Acute	374	401	409
Swing Bed	2,173	2,065	2,665
Long Term Care	22,938	24,460	26,023
Total	<u>25,485</u>	<u>26,926</u>	<u>29,097</u>
<b>Admissions</b>			
Acute	127	130	136
Swing Bed	133	113	99
Long Term Care	36	30	38
Total	<u>296</u>	<u>273</u>	<u>273</u>
<b>Discharges</b>			
Acute	125	128	136
Swing Bed	136	111	95
Long Term Care	49	33	41
Total	<u>310</u>	<u>272</u>	<u>272</u>
<b>Average Length of Stay, Acute Beds</b>	<u>2.96</u>	<u>3.12</u>	<u>3.07</u>
Acute and Swing	25	25	25
Long Term Care	80	80	80
<b>Occupancy Percentage</b>			
Acute and Swing, Based on 25 Beds	27.9%	37.5%	33.7%
Long Term Care, Based on 80 Beds	78.6%	83.5%	89.1%

**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 continues to pay off its short term debt for the first time in many years and have a cash balance of \$720,474 at June 30, 2005.

Net accounts receivable days decreased to 50 from 56 in 2004. Most of the decrease came from accounts that were in aging categories over 90 days old. This issue has and continues to be monitored and addressed with our own collection staff. 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, 2005, the Hospital had \$3,642,172 invested in capital assets net of accumulated depreciation. In 2005, the Hospital expended \$815,006 to purchase new equipment. In 2004 the Hospital purchased new equipment costing \$248,747.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2005**

**LONG TERM DEBT**

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

**Table 6: Long Term Debt**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
F&M Bank	\$ 46,598	\$ 75,966	\$ 104,061
US Bank	185,714	204,289	150,843
State Bank & Trust	1,091,216	1,163,889	1,233,205
Capital Lease Obligations	-	-	17,366
Total Long Term Debt	<u>\$ 1,323,528</u>	<u>\$ 1,444,144</u>	<u>\$ 1,505,475</u>

Each of the loans may be paid off in whole or in part before maturation. 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's financial position declined slightly during the current year. Most of the decline was related to flat patient volumes, higher contractual allowances required from some of the governmental payers and an increase in allowances for doubtful accounts. 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 and we anticipate that healthcare workplace shortages will continue 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 should be better than this passed year due to first quarter trends in patient volumes in both acute, skilled, and outpatient. As of July 2005 the hospital now has access to an in-house CAT Scan, which is directly related to sizeable increases in radiology, emergency room and ambulance revenues for the first three months of this fiscal year. Management will continue 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 6<sup>th</sup> Street, Nevada, IA, 50201.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
BALANCE SHEETS  
JUNE 30, 2005 AND 2004**

<b>ASSETS</b>	2005	2004
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 720,474	\$ 739,010
Patient Receivables, Less Allowance for Uncollectible Accounts (2005 - \$235,412 and 2004 - \$306,903)	1,473,030	1,671,528
Other Receivables	23,916	20,874
Inventories	233,281	210,615
Prepaid Expenses	85,207	79,371
Total Current Assets	2,535,908	2,721,398
 <b>NONCURRENT CASH AND INVESTMENTS</b>		
Restricted by Resident Trust Agreement	4,728	3,943
Restricted by Contributors and Donors	37,020	51,041
Total Noncurrent Cash and Investments	41,748	54,984
 <b>CAPITAL ASSETS, NET</b>		
	3,642,172	3,208,494
 <b>OTHER ASSETS</b>		
Succeeding Year Property Tax Receivable	989,152	945,839
Other assets	14,500	14,500
Total Other Assets	1,003,652	960,339
 Total Assets	 \$ 7,223,480	 \$ 6,945,215

