

Story County Hospital and Long-Term Care Facility

Accountants' Report and Financial Statements

June 30, 2007 and 2006



Story County Hospital and Long-Term Care Facility

June 30, 2007 and 2006

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Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying balance sheets of Story County Hospital and Long-Term Care Facility as of June 30, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Story County Hospital and Long-Term Care Facility as of June 30, 2007 and 2006, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2007, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information in 2007 and 2006, respectively. Other accountants have applied similar limited procedures to management's discussion and analysis for 2005. We did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining information is presented for purposes of additional analysis of the government financial statements rather than to present individual financial position changes in net assets and cash flows of the primary government and its component unit. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
December 19, 2007

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

Introduction

This management's discussion and analysis of the financial performance of Story County Hospital and Long-Term Care Facility and Story County Hospital Foundation (collectively referred to as the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2007 and 2006. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents decreased between 2007 and 2006 by \$25,828 or 5%, and decreased between 2006 and 2005 by \$193,836 or 27%.
- The Hospital's net assets increased \$1,461,998 or 41% in 2007 and increased \$398,511 or 13% in 2006.
- The Hospital reported operating losses in 2007 and 2006 of \$357,314 and \$607,254, respectively. The operating loss in 2007 decreased by \$249,940 compared to the operating loss reported in 2006 and decreased \$497,533 compared to the operating loss reported in 2005.
- Net nonoperating revenues increased by \$249,618 or 26% in 2007 compared to 2006 and increased \$27,397 or 3% in 2006 compared to 2005.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets (the difference between assets and liabilities) are one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$1,461,998, or 41% in 2007 over 2006 and \$398,511, or 13%, in 2006 over 2005 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2007	2006	2005
Assets			
Patient accounts receivable, net	\$ 2,729,915	\$ 1,666,733	\$ 1,473,030
Other current assets	6,944,958	2,061,378	2,066,530
Capital assets, net	5,134,871	4,287,874	3,642,172
Other noncurrent assets	<u>379,609</u>	<u>85,397</u>	<u>41,748</u>
Total assets	<u>\$ 15,189,353</u>	<u>\$ 8,101,382</u>	<u>\$ 7,223,480</u>
Liabilities			
Current liabilities	\$ 8,234,323	\$ 2,515,886	\$ 2,866,588
Long-term debt	1,929,722	2,023,339	1,196,528
Other liabilities	<u>9,163</u>	<u>8,010</u>	<u>4,728</u>
Total liabilities	<u>10,173,208</u>	<u>4,547,235</u>	<u>4,067,844</u>
Net Assets			
Invested in capital assets, net of related debt	3,941,755	3,112,253	2,318,644
Expendable for building project	501,642	40,000	-
By contributors and grantors	38,337	37,387	37,020
Unrestricted	<u>534,411</u>	<u>364,507</u>	<u>799,972</u>
Total net assets	<u>5,016,145</u>	<u>3,554,147</u>	<u>3,155,636</u>
Total liabilities and net assets	<u>\$ 15,189,353</u>	<u>\$ 8,101,382</u>	<u>\$ 7,223,480</u>

A significant change in the Hospital's assets in 2007 is other current assets, which increased \$4,883,580 or 237%. This was due primarily to the short-term investment in Treasury Notes resulting from the issuance of the revenue bond anticipation note. Patient accounts receivable increased \$1,063,182 or 64%. Most of this change is a result of increase in patient volumes in a number of departments such as: radiology procedures in 2006 were 3,679 compared to 3,153 in 2007, emergency room visits increased to 2,209 in 2007 compared to 1,908 in 2006.

Net capital assets increased in 2007 by \$846,997 or 20%. The additional items purchased during fiscal year 2007 included land for the replacement hospital, a QCT bone density testing system, remodeling the Zearing Medical Clinic and making major improvements to the IT system by upgrading software and purchasing software for pharmacy and software for scanning documents.

In 2006, a significant change in the Hospital's assets was due in part to the increase in net capital assets of \$635,702 or 17%. During 2006, the Hospital purchased CT Room, Emergency Generator and replaced an aging Nurse Call System. In addition, the Hospital had an increase in patient accounts receivable of \$193,703 or 13%.

Operating Results and Changes in the Hospital's Net Assets

In 2007, the Hospital's net assets increased by \$1,461,998 or 41% as shown in Table 2. This increase is made up of several different components and represents an increase of \$1,063,478 over 2006 as compared to the increase in net assets of \$559,930 from 2005 to 2006.

Table 2: Operating Results and Changes in Net Assets

	2007	2006	2005
Operating Revenues			
Net patient service revenue	\$ 12,762,647	\$ 11,202,622	\$ 10,295,716
Other operating revenues	134,879	140,191	118,411
Total operating revenues	<u>12,897,526</u>	<u>11,342,813</u>	<u>10,414,127</u>
Operating Expenses			
Salaries and wages and employee benefits	7,438,906	6,923,269	6,879,300
Medical and professional fees	1,570,856	1,417,518	1,403,783
Depreciation and amortization	506,989	500,842	381,328
Other operating expenses	3,738,089	3,108,438	2,854,503
Total operating expenses	<u>13,254,840</u>	<u>11,950,067</u>	<u>11,518,914</u>
Operating Loss	<u>(357,314)</u>	<u>(607,254)</u>	<u>(1,104,787)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,180,716	990,990	963,409
Interest income	137,084	3,564	4,264
Non-capital grants and gifts	55,769	62,097	33,768
Other	28,531	221	2,705
Interest expense	(196,717)	(101,107)	(75,778)
Total nonoperating revenues	<u>1,205,383</u>	<u>955,765</u>	<u>928,368</u>
Capital Grants and Contributions	<u>613,929</u>	<u>50,000</u>	<u>15,000</u>
Increase (Decrease) in Net Assets	<u>\$ 1,461,998</u>	<u>\$ 398,511</u>	<u>\$ (161,419)</u>

