

AKRON CITY CONVALESCENT CARE CENTER
AKRON, IOWA

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS AND RESPONSES

YEARS ENDED JUNE 30, 2007 AND 2006

AKRON CITY CONVALESCENT CARE CENTER

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AKRON CITY CONVALESCENT CARE CENTER

AKRON, IOWA

OFFICIALS

Bob Nielsen	President
Curt Lewison	Vice President
Suzi Tucker	Secretary
Joy Dirks	Member
Ron Wilmot	Member
<hr/>	
Jerold J. Dykstra	Administrator



KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Akron City Convalescent Care Center

We have audited the accompanying statements of net assets of Akron City Convalescent Care Center, a component unit of the City of Akron, Iowa, 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, which collectively comprise the Care Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Akron City Convalescent Care Center'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 audits 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 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 respective financial position of Akron City Convalescent Care Center as of June 30, 2007 and 2006, and the respective changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Care Center will continue as a going concern. As discussed in Note M to the financial statements, the Care Center's operating revenues have been less than its operating expenses for the last three years resulting in a significant strain on its cash flow. This condition raises substantial doubt about its ability to continue as a going concern. Management's plans regarding this matter are also disclosed in Note M. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.



KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2007 on our consideration of Akron City Convalescent Care Center's internal control over financial reporting and on 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 Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 8 and 20 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Akron City Convalescent Care Center's basic financial statements. Other supplementary information included in this report (shown on pages 22 through 29) 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 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.

Sioux City, Iowa
September 4, 2007

King, Reinsch, Prosser + Co., L.L.P.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Akron City Convalescent Care Center provides this Management's Discussion and Analysis of Akron City Convalescent Care Center's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the Care Center's financial statements, which follow.

2007 Financial Highlights

- The Care Center had operating income of \$8,827 for fiscal 2007 and an operating loss of \$4,074 for fiscal 2006.
- Net operating revenue from services to patients and residents increased 9.3 percent, or approximately \$158,000, from fiscal 2006 to fiscal 2007.
- Operating expenses increased 8.5 percent or approximately \$145,000, from fiscal 2006 to fiscal 2007.
- Donations decreased 53.3 percent, or approximately \$41,000 from fiscal 2006 to fiscal 2007.
- The Care Center's net assets increased 10.4 percent, or approximately \$45,000, from June 30, 2006 to June 30, 2007.

Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Care Center's financial activities.

The basic financial statements consist of a Statement of Net Assets, 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 Care Center, on a comparative basis, including resources held by the Care Center but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Care Center's budget for the year.

Other Supplementary Information provides detailed information about the operations of the Care Center.

Reporting the Care Center's Financial Activities

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

One of the most important questions asked about the Care Center's finances is "Is the Care Center as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Care Center's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. 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 Care Center's net assets, which is the difference between assets and liabilities, as one way to measure the Care Center's financial health or financial position. Over time, increases or decreases in the Care Center's net assets are one indicator of whether its financial position is improving or deteriorating. Additional factors, such as changes in the Care Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic conditions, are also important in making this determination.

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.

Financial Analysis of the Care Center

As noted earlier, net assets may serve over time as a useful indicator of financial position. The Care Center's net assets increased by \$44,976 (10.4 percent) from fiscal 2006 to fiscal 2007 compared to the net asset increase of \$73,206 (20.3 percent) from fiscal 2005 to fiscal 2006.

	<u>Assets, Liabilities and Net Assets</u>		
	<u>June 30,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current assets	\$ 196,193	\$ 198,472	\$ 98,549
Restricted assets	4,010	2,935	2,619
Capital assets, net of accumulated depreciation	<u>929,380</u>	<u>959,725</u>	<u>1,011,886</u>
Total assets	\$ 1,129,583	\$ 1,161,132	\$ 1,113,054
Current liabilities	276,220	292,662	259,658
Long-term debt	<u>374,133</u>	<u>434,216</u>	<u>492,348</u>
Total liabilities	\$ 650,353	\$ 726,878	\$ 752,006
Net assets:			
Invested in capital assets, net of related debt	495,373	467,576	463,483
Unrestricted (deficit)	<u>(16,143)</u>	<u>(33,322)</u>	<u>(102,435)</u>
Total net assets	<u>\$ 479,230</u>	<u>\$ 434,254</u>	<u>\$ 361,048</u>

The following shows the changes in net assets for the Care Center.