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2005</u>	<u>2004</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 127,000	\$ 106,000
Line of Credit	336,410	-
Accounts Payable	419,979	269,109
Accrued Expenses	687,887	573,990
Due to Third-Party Payors	306,160	391,135
Total Current Liabilities	<u>1,877,436</u>	<u>1,340,234</u>
<b>OTHER LIABILITIES</b>		
Deferred Revenue For Succeeding Year Property Tax	989,152	945,839
Resident Trust Fund	4,728	3,943
Total Other Liabilities	<u>993,880</u>	<u>949,782</u>
<b>LONG-TERM DEBT</b>		
Notes Payable	1,323,528	1,444,144
Less Current Maturities	<u>(127,000)</u>	<u>(106,000)</u>
Total Long-Term Debt	<u>1,196,528</u>	<u>1,338,144</u>
 Total Liabilities	 4,067,844	 3,628,160
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt	2,318,644	1,764,350
Restricted		
By Contributors and Grantors	37,020	51,041
Unrestricted	799,972	1,501,664
Total Net Assets	<u>3,155,636</u>	<u>3,317,055</u>
 Total Liabilities and Net Assets	 <u>\$ 7,223,480</u>	 <u>\$ 6,945,215</u>

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
<b>OPERATING REVENUES</b>		
Net Patient Service Revenue (Net of Provision for Bad Debts of \$435,202 in 2005 and \$202,924 in 2004)	\$ 10,295,716	\$ 10,775,317
Other Revenues	118,411	126,142
Total Revenues	10,414,127	10,901,459
<b>EXPENSES</b>		
Salaries and Wages	5,613,415	5,207,803
Employee Benefits	1,265,885	1,136,907
Professional Fees	1,403,783	1,434,129
Utilities	214,991	206,179
Management, Legal, and Accounting Fees	54,530	65,883
Insurance	204,526	227,682
Supplies and Miscellaneous	2,380,456	2,544,945
Depreciation	381,328	426,835
Interest	75,778	103,625
Total Expenses	11,594,692	11,353,988
<b>OPERATING LOSS</b>	(1,180,565)	(452,529)
<b>NON-OPERATING GAINS</b>		
County Taxes	963,409	1,004,052
Investment Income	4,264	1,412
Grants	15,901	13,976
Contributions	17,867	49,738
Gain on Sale of Property and Equipment	2,705	740
Net Nonoperating Gains	1,004,146	1,069,918
<b>EXCESS (DEFECIT) OF REVENUES AND GAINS OVER EXPENSES AND LOSSES</b>	(176,419)	617,389
Capital Contributions and Grants	15,000	-
Increase (Decrease) in Net Assets	(161,419)	617,389
Net Assets Beginning of Year	3,317,055	2,699,666
Net Assets End of Year	\$ 3,155,636	\$ 3,317,055

See accompanying Notes to Financial Statements.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third Parties	\$ 10,409,239	\$ 10,725,005
Cash Paid to Employees	(6,763,906)	(6,302,669)
Cash Paid to Suppliers	(4,138,960)	(4,396,627)
Cash Paid for Interest	(77,275)	(104,476)
Other Receipts and Payments, Net	118,411	126,142
Net Cash Provided (Used) by Operating Activities	(452,491)	47,375
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Tax Appropriations	963,409	1,004,052
Restricted and Unrestricted Contributions and Grants	48,768	63,714
Warrant Proceeds	-	650,000
Warrant Principal Payments	-	(800,000)
Net Cash Provided by Non-Capital Financing Activities	1,012,177	917,766
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Property and Equipment	(815,006)	(248,747)
Cash Received from Sale of Property and Equipment	2,705	4,276
Payments on Long Term Debt	(120,616)	(134,491)
Proceeds from Issuance of Long Term Debt	-	73,159
Proceeds from Line of Credit	336,410	-
Net Cash Used by Capital and Related Financing Activities	(596,507)	(305,803)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Change in Noncurrent Cash and Investments	14,021	40,995
Interest Income	4,264	1,412
Net Cash Provided by Financing Activities	18,285	42,407
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(18,536)	701,745
Cash and Cash Equivalents - Beginning	739,010	37,265
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 720,474	\$ 739,010

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Loss from Operations	\$ (1,180,565)	\$ (452,529)
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	381,328	426,835
Decrease (Increase) in -		
Patient Receivables	198,498	(383,423)
Other Receivables	(3,042)	19,630
Inventories	(22,666)	(6,024)
Prepaid Expenses	(5,836)	20,462
Increase (Decrease) in -		
Accounts Payable	150,870	48,123
Accrued Salaries, Wages, Benefits and Other	113,897	41,190
Third Party Payor Settlements Payable	(84,975)	333,111
	<u>\$ (452,491)</u>	<u>\$ 47,375</u>

*See accompanying Notes to Financial Statements.*

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**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 for proprietary funds 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.