Operating Loss

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2007, 2006 and 2005, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Story County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss for 2007 decreased by \$249,940, or 41%, as compared to 2006. The primary components of the decreased operating loss are:

- Net patient service revenues increased \$1,560,025 or 14% during fiscal year 2007. Most of the increase was found in inpatient ancillary and inpatient SNF/NF revenues, followed by outpatient hospital revenues and medical clinic revenues. The Hospital experienced significant growth in some outpatient services such as radiology procedures and emergency room visits leading to increases in gross revenues.

- Operating expenses increased by \$1,304,773 or 11% overall during 2007 primarily due to supplies and other operating expenses increasing \$629,651 or 20%, followed by medical and professional fees increasing \$162,497 or 11%. The majority of the growth in expenses was due to the increase in volumes during 2007.

The operating loss for 2006 was \$607,254. This was a decrease of \$497,533 as compared to the operating loss of \$1,104,787 shown in 2005. The primary components of the 2006 operating loss are:

- Net patient service revenues increased \$906,906 or 9% during fiscal year 2007. Most of the increase was found in outpatient hospital revenues and medical clinic revenues. The Hospital experienced significant growth in some outpatient services such as radiology procedures, emergency room visits, ambulance runs and operating room visits leading to increases in gross revenues.
- Growth in expenses was limited, total annual expenses increased by \$431,153 or 4% overall. The majority of the growth in expenses was due to the increase in supplies and other, which is related to the increase in volume during 2007.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income and interest expense, and grants. Interest income increased significantly by \$133,520 due to the investments in Treasury notes and money market accounts. Interest expense increased significantly by \$95,610 during 2007 due to the short-term loan (revenue bond anticipation note). Property taxes increased \$189,726 or 19%.

Non-Capital Gifts and Grants

The Hospital received non-capital gifts and grants of \$55,769 and \$62,097 from various sources in 2007, and 2006. The decrease in non-capital gifts and grants totaled \$6,328 or 10% in 2007, and increased \$28,329 or 84% in 2006.

Capital Grants and Contributions

The Hospital Foundation received capital gifts and grants of \$613,929 and \$50,000, from various sources in 2007 and 2006. The increase in capital gifts and grants totaled \$563,929 in 2007 and \$35,000 or 233% in 2006. The large increase in 2007 was due to the capital campaign that the Hospital Foundation began in November 2006.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2007 and 2006 as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2007, the Hospital had \$5,134,871 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2007, the Hospital purchased new capital assets costing \$1,372,973, including construction related items of \$669,066.

In 2006 and 2005, the Hospital purchased new capital assets costing \$1,146,544 and \$815,006 respectively.

Debt

At June 30, 2007 and 2006, the Hospital had \$7,309,712 and \$2,262,645 in notes payable and capital lease obligations outstanding, respectively. The Hospital initiated a note payable of \$136,000 with Zearing Economic Development Corporation for remodeling the Zearing Medical Clinic, \$125,000 line-of-credit for the purchase of software and a \$5,000,000 short-term note for bond financing purposes. The Hospital paid off the balance of the loan for the C-arm and other equipment in 2007. The Hospital issued a note payable of \$479,542 and a capital lease of \$374,958 in 2006.

Factors Bearing on the Future

The Hospital has filed for and received Certificate of Need approval for the construction of a replacement hospital facility and is currently awaiting formal notification of such approval. After such notification has been received the Hospital plans to commence the process of issuing bonds in the approximate amount of \$14 million to fund the construction. At this time the construction period is estimated to be 16 months.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 515.382.2111.

Story County Hospital and Long-Term Care Facility

Balance Sheets

June 30, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$ 529,982	\$ 555,810
Short-term investments	4,597,124	-
Patient accounts receivable, net of allowance; 2007 – \$291,663; 2006 - \$273,781	2,729,915	1,666,733
Property taxes receivable	1,235,862	1,194,078
Other receivables	52,874	24,901
Pledges receivable, current portion	169,533	-
Supplies	234,249	230,032
Prepaid expenses	<u>125,334</u>	<u>56,557</u>
 Total current assets	 <u>9,674,873</u>	 <u>3,728,111</u>
 Noncurrent Cash, Deposits and Pledges		
Resident trust agreement	9,163	8,010
Externally restricted by donors	86,974	77,387
Pledges receivable	<u>283,472</u>	<u>-</u>
	<u>379,609</u>	<u>85,397</u>
 Capital Assets, net	 <u>5,134,871</u>	 <u>4,287,874</u>
 Total Assets	 <u><u>\$ 15,189,353</u></u>	 <u><u>\$ 8,101,382</u></u>

Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
Current Liabilities		
Current maturities of long-term debt	\$ 5,379,990	\$ 239,306
Accounts payable	546,455	323,195
Accrued expenses	847,609	568,191
Estimated amounts due to third-party payers	224,407	191,116
Deferred revenue for property taxes	<u>1,235,862</u>	<u>1,194,078</u>
Total current liabilities	8,234,323	2,515,886
Long-term Debt	1,929,722	2,023,339
Other Long-term Liabilities		
Resident trust fund	<u>9,163</u>	<u>8,010</u>
Total liabilities	<u>10,173,208</u>	<u>4,547,235</u>
Net Assets		
Invested in capital assets, net of related debt	3,941,755	3,112,253
Restricted		
Expendable for building project	501,642	40,000
By contributors and grantors	38,337	37,387
Unrestricted	<u>534,411</u>	<u>364,507</u>
Total net assets	<u>5,016,145</u>	<u>3,554,147</u>
Total Liabilities and Net Assets	<u><u>\$ 15,189,353</u></u>	<u><u>\$ 8,101,382</u></u>

Story County Hospital and Long-Term Care Facility
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	2007	2006
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 13,367,582	\$ 11,754,276
Provision for uncollectible accounts	(604,935)	(551,654)
Net patient service revenue	12,762,647	11,202,622
Other	134,879	140,191
Total operating revenues	12,897,526	11,342,813
Operating Expenses		
Salaries and wages	6,223,620	5,716,411
Employee benefits	1,215,286	1,206,858
Medical professional fees	1,570,856	1,417,518
Insurance	168,104	193,408
Supplies and other	3,569,985	2,915,030
Depreciation and amortization	506,989	500,842
Total operating expenses	13,254,840	11,950,067
Operating Loss	(357,314)	(607,254)
Nonoperating Revenues (Expenses)		
Property taxes	1,180,716	990,990
Interest income	137,084	3,564
Noncapital grants and gifts	55,769	62,097
Other	28,531	221
Interest	(196,717)	(101,107)
Total nonoperating revenues	1,205,383	955,765
Excess of Revenues Over Expenses Before Capital Grants and Gifts	848,069	348,511
Capital Grants and Gifts	613,929	50,000
Increase in Net Assets	1,461,998	398,511
Net Assets, Beginning of Year	3,554,147	3,155,636
Net Assets, End of Year	\$ 5,016,145	\$ 3,554,147

Story County Hospital and Long-Term Care Facility
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Operating Activities		
Receipts from and on behalf of patients	\$ 11,732,756	\$ 10,893,875
Payments to and on behalf of employees	(7,159,488)	(7,042,965)
Payments to suppliers and contractors	(5,094,765)	(4,510,775)
Other receipts, net	(355,686)	69,667
Net cash used in operating activities	(877,183)	(590,198)
Noncapital Financing Activities		
Property taxes	1,180,716	990,990
Noncapital grants and gifts	55,769	62,097
Other	28,531	221
Net cash provided by noncapital financing activities	1,265,016	1,053,308
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(240,745)	(251,793)
Interest paid on capital debt and leases	(196,717)	(101,107)
Proceeds from issuance of debt	5,287,812	479,542
Purchase of capital assets	(1,425,143)	(851,652)
Proceeds from sale of capital assets	7,243	-
Capital grants and gifts	613,929	50,000
Net cash provided by (used in) capital and related financing activities	4,046,379	(675,010)
Investing Activities		
Purchase of investments	(4,597,124)	-
Interest on deposits	137,084	3,564
Proceeds from disposition of deposits	-	14,500
Net cash provided by (used in) investing activities	(4,460,040)	18,064
Decrease in Cash and Cash Equivalents	(25,828)	(193,836)
Cash and Cash Equivalents, Beginning of Year	555,810	749,646
Cash and Cash Equivalents, End of Year	\$ 529,982	\$ 555,810

Story County Hospital and Long-Term Care Facility
Statements of Cash Flows (Continued)
Years Ended June 30, 2007 and 2006

**Reconciliation of Net Operating Revenues (Expenses) to
Net Cash Used in Operating Activities**

Operating loss	\$ (357,314)	\$ (607,254)
Depreciation and amortization	506,989	500,842
Changes in operating assets and liabilities		
Patient accounts receivable, net	(1,063,182)	(193,703)
Investments	(5,000,000)	-
Other receivables	(239,290)	(985)
Supplies	(4,217)	3,249
Prepaid expenses	(362,989)	(44,171)
Issuance of short term debt	5,000,000	-
Estimated amounts due from and to third-party payers	33,291	(115,044)
Accounts payable and accrued expenses	<u>609,529</u>	<u>(133,132)</u>
Net cash used in operating activities	<u>\$ (877,183)</u>	<u>\$ (590,198)</u>

Supplemental Cash Flows Information

Capital acquisitions included in accounts payable	<u>\$ 16,152</u>	<u>\$ 80,066</u>
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Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Story County Hospital and Long-Term Care Facility is a county public hospital organized and operated under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Story County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Story County area.

Story County Hospital Foundation (Foundation) is included in the accompanying financial statements as a blended component unit. The Foundation is legally separate from Story County Hospital and Long-Term Care Facility, but was organized primarily for its benefit. Story County Hospital and Long-Term Care Facility and the Foundation are collectively referred to as the "Hospital" throughout this report.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2007 and 2006, cash equivalents consisted primarily of money market accounts.

Property Taxes

The Hospital received approximately 8% of its financial support from property tax revenues in each of the years ended June 30, 2007 and 2006, which was used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in Story County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health, dental, vision and short-term disability claims, for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 to 25 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

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

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$340,471 and \$235,201 for 2007 and 2006, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Note 2: Net Patient Service Revenue

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

- ◆ **Medicare.** Inpatient and outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.
- ◆ **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

Approximately 45% and 49% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2007 and 2006, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Interest Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2007 and 2006. The Hospital's deposits in banks at June 30, 2007 and 2006 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.