**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.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. 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.

*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.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Assets, Liabilities and Net Assets (Continued)**

*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 non-capital 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 non-operating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Organization's principal activity. Other revenues, including interest income, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

**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.

**G. 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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**H. 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, 2005 AND 2004**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. 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, 2005 and 2004 was \$188,573 and \$122,449, respectively.

**J. County Tax Revenue**

Taxes are included in non-operating revenue when received and distributed by the County Treasurer.

**K. Reclassification of 2004 Data**

Data in 2004 financial statements have been reclassified to conform with the 2005 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 is certified 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. The Hospital's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2002.

**Medicaid**

The Hospital is certified 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. The Hospital's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2002.

**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.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**NOTE 2 NET PATIENT SERVICE REVENUES (CONTINUED)**

Revenue from the Medicare and Medicaid programs accounted for approximately 42 percent and 9 percent, respectively, of the Hospital's net patient revenue for the year ended 2005, and 45 percent and 10 percent, respectively, of the Hospital's net patient revenue, for the year ended 2004. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

	<u>2005</u>	<u>2004</u>
Total Patient Service Revenue	\$ 12,592,511	\$ 12,525,544
Contractual Adjustments:		
Medicare	1,228,996	1,238,099
Medicaid	127,353	(239,203)
Provision for Bad Debt	435,202	202,924
Other	505,244	548,407
Total Contractual Adjustments and Bad Debt	<u>2,296,795</u>	<u>1,750,227</u>
Net Patient Service Revenues	<u>\$ 10,295,716</u>	<u>\$ 10,775,317</u>

**NOTE 3 PATIENT RECEIVABLES**

Patient receivables reported as current assets by the Hospital at June 30, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Receivable from Patients and Their Insurance Carriers	\$ 945,355	\$ 943,728
Receivable from Medicare	366,697	542,211
Receivable from Medicaid	396,390	492,492
Total Patient Receivables	<u>1,708,442</u>	<u>1,978,431</u>
Less Allowance for Doubtful Accounts	(235,412)	(306,903)
Patient Receivables, Net	<u>\$ 1,473,030</u>	<u>\$ 1,671,528</u>

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**NOTE 4 DEPOSITS AND INVESTMENTS**

The Hospital's deposits in banks at June 30, 2005 and 2004 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.

Deposits are Included in the Following Balance Sheet Captions:

	2005	2004
Cash and Cash Equivalents	\$ 720,474	\$ 739,010
Noncurrent Cash and Investments		
Restricted by Resident Trust Agreement	4,728	3,943
Restricted by Contributors and Donors	37,020	51,041
Total Deposits	\$ 762,222	\$ 793,994

**NOTE 5 CAPITAL ASSETS**

Summaries of capital assets for the years ended June 30, 2005 and 2004 are as follows:

	June 30, 2004	Additions	Transfers and Retirements	June 30, 2005
<b>Capital Assets</b>				
Land and Land Improvements	\$ 124,866	\$ 24,833	\$ -	\$ 149,699
Building	4,768,355	160,568	(5,836)	4,923,087
Fixed Equipment	1,548,768	236,136	(338,190)	1,446,714
Major Movable Equipment	2,602,479	257,920	(571,505)	2,288,894
Construction in Progress	-	135,549	-	135,549
Totals	9,044,468	815,006	(915,531)	8,943,943
<b>Accumulated Depreciation</b>				
Land Improvements	49,298	3,406	-	52,704
Building	2,634,095	151,654	(5,835)	2,779,914
Fixed Equipment	1,094,316	57,967	(338,190)	814,093
Major Movable Equipment	2,058,265	168,301	(571,506)	1,655,060
Total	5,835,974	\$ 381,328	\$ (915,531)	5,301,771
	\$ 3,208,494		\$ (915,531)	\$ 3,642,172

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	June 30, 2003	Additions	Transfers and Retirements	June 30, 2004
<b>Capital Assets</b>				
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
<b>Accumulated Depreciation</b>				
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>

Construction in Progress at June 30, 2005 consists of three projects:

- The Hospital entered into a lease for a CT Scanner valued at approximately \$466K. The equipment was placed into service in July 2005. Costs incurred before year end to prepare for the equipment totaled \$41,121.
- An ER door lock improvement project with costs of \$8,542 as of June 30, 2005. The total cost of the project is budgeted to be \$10,500. The remaining cost will be financed with cash reserves and is expected to be completed in September 2005.
- A generator replacement project with costs of \$85,886 as of June 30, 2005. The total cost of the project is budgeted to be \$366K. The remaining costs will be financed with cash reserves and is expected to be completed in January 2006.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**NOTE 6 LONG-TERM DEBT**

A schedule of changes in long-term debt for 2005 and 2004 is as follows:

	Balance July 1, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
Note Payable to F & M Bank	\$ 75,966	\$ -	\$ (29,368)	\$ 46,598	\$ 31,000
Note Payable to U.S. Bank	204,289	-	(18,575)	185,714	19,000
Note Payable to State Bank and Trust	1,163,889	-	(72,673)	1,091,216	77,000
Total Long-Term Debt	<u>\$ 1,444,144</u>	<u>\$ -</u>	<u>\$ (120,616)</u>	<u>\$ 1,323,528</u>	<u>\$ 127,000</u>
	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	17,366	-	(17,366)	-	-
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>

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 4.85%. Principal and interest payments are due through May 2015. The note was for the construction of the new medical office building.

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%.

The Hospital entered into a capital lease arrangement for the CT Scanner as previously discussed. This lease was effective in July 2005 and requires monthly payments of principal and interest through July 2010, and has an effective interest rate of 4.22%.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**NOTE 6 LONG-TERM DEBT (CONTINUED)**

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
2006	\$ 127,358	\$ 75,293
2007	118,192	68,195
2008	108,208	61,950
2009	114,735	55,423
2010	121,501	48,658
2011-2015	665,111	129,072
2016-2020	68,423	2,079
	<u>\$ 1,323,528</u>	<u>\$ 440,670</u>

**NOTE 7 LINE OF CREDIT**

During 2005 the hospital was approved for an \$800,000 line of credit for the purpose of purchasing new equipment. As of June 30, 2005 the hospital had drawn \$336,410 of the line of credit for the purchase of equipment. The line of credit matured on July 6, 2005 and was extended to July 6, 2006. Interest was paid monthly on the line of credit and totaled to \$2,670 during 2005.

**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, 2005, 2004, and 2003 were approximately \$334,000 \$292,000, and \$274,000, respectively, equal to the required contributions for each year.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2004**

**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 \$442,863 and \$340,444 at June 30, 2005 and 2004, 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

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**STORY COUNTY HOSPITAL  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS AND NOTE  
BUDGET AND ACTUAL (CASH BASIS)  
YEAR ENDED JUNE 30, 2005**

The following is a comparison of actual expenditures to the adopted budget for the year ended June 30, 2005:

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 963,409	\$ -	\$ 963,409	\$ 945,839	\$ 17,570
Estimated Other Revenues/ Receipts	10,469,864	325,053	10,794,917	11,513,076	(718,159)
	<u>11,433,273</u>	<u>325,053</u>	<u>11,758,326</u>	<u>12,458,915</u>	<u>(700,589)</u>
Expenses/Disbursements	11,594,692	321,071	11,915,763	12,204,353	(288,590)
Net	(161,419)	3,982	(157,437)	254,562	(411,999)
Balance Beginning of Year	<u>3,317,055</u>	<u>(2,578,045)</u>	<u>739,010</u>	<u>68,669</u>	<u>670,341</u>
Balance End of Year	<u>\$ 3,155,636</u>	<u>\$ (2,574,063)</u>	<u>\$ 581,573</u>	<u>\$ 323,231</u>	<u>\$ 258,342</u>

**NOTE 1**

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 cash 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. The budget was not amended during 2005.