Investments

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 had investments of \$4,597,124 at June 30, 2007.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

Summary of Carrying Values

The carrying values of deposits and investments are included in the balance sheets as follows:

	<u>2007</u>	<u>2006</u>
Carrying value		
Deposits	\$ 626,119	\$ 641,207
Investments	4,597,124	-
	<u>\$ 5,223,243</u>	<u>\$ 641,207</u>
 Included in the following balance sheet captions		
Cash and cash equivalents	\$ 529,982	\$ 555,810
Resident Trust Agreement	9,163	8,010
Externally restricted by donors	86,974	77,387
Short-term investments	4,597,124	-
	<u>\$ 5,223,243</u>	<u>\$ 641,207</u>

Interest Income

Interest income for the years ended June 30, 2007 and 2006, amounted to \$137,084 and \$3,564, respectively.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2007 and 2006 consisted of:

	<u>2007</u>	<u>2006</u>
Medicare	\$ 1,244,496	\$ 549,472
Medicaid	292,314	353,202
Other third-party payers	1,043,255	654,457
Patients	441,513	383,383
	<u>3,021,578</u>	<u>1,940,514</u>
 Less allowance for uncollectible accounts	<u>291,663</u>	<u>273,781</u>
	<u>\$ 2,729,915</u>	<u>\$ 1,666,733</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2007 and 2006 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2007					
Land	\$ 52,176	\$ 370,000	\$ -	\$ -	\$ 422,176
Land improvements	97,523	-	-	-	97,523
Buildings and leasehold improvements	4,936,444	147,747	(47,019)	-	5,037,172
Fixed equipment	2,191,575	-	-	19,211	2,210,786
Major movable equipment	2,363,262	186,160	(45,067)	32,985	2,537,340
Equipment under capital lease	374,958	-	-	-	374,958
Construction in progress	74,549	669,066	-	(52,196)	691,419
	<u>10,090,487</u>	<u>1,372,973</u>	<u>(92,086)</u>	<u>-</u>	<u>11,371,374</u>
Less accumulated depreciation					
Land improvements	58,403	5,468	-	-	63,871
Buildings and leasehold improvements	2,929,629	152,954	(39,776)	-	3,042,807
Fixed equipment	926,801	138,988	-	-	1,065,789
Major movable equipment	1,812,789	146,331	(45,067)	-	1,914,053
Equipment under capital lease	74,991	74,992	-	-	149,983
	<u>5,802,613</u>	<u>518,733</u>	<u>(84,843)</u>	<u>-</u>	<u>6,236,503</u>
Capital assets, net	<u>\$ 4,287,874</u>	<u>\$ 854,240</u>	<u>\$ (7,243)</u>	<u>\$ -</u>	<u>\$ 5,134,871</u>

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2006					
Land	\$ 52,176	\$ -	\$ -	\$ -	\$ 52,176
Land improvements	97,523	-	-	-	97,523
Buildings and leasehold improvements	4,923,087	-	-	13,357	4,936,444
Fixed equipment	1,446,714	98,524	-	646,337	2,191,575
Major movable equipment	2,288,894	33,798	-	40,570	2,363,262
Equipment under capital lease	-	374,958	-	-	374,958
Construction in progress	135,549	639,264	-	(700,264)	74,549
	<u>8,943,943</u>	<u>1,146,544</u>	<u>-</u>	<u>-</u>	<u>10,090,487</u>
Less accumulated depreciation					
Land improvements	52,704	5,699	-	-	58,403
Buildings and leasehold improvements	2,779,914	149,715	-	-	2,929,629
Fixed equipment	814,093	112,708	-	-	926,801
Major movable equipment	1,655,060	157,729	-	-	1,812,789
Equipment under capital lease	-	74,991	-	-	74,991
	<u>5,301,771</u>	<u>500,842</u>	<u>-</u>	<u>-</u>	<u>5,802,613</u>
Capital assets, net	<u>\$ 3,642,172</u>	<u>\$ 645,702</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,287,874</u>

Note 6: Medical Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

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 \$27,367 and \$2,670 during 2006 and 2005, respectively. Subsequent to year end June 30, 2006, the Hospital converted the line of credit to a note payable. Therefore, the note payable is shown with the long-term obligations.

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2007 and 2006:

	Beginning Balance	Additions	2007		Ending Balance	Current Portion
			Deductions			
Long-term debt						
Note payable F&M Bank (A)	\$ 14,838	\$ -	\$ (14,838)	\$ -	\$ -	
Note payable U.S. Bank (B)	166,094	-	(20,573)	145,521	21,620	
Note payable State Bank & Trust – MOB (C)	994,689	-	(101,314)	893,375	106,653	
Note payable State Bank & Trust (D)	782,101	26,812	(40,185)	768,728	38,503	
Capital lease obligations (E)	304,923	-	(55,902)	249,021	74,613	
UMB Note (F)	-	5,000,000	-	5,000,000	5,000,000	
Zearing Note (G)	-	136,000	(7,933)	128,067	13,600	
SBT-LOC Dairyland (H)	-	125,000	-	125,000	125,001	
Total long-term debt	<u>\$ 2,262,645</u>	<u>\$ 5,287,812</u>	<u>\$ (240,745)</u>	<u>\$ 7,309,712</u>	<u>\$ 5,379,990</u>	

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

	2006			Ending Balance	Current Portion
	Beginning Balance	Additions	Deductions		
Long-term debt					
Note payable F&M Bank (A)	\$ 46,598	\$ -	\$ (31,760)	\$ 14,838	\$ 14,838
Note payable U.S. Bank (B)	185,714	-	(19,620)	166,094	20,555
Note payable State Bank & Trust – MOB (C)	1,091,216	-	(96,527)	994,689	101,614
Note payable State Bank & Trust (D)	336,410	479,542	(33,851)	782,101	30,672
Capital lease obligations (E)	-	374,958	(70,035)	304,923	71,627
	<u>\$ 1,659,938</u>	<u>\$ 854,500</u>	<u>\$ (251,793)</u>	<u>\$ 2,262,645</u>	<u>\$ 239,306</u>