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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, 2005 AND 2004**

	TOTAL	
	2005	2004
<b>PATIENT CARE SERVICES</b>		
Medical and Surgical	\$ 293,841	\$ 266,098
Swing Bed	691,235	651,216
Long-Term Care	2,652,866	2,597,972
Total	<u>3,637,942</u>	<u>3,515,286</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating & Recovery Room	787,948	841,230
Anesthesiology	376,882	383,124
Radiology	788,882	801,978
Laboratory	1,345,576	1,201,003
Respiratory Therapy	95,124	89,064
Physical Therapy	1,190,052	1,236,628
Occupational Therapy	243,088	203,453
Speech Therapy	8,834	8,412
Electrocardiology	75,591	85,581
Medical and Surgical Supplies	905,833	920,906
Pharmacy	1,108,150	1,121,173
Clinic	1,276,040	1,340,724
Emergency Room	390,469	358,483
Ambulance	408,436	420,117
Psychologist	6,622	9,491
Acupuncture	96,159	74,517
Wellness Center	39,456	36,823
Total	<u>9,143,142</u>	<u>9,132,707</u>
Subtotal	12,781,084	12,647,993
Charity Care	<u>(188,573)</u>	<u>(122,449)</u>
Total Patient Service Revenues	12,592,511	12,525,544
Adjustments to Patient Services Revenues	<u>(2,296,795)</u>	<u>(1,750,227)</u>
Net Patient Service Revenues	<u>\$ 10,295,716</u>	<u>\$ 10,775,317</u>

INPATIENT		OUTPATIENT		LONG-TERM CARE	
2005	2004	2005	2004	2005	2004
\$ 205,564	\$ 205,770	\$ 88,277	\$ 60,328	\$ -	\$ -
691,235	651,216	-	-	-	-
-	-	-	-	2,652,866	2,597,972
<u>896,799</u>	<u>856,986</u>	<u>88,277</u>	<u>60,328</u>	<u>2,652,866</u>	<u>2,597,972</u>
130,993	103,221	656,955	738,009	-	-
50,775	42,067	326,107	341,057	-	-
67,384	79,329	721,498	722,649	-	-
173,458	170,203	1,172,118	1,030,800	-	-
88,678	82,892	6,446	6,172	-	-
298,371	271,177	891,681	965,451	-	-
110,949	107,002	132,139	96,451	-	-
3,649	3,203	5,185	5,209	-	-
2,549	1,284	73,042	84,297	-	-
447,768	398,720	389,186	454,768	68,879	67,418
470,241	432,980	336,750	381,053	301,159	307,140
-	-	1,276,040	1,340,724	-	-
3,814	2,944	386,655	355,539	-	-
-	-	408,436	420,117	-	-
-	-	6,622	9,491	-	-
-	-	96,159	74,517	-	-
-	-	39,456	36,823	-	-
<u>1,848,629</u>	<u>1,695,022</u>	<u>6,924,475</u>	<u>7,063,127</u>	<u>370,038</u>	<u>374,558</u>
<u>\$ 2,745,428</u>	<u>\$ 2,552,008</u>	<u>\$ 7,012,752</u>	<u>\$ 7,123,455</u>	<u>\$ 3,022,904</u>	<u>\$ 2,972,530</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, 2005 AND 2004**

	2005	2004
<b>ADJUSTMENTS TO PATIENT SERVICE REVENUE</b>		
Contractual Adjustments - Medicare	\$ 1,228,996	\$ 1,238,099
Contractual Adjustments - Medicaid	127,353	(239,203)
Provision for Bad Debts	435,202	202,924
Other Allowances and Adjustments	505,244	548,407
Total Adjustments	\$ 2,296,795	\$ 1,750,227
 <b>OTHER REVENUES</b>		
Meals Sold	\$ 29,321	\$ 26,992
Meals on Wheels	18,429	21,631
Dietary Consulting	9,892	9,646
Medical Records Transcripts	2,817	5,034
Social Service Consulting	6,112	2,383
Miscellaneous	51,840	60,456
Total Other Revenues	\$ 118,411	\$ 126,142