- (A) 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.
- (B) 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%.
- (C) 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.
- (D) The line of credit agreement with State Bank and Trust was converted to a note payable August 15, 2006. This note requires monthly principal and interest payments with interest at the rate of 4.85%. Principal and interest payments are due through August 2016.
- (E) The Hospital entered into a capital lease arrangement for a CT Scanner on July 28, 2005. The lease requires monthly payments of principal and interest through June 2010 and has an effective interest rate of 4.09%.
- (F) A note was issued in the amount of \$5 million as a revenue bond anticipation note in December 2006. Interest at 4.15%, collateralized by the proceeds of the note, due September 2007.
- (G) A non-interest bearing note was issued in the amount of \$136,000 in 2007. Due in 120 monthly payments of \$1,133, secured by a mortgage on the real estate. The note was for funding clinic construction.
- (H) An unsecured line of credit was issued in the amount of \$125,000 in March 2007. Interest at 6.25%, due September 2007. The note was for funding the purchase of computer equipment.

Story County Hospital and Long-Term Care Facility
Notes to Financial Statements
June 30, 2007 and 2006

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

Year Ending June 30, 2007	Total to be Paid	Principal	Interest
2008	\$ 5,628,924	\$ 5,379,990	\$ 248,934
2009	347,971	266,447	81,524
2010	347,971	278,452	69,519
2011	280,930	222,421	58,509
2012	265,204	216,361	48,843
2013 – 2017	<u>1,056,184</u>	<u>946,042</u>	<u>110,142</u>
	<u>\$ 7,927,182</u>	<u>\$ 7,309,712</u>	<u>\$ 617,470</u>

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 \$434,563 and \$502,170 at June 30, 2007 and 2006, respectively.

The assets included in the deferred compensation agreements are not included in these financial statements.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

Note 10: Defined Benefit Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 3.7% of their annual covered salaries and the Hospital is required to contribute 5.75% of annual covered payroll for 2007 and 2006. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2007, 2006 and 2005 were \$347,000, \$329,000 and \$334,000, respectively, which equaled the required contributions for each year.

Note 11: Subsequent Event

The Hospital entered into a promissory note in the amount of \$200,000 subsequent to June 30, 2007 to fund the purchase of equipment.

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2007 and 2006

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a reconciliation of Story County Hospital and Long-Term Care Facility's reported amounts and their cash basis presentation as well as a comparison to budget, for the year ended June 30, 2007, excluding the Story County Hospital Foundation:

	<u>Actual</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Budget</u>
Revenues				
Amount to be raised by taxation	\$ 1,180,716	\$ -	\$ 1,180,716	\$ 1,194,217
Other revenues/receipts	<u>13,091,389</u>	<u>(1,029,891)</u>	<u>12,061,498</u>	<u>13,724,791</u>
Total revenues	14,272,105	(1,029,891)	13,242,214	14,919,008
Less expenses/disbursements	<u>13,417,030</u>	<u>(536,535)</u>	<u>12,880,495</u>	<u>14,726,354</u>
Change in net assets	855,075	(493,356)	361,719	192,654
Net assets, beginning of year	<u>3,474,975</u>	<u>(2,081,789)</u>	<u>1,393,186</u>	<u>1,393,186</u>
Net assets, end of year	<u><u>\$ 4,330,050</u></u>	<u><u>\$ (2,575,145)</u></u>	<u><u>\$ 1,754,905</u></u>	<u><u>\$ 1,585,840</u></u>

Supplementary Information

Story County Hospital and Long-Term Care Facility
Combining Balance Sheet
June 30, 2007

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 505,529	\$ 24,453		\$ 529,982
Short-term investments	4,447,124	150,000		4,597,124
Patient accounts receivable, net of allowance; 2007 – \$291,663; 2006 - \$273,781	2,729,915			2,729,915
Property taxes receivable	1,235,862			1,235,862
Other receivables	52,874			52,874
Pledges receivable, current portion		169,533		169,533
Supplies	234,249			234,249
Prepaid expenses	125,334			125,334
	<u>9,330,887</u>	<u>343,986</u>		<u>9,674,873</u>
Total current assets				
Noncurrent Cash and Deposits				
Resident trust agreement	9,163			9,163
Externally restricted by donors	38,337	48,637		86,974
Pledges receivable, net of allowances		283,472		283,472
	<u>47,500</u>	<u>332,109</u>		<u>379,609</u>
Capital Assets, net	<u>5,124,871</u>	<u>10,000</u>		<u>5,134,871</u>
Total Assets	<u>\$ 14,503,258</u>	<u>\$ 686,095</u>	<u>\$ -</u>	<u>\$ 15,189,353</u>

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	\$ 5,379,990			\$ 5,379,990
Accounts payable	546,455			546,455
Accrued expenses	847,609			847,609
Estimated amounts due to third-party payers	224,407			224,407
Deferred revenue for property taxes	<u>1,235,862</u>			<u>1,235,862</u>
Total current liabilities	8,234,323			8,234,323
Long-term Debt	1,929,722			1,929,722
Other Long-term Liabilities				
Resident trust fund	<u>9,163</u>			<u>9,163</u>
Total liabilities	<u>10,173,208</u>			<u>10,173,208</u>
Net Assets				
Invested in capital assets, net of related debt	3,941,755			3,941,755
Restricted				
Expendable for building project		\$ 501,642		501,642
By contributors and grantors	38,337			38,337
Unrestricted	<u>349,958</u>	<u>184,453</u>		<u>534,411</u>
Total net assets	<u>4,330,050</u>	<u>686,095</u>		<u>5,016,145</u>
Total Liabilities and Net Assets	<u>\$ 14,503,258</u>	<u>\$ 686,095</u>	<u>\$ -</u>	<u>\$ 15,189,353</u>