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
Capital Related Costs - Building and Fixtures	\$ 213,027	\$ 222,793
Capital Related Costs - Moveable Equipment	168,301	204,042
Employee Benefits	1,265,885	1,136,907
Administrative and General	1,037,378	1,025,755
Operation of Plant	414,189	382,446
Laundry and Linen	86,360	113,825
Housekeeping	225,265	221,504
Dietary	508,617	521,674
Nursing Administration	87,883	85,563
Central Supply	252,867	213,250
Medical Records	96,310	93,648
Social Service	98,880	92,365
Adults and Pediatrics	853,697	805,317
Long-Term Care	1,507,309	1,449,915
Operating Room	271,590	381,949
Anesthesiology	125,438	125,863
Radiology	357,353	334,832
Laboratory	463,945	449,371
Respiratory Therapy	26,825	26,593
Physical Therapy	479,099	501,460
Occupational Therapy	92,695	75,662
Speech Pathology	8,229	7,481
Electrocardiology	36,301	32,593
Pharmacy	515,054	538,764
Zearing Clinic	221,741	221,410
Nevada Clinic	1,004,745	1,075,826
Maxwell Clinic	146,799	153,750
Slater Clinic	105,653	-
After-Hours Clinic	1,294	743
Emergency	385,669	365,064
Ambulance	241,317	229,567
Wellness Center	142,464	85,973
Psychologist	2,890	4,378
Acupuncture	73,845	70,080
Interest Expense	75,778	103,625
TOTAL	<u>\$ 11,594,692</u>	<u>\$ 11,353,988</u>

SALARIES		OTHER	
2005	2004	2005	2004
\$ -	\$ -	\$ 213,027	\$ 222,793
-	-	168,301	204,042
-	-	1,265,885	1,136,907
317,421	279,264	719,957	746,491
136,691	128,916	277,498	253,530
31,703	19,884	54,657	93,941
189,668	181,455	35,597	40,049
294,156	281,186	214,461	240,488
56,020	-	31,863	85,563
48,158	46,859	204,709	166,391
82,563	76,276	13,747	17,372
96,866	89,816	2,014	2,549
732,454	724,340	121,243	80,977
1,338,585	1,297,508	168,724	152,407
166,055	216,080	105,535	165,869
-	-	125,438	125,863
143,892	116,172	213,461	218,660
237,303	214,430	226,642	234,941
12,480	12,480	14,345	14,113
-	-	479,099	501,460
-	-	92,695	75,662
-	-	8,229	7,481
31,569	17,594	4,732	14,999
24,192	22,281	490,862	516,483
169,462	128,787	52,279	92,623
921,283	877,656	83,462	198,170
107,632	104,017	39,167	49,733
52,145	-	53,508	-
1,294	743	-	-
62,378	59,960	323,291	305,104
196,414	179,836	44,903	49,731
111,819	79,838	30,645	6,135
133	374	2,757	4,004
51,079	52,051	22,766	18,029
-	-	75,778	103,625
<u>\$ 5,613,415</u>	<u>\$ 5,207,803</u>	<u>\$ 5,981,277</u>	<u>\$ 6,146,185</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, 2005 AND 2004**

**Analysis of Aging**

Age of Accounts (by Date of Discharge)	2005		2004	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital)	\$ 1,115,457	56.6 %	\$ 1,027,777	48.2 %
31-60 Days	214,976	10.9	217,411	10.2
61-90 Days	100,263	5.1	100,279	4.7
91 Days and Over	538,482	27.4	786,381	36.9
Total Accounts Receivable	<u>\$ 1,969,178</u>	<u>100.0 %</u>	<u>\$ 2,131,848</u>	<u>100.0 %</u>
<b>ALLOWANCES</b>				
Contractual - Medicare	\$ 208,490		\$ 162,107	
Medicaid and Others	52,246		(8,690)	
Doubtful Accounts	235,412		306,903	
Net Accounts Receivable	<u>\$ 1,473,030</u>		<u>\$ 1,671,528</u>	
Net Patient Service Revenue per Calendar Day (Excluding Provision for Bad Debts)	<u>29,400</u>		<u>30,077</u>	
Days of net Revenue in net Accounts Receivable at Year End	<u>50</u>		<u>56</u>	

**Analysis of Allowance for Doubtful Accounts**

	2005		2004	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 306,903		\$ 271,903	
Add:				
Provision for Doubtful Accounts	435,202	4.04%	202,924	1.88%
Recoveries Previously Written Off	25,672	0.24%	82,532	0.77%
	460,874		285,456	
Deduct:				
Accounts Written Off	(532,365)	(4.94)%	(250,456)	(2.32)%
Ending Balance	<u>\$ 235,412</u>		<u>\$ 306,903</u>	