Story County Hospital and Long-Term Care Facility
Combining Schedule of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2007

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 13,367,582			\$ 13,367,582
Provision for uncollectible accounts	<u>(604,935)</u>			<u>(604,935)</u>
Net patient service revenue	12,762,647			12,762,647
Other	<u>134,879</u>			<u>134,879</u>
Total operating revenues	<u>12,897,526</u>			<u>12,897,526</u>
Operating Expenses				
Salaries and wages	6,206,287	\$ 17,333		6,223,620
Employee benefits	1,215,286			1,215,286
Medical professional fees	1,570,856			1,570,856
Insurance	168,104			168,104
Supplies and other	3,552,791	17,194		3,569,985
Depreciation and amortization	<u>506,989</u>			<u>506,989</u>
Total operating expenses	<u>13,220,313</u>	<u>34,527</u>		<u>13,254,840</u>
Operating Loss	<u>(322,787)</u>	<u>(34,527)</u>		<u>(357,314)</u>
Nonoperating Revenues (Expenses)				
Property taxes	1,180,716			1,180,716
Interest income	134,563	2,521		137,084
Noncapital grants and gifts	30,769	25,000		55,769
Other	28,531			28,531
Interest	<u>(196,717)</u>			<u>(196,717)</u>
Total nonoperating revenues	<u>1,177,862</u>	<u>27,521</u>		<u>1,205,383</u>
Excess (Deficit) of Revenues Over Expenses Before Capital Grants and Gifts	855,075	(7,006)		848,069
Capital Grants and Gifts		<u>613,929</u>		<u>613,929</u>
Increase in Net Assets	855,075	606,923		1,461,998
Net Assets, Beginning of Year	<u>3,474,975</u>	<u>79,172</u>		<u>3,554,147</u>
Net Assets, End of Year	<u>\$ 4,330,050</u>	<u>\$ 686,095</u>	<u>\$ -</u>	<u>\$ 5,016,145</u>

Story County Hospital and Long-Term Care Facility

Schedules of Patient Service Revenues

Years Ended June 30, 2007 and 2006

	2007			2006				
	Total	Inpatient	Outpatient	LTC	Total	Inpatient	Outpatient	LTC
Daily Patient Services								
Medical and surgical	\$ 458,466	\$ 335,850	\$ 122,616		\$ 398,165	\$ 299,700	\$ 98,465	
Swing-bed	809,785	809,785			672,498	672,498		
Long-term care	2,759,373			\$ 2,759,373	2,539,391			\$ 2,539,391
	<u>4,027,624</u>	<u>1,145,635</u>	<u>122,616</u>	<u>2,759,373</u>	<u>3,610,054</u>	<u>972,198</u>	<u>98,465</u>	<u>2,539,391</u>
Other Professional Services								
Operating and recovery room	1,195,969	259,238	936,731		974,790	170,382	804,408	
Anesthesiology	471,126	116,482	354,644		441,012	80,405	360,607	
Radiology	1,551,209	101,600	1,449,609		1,290,456	100,630	1,189,826	
Laboratory	2,015,083	289,544	1,725,539		1,747,161	235,979	1,511,182	
Respiratory therapy	108,515	94,716	13,799		85,597	78,669	6,928	
Physical therapy	1,486,892	371,407	1,115,485		1,308,554	314,520	994,034	
Occupational therapy	326,257	141,837	184,420		286,032	119,426	166,606	
Speech therapy	15,246	5,571	9,675		12,761	6,488	6,273	
Electrocardiology	136,192	4,015	132,177		78,672	3,824	74,848	
Medical and surgical supplies	1,407,390	794,311	588,647	24,432	1,088,808	541,909	494,259	52,640
Pharmacy	1,646,890	681,253	622,785	342,852	1,255,804	571,355	413,601	270,848
Clinic	1,839,068		1,839,068		1,579,748		1,579,748	
Emergency room	745,927	2,374	743,553		548,554	4,372	544,182	
Ambulance	525,020		525,020		504,851		504,851	
Acupuncture	92,189		92,189		90,928		90,928	
Wellness center	49,100		49,100		45,053		45,053	
	<u>13,612,073</u>	<u>2,862,348</u>	<u>10,382,441</u>	<u>367,284</u>	<u>11,338,781</u>	<u>2,227,959</u>	<u>8,787,334</u>	<u>323,488</u>
Gross Patient Service Revenue	17,639,697	\$ 4,007,983	\$ 10,505,057	\$ 3,126,657	\$ 14,948,835	\$ 3,200,157	\$ 8,885,799	\$ 2,862,879
Contractual Adjustments	4,272,115				3,194,559			
Net Patient Service Revenue before Provision for Uncollectible Accounts	13,367,582				11,754,276			
Provision for Uncollectible Accounts	604,935				551,654			
Net Patient Service Revenue	<u>\$ 12,762,647</u>				<u>\$ 11,202,622</u>			

Story County Hospital and Long-Term Care Facility

Schedules of Other Revenues

Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Meals sold	\$ 25,234	\$ 26,800
Meals on wheels	12,657	19,168
Dietary consulting	10,607	12,342
Medical records transcripts	818	568
Social service consulting	1,742	3,207
Miscellaneous	83,821	78,106
	<u>\$ 134,879</u>	<u>\$ 140,191</u>

Story County Hospital and Long-Term Care Facility

Schedules of Operating Expenses – Hospital Only

Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 78,594	\$ 73,644	\$ 4,950	\$ 117,249	\$ 110,056	\$ 7,193
Adults and pediatrics	1,087,014	845,489	241,525	890,828	736,177	154,651
Operating room	344,715	204,104	140,611	274,146	182,372	91,774
Emergency	477,549	95,379	382,170	385,164	85,672	299,492
	<u>1,987,872</u>	<u>1,218,616</u>	<u>769,256</u>	<u>1,667,387</u>	<u>1,114,277</u>	<u>553,110</u>
Other Professional Services						
Central supply	472,305	49,327	422,978	362,474	47,952	314,522
Medical records	184,216	109,828	74,388	126,430	98,479	27,951
Social service	109,229	107,554	1,675	106,388	105,330	1,058
Long-term care	1,335,567	1,169,164	166,403	1,296,956	1,189,973	106,983
Anesthesiology	140,040	-	140,040	149,040	-	149,040
Radiology	394,525	173,300	221,225	330,050	162,124	167,926
Laboratory	597,835	298,361	299,474	481,076	239,814	241,262
Respiratory therapy	34,687	12,480	22,207	29,870	12,480	17,390
Physical therapy	584,430	-	584,430	522,844	-	522,844
Occupational therapy	123,845	-	123,845	106,240	-	106,240
Speech pathology	11,593	-	11,593	10,516	-	10,516
Electrocardiology	48,386	39,974	8,412	42,358	35,305	7,053
Pharmacy	668,901	29,668	639,233	579,734	32,833	546,901
Zearing clinic	270,379	214,671	55,708	238,693	194,728	43,965
Nevada clinic	1,295,460	1,177,574	117,886	1,070,439	956,079	114,360
Maxwell clinic	187,918	146,817	41,101	159,220	123,495	35,725
Slater clinic	97,126	77,330	19,796	110,851	88,162	22,689
After-hours clinic	501	501	-	-	-	-
Ambulance	283,247	224,816	58,431	276,878	220,116	56,762
Wellness center	156,359	136,502	19,857	133,266	121,245	12,021
Psychologist	3,063	66	2,997	1,433	78	1,355
Acupuncture	79,074	52,626	26,448	76,781	52,315	24,466
	<u>7,078,686</u>	<u>4,020,559</u>	<u>3,058,127</u>	<u>6,211,537</u>	<u>3,680,508</u>	<u>2,531,029</u>
General Services						
Operation of plant	219,411	147,320	72,091	184,315	137,177	47,138
Laundry and linen	54,357	47,860	6,497	47,634	40,655	6,979
Housekeeping	234,033	194,759	39,274	235,450	197,060	38,390
Dietary	551,346	306,785	244,561	519,710	295,173	224,537
	<u>1,059,147</u>	<u>696,724</u>	<u>362,423</u>	<u>987,109</u>	<u>670,065</u>	<u>317,044</u>
Administrative Services						
Employee Benefits	1,204,229	270,388	933,841	1,182,926	251,561	931,365
Depreciation	1,215,286	-	1,215,286	1,206,858	-	1,206,858
Insurance	506,989	-	506,989	500,842	-	500,842
	168,104	-	168,104	193,408	-	193,408
	<u>\$ 13,220,313</u>	<u>\$ 6,206,287</u>	<u>\$ 7,014,026</u>	<u>\$ 11,950,067</u>	<u>\$ 5,716,411</u>	<u>\$ 6,233,656</u>

See Independent Accountants' Report

Story County Hospital and Long-Term Care Facility

Schedules of Patient Receivables and Allowance for Uncollectible Accounts

Years Ended June 30, 2007 and 2006

Schedules of Patient Receivables

Days Since Discharge	Amounts		Percent to Total	
	2007	2006	2007	2006
0 – 30	\$ 1,938,287	\$ 1,502,092	50%	65%
31 – 60	759,885	210,360	20	9
61 – 90	443,582	175,114	11	8
91 – 120	180,518	76,167	5	3
Over four months	552,145	341,061	14	15
	3,874,417	2,304,794	100%	100%
Less contractual allowances	852,839	364,280		
	3,021,578	1,940,514		
Less allowance for uncollectible accounts	291,663	273,781		
	\$ 2,729,915	\$ 1,666,733		

Allowance for Uncollectible Accounts

	2007	2006
Balance, beginning of year	\$ 273,781	\$ 235,412
Provision for year	604,935	551,654
Recoveries of accounts previously written off	90,647	57,469
Reclassification to contractual adjustments	(249,713)	
	719,650	844,535
Less accounts written off	427,987	570,754
Balance, end of year	\$ 291,663	\$ 273,781

Story County Hospital and Long-Term Care Facility

Schedules of Supplies and Prepaid Expenses

Years Ended June 30, 2007 and 2006

Supplies

	<u>2007</u>	<u>2006</u>
Central stores	\$ 39,792	\$ 39,550
Pharmacy	80,420	70,564
Laboratory	44,272	55,055
Dietary	18,508	17,364
Operating room	29,798	32,453
Emergency room	2,001	1,860
Radiology	7,591	4,607
Other	11,867	8,579
	<u>\$ 234,249</u>	<u>\$ 230,032</u>

Prepaid Expenses

	<u>2007</u>	<u>2006</u>
Insurance	\$ 38,104	\$ -
Maintenance and other	87,230	56,557
	<u>\$ 125,334</u>	<u>\$ 56,557</u>