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES  
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>INVENTORIES</b>		
Central Stores	\$ 48,395	\$ 49,620
Pharmacy	72,072	55,047
Laboratory	47,746	36,027
Dietary	15,768	13,112
Operating Room	30,374	31,465
Emergency Room	1,494	5,051
Radiology	7,793	5,561
Other	9,639	14,732
Total Inventories	<u>\$ 233,281</u>	<u>\$ 210,615</u>
 <b>PREPAID EXPENSES</b>		
Employee Health Insurance	\$ 43,845	\$ 42,428
Maintenance	10,580	9,907
Other	30,782	27,036
Total Prepaid Expenses	<u>\$ 85,207</u>	<u>\$ 79,371</u>

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
SCHEDULES OF COMPARATIVE STATISTICS  
YEARS ENDED JUNE 30, 2005 AND 2004  
(UNAUDITED)**

	<u>2005</u>	<u>2004</u>
<b>ACUTE</b>		
Admissions	127	130
Discharges	125	128
Average Length of Stay	3.0	3.1
Patient Days	374	401
Occupancy Percentage	4.10%	4.39%
Beds	25	25
<b>SWING BED</b>		
Admissions	133	113
Discharges	136	111
Patient Days	2,173	2,065
<b>LONG-TERM CARE</b>		
Admissions	36	30
Discharges	49	33
Patient Days	22,938	24,460
Occupancy Percent	78.55%	83.77%
Beds	80	80

**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**

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 and for the years ended June 30, 2005 and 2004, which collectively comprise Story County Hospital and Long-Term Care Facility's basic financial statements have issued our report thereon dated August 26, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Story County Hospital and Long-Term Care Facility's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are summarized in Part I of the schedule of findings.

A material weakness is a reportable 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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. We noted no matters involving internal control over financial reporting and its operations that we consider to be material weaknesses.

## 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 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 instances of non-compliance or other matters that are required to be reported under *U.S. Government Auditing Standards* and are summarized in Part II of the schedule of findings.

We also noted certain additional matters that we reported to management of Story County Hospital and Long-Term Care Facility in a separate letter dated August 26, 2005.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees, and citizens of Story County and other parties to whom the Hospital 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**

Austin, Minnesota  
August 26, 2005

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005**

**Part I: Findings Related to Financial Statements:**

**Reportable Conditions**

**05-I-1**    Segregation of Duties

The accounts payable accountant currently has the ability to create new vendors, enter invoices, print checks and has access to the check signature stamp.

Recommendation

We recommend the ability to create a new vendor be limited to one individual who does not have access to other areas of the disbursement cycle.

Response

Processing procedures will be modified in order to adequately segregate responsibilities.

Conclusion

Response is accepted.

**05-I-2**    Segregation of Duties

The individual who prints payroll checks also has the ability to enter new employees in the information system, enter the hours, change wages and has access to the signature stamp.

Recommendation

We recommend limiting the ability to create a new employee to an individual who does not have access to other areas of the payroll cycle.

Response

Processing procedures will be modified in order to adequately segregate responsibilities.

Conclusion

Response is accepted.

**STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005**

**Part II: Other Findings Related to Required Statutory Reporting:**

**05-II-1** Official Depositories

A resolution naming official depositories has been adopted by the Board, however the resolution did not include South Story Bank and Trust.

Recommendation

The depository resolution should be updated when new depositories are added, maximum deposit limits change or previously approved depositories change their names.

Response

We will update our depository resolution as described above.

Conclusion

Response is accepted.

**05-II-2** Certified Budget

Hospital revenues and disbursements during the year ended June 30, 2004 did not exceed amounts budgeted.

**05-II-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.

**05-II-4** Travel Expense

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

**05-II-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.

**05-II-6** Board Minutes

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

**05-II-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.

**05-II-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 not publish the required schedules of bills allowed for all quarters and the annual schedule of salaries.

Recommendation

Publish the schedule of bills allowed on a quarterly basis and the schedule of salaries on an annual basis.

STORY COUNTY HOSPITAL  
AND LONG-TERM CARE FACILITY  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

**Part II: Other Findings Related to Required Statutory Reporting (Continued):**

**05-II-1** Response

The schedule of bills allowed and schedule of salaries will be published.

Conclusion

Response is accepted.