Story County Hospital and Long-Term Care Facility
Schedule of Officials
Year Ended June 30, 2007

Name	Title	Term Expires
Board of Trustees		
David Anderson	Chairman	2008
Michael Nusbaum	Vice Chairman	2010
Gaylan Scofield	Secretary/Treasurer	2010
Glenda Bradshaw	Member	2010
Liz Hertz	Member	2012
Patrick Sheets	Member	2012
Meg Tait	Member	2008
Hospital Officials		
Todd Willert	Chief Executive Officer	
Pamela K. Reis Kleunder	Chief Financial Officer	

Story County Hospital and Long-Term Care Facility

Schedules of Financial and Statistical Data

Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Patient Days (Exclusive of Swing-bed)		
Medicare	447	342
Medicaid	20	33
Private and other	114	137
	<u>581</u>	<u>512</u>
Medicare and Medicaid Percent	<u>80.4%</u>	<u>73.2%</u>
Percent of Occupancy (Acute)	<u>6.4%</u>	<u>5.6%</u>
Discharges (Exclusive of Swing-bed)		
Medicare	136	120
Medicaid	7	11
Private and other	38	52
	<u>181</u>	<u>183</u>
Average Length of Stay in Days	<u>3.2</u>	<u>2.8</u>

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

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

We have audited the financial statements of Story County Hospital and Long-Term Care Facility as of and for the year ended June 30, 2007, and have issued our report thereon dated December 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 07-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above as 07-1, we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that are reported below or we reported to the Hospital's management in a separate letter dated December 19, 2007.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2007. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2007.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2007 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979. However, we noted that the Hospital did not have a formal policy for evaluating questionable expenditures.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

Business Transactions

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

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

Deposits and Investments

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

Unclaimed Property

Prior to November 1, 2006, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for filing a report of unclaimed property or a negative report if no unclaimed property is on hand.

Condition – A report noting no unclaimed property was not filed in 2006 for the year ended June 30, 2005.

Context – The Hospital had no unclaimed property, but no report was filed.

Effect – Requirements were not met under Chapter 556.11 of the Code of Iowa.

Cause – Necessary reporting was not made in the current fiscal year.

Recommendation – Management should ensure necessary reporting is completed each year.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to ensure all reporting is made in accordance with the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

The Hospital's responses to the findings identified in our audit are described above and in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

* * * * *

This report is intended solely for the information and use of the governing body, management and the State of Iowa, and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
December 19, 2007

Story County Hospital and Long-Term Care Facility
Schedule of Findings and Responses
Year Ended June 30, 2007

Reference Number	Finding
07-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over external financial reporting.</p> <p>Condition—The Hospital’s financial statements required material adjusting journal entries for external financial statement presentation in accordance with generally accepted accounting principles.</p> <p>Context—Procedures related to review of non-standard journal entries led to adjustments that were required to comply with generally accepted accounting principles.</p> <p>Effect—Adjusting journal entries of material amounts were proposed and recorded by management.</p> <p>Cause—Closing and review procedures for certain non-standard journal entries and the related supporting detail did not detect certain mispostings.</p> <p>Recommendation—Management should modify review procedures for non-standard journal entries to ensure that the controls in place are sufficient for the preparation of financial statements in conformity with generally accepted accounting principles.</p> <p>Views of Responsible Officials and Planned Corrective Actions— Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year. While the journal entries were considered more than inconsequential to the financial statements, some policies are in place to mitigate these adjustments in the future.</p>



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

In planning and performing our audit of the financial statements of Story County Hospital and Long-Term Care Facility as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control. As such, our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal controls.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Hospital's financial statements will not be prevented or detected by the Hospital's internal controls.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously we made observations as a result of our 2006 audit engagement in a letter dated September 1, 2006.

Material Weaknesses

Audit Adjustments

The cumulative impact of all audit adjustments was an increase in the change in net assets of approximately \$105,000. This amount is considered to be material to the financial statements. We recommend that all balance sheet accounts should be reconciled to the supporting data on a routine basis in order to properly reflect such amounts in the monthly financial statements and to avoid the need for year end audit adjustments. Details of certain adjustments follows.

Accounts Receivable Allowances and Estimated Amounts Due to Third-Party Payers

In the testing of the overall allowance for contractual discounts on accounts receivable, we noted the recorded allowance was overstated by approximately \$300,000. In addition, the estimate of amounts due to Medicare was also overstated by approximately \$475,000. These amounts are reported separately in the financial statements and, while they are related, they are amounts that are to be evaluated and reported individually.

Paid Time Off Accrual

In the testing of the PTO accrual and related taxes, we noted the liability was under-accrued by \$79,000. As with all balance sheet amounts, this liability should be evaluated and adjusted to the proper balance on a routine basis.

Prior Year Audit Adjustments

We noted the Hospital failed to record the audit adjustments relating to the 2006 year. Accordingly, there were material differences in a number of accounts in the 2007 financial statements that resulted from 2006 transactions. Audit adjustments should always be recorded at the conclusion of the audit process.

Significant Deficiencies

No matters are reportable.

Control Deficiencies

Segregation of Duties

Purchases Cycle

There is a lack of segregation of duties in the purchases area as the Business Office Coordinator has conflicting duties between access and reporting responsibilities. While there are certain compensating controls in place, we believe that further segregation of duties is warranted.

* * * * *

This communication is intended solely for the information and use of management, the Board of Trustees and others within the Hospital and the State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

BKD LLA

Kansas City, Missouri
December 19, 2007