Revenues, Expenses and Changes in Net Assets
Year Ended June 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:			
Net patient service revenue	\$ 1,858,604	\$ 1,700,678	\$ 1,705,682
Other operating revenues	<u>10,116</u>	<u>10,095</u>	<u>14,336</u>
Total operating revenues	<u>\$ 1,868,720</u>	<u>\$ 1,710,773</u>	<u>\$ 1,720,018</u>
Operating expenses:			
Nursing services	\$ 812,507	\$ 739,687	\$ 792,228
Other professional services	94,324	80,982	82,734
General services	393,256	362,456	378,694
Administrative and general	403,390	376,728	393,958
Depreciation	31,093	28,203	28,407
Village South Apartment Complex	45,078	43,462	38,695
Village North Apartment Complex	<u>80,245</u>	<u>83,329</u>	<u>82,075</u>
Total operating expenses	<u>\$ 1,859,893</u>	<u>\$ 1,714,847</u>	<u>\$ 1,796,791</u>
Operating income (loss)	<u>\$ 8,827</u>	<u>\$ (4,074)</u>	<u>\$ (76,773)</u>
Non-operating revenues:			
Donations	\$ 36,071	\$ 77,235	\$ 60,804
Interest income	<u>78</u>	<u>45</u>	<u>64</u>
Total non-operating revenues	<u>\$ 36,149</u>	<u>\$ 77,280</u>	<u>\$ 60,868</u>
Change in net assets	\$ 44,976	\$ 73,206	\$ (15,905)
Net assets beginning of year	<u>434,254</u>	<u>361,048</u>	<u>376,953</u>
Net assets end of year	<u><u>\$ 479,230</u></u>	<u><u>\$ 434,254</u></u>	<u><u>\$ 361,048</u></u>

Operating Losses

The first component of the overall change in the Care Center's net assets is its operating loss or income, which is the difference between the sum of the net patient service and other operating revenues and the expenses incurred to perform those services. In the current year the Care Center reported an operating income, unlike the past two years of reporting an operating loss. This is consistent with the Care Center's recent operating history as the Care Center was formed and is operated primarily to serve residents of Plymouth County and the surrounding area.

The operating loss from 2006 decreased by \$12,901 resulting in operating income for the fiscal 2007. Comparably, the operating loss for fiscal 2006 decreased by \$72,699 from fiscal 2005. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$157,926, or 9.3 percent from fiscal 2006 to fiscal 2007, compared to a decrease in net patient service revenue of \$5,004, or 0.3 percent from fiscal 2005 to fiscal 2006.
- An increase in operating expenses of \$145,046, or 8.5 percent from fiscal 2006 to fiscal 2007, compared to a decrease in operating expenses of \$81,944, or 4.6 percent from fiscal 2005 to fiscal 2006. Salary increases and various repairs to the facilities resulted in the increase in operating expenses.

Non-operating revenues consist primarily of donations. Donations decreased \$41,164, or 53.3 percent from fiscal 2006 to fiscal 2007, compared to an increase of \$16,431, or 27.0 percent from fiscal 2005 to fiscal 2006. Donations for fiscal 2007 primarily consisted of donations from the Care Center's administrator where as donations for fiscal 2006 primarily consisted of a \$30,098 bequest and donations from the Care Center's administrator. For fiscal years 2007 and 2006, the administrator contributed \$11,624 and \$28,260 of services and \$23,475 and \$16,043 of cash.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the Care Center had \$929,380 invested in capital assets, net of accumulated depreciation, as detailed in Note F to the financial statements.

Long-Term Debt

At June 30, 2007, the Care Center had a note payable to the bank totaling \$434,007, as detailed in Note H to the financial statements.

Economic Factors

Akron Convalescent Care Center continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the state continues to be a concern for the Care Center officials. Some of the realities that may potentially become challenges for the Care Center to meet are:

- High percentage of occupancy rates.
- Drug costs will continue to increase.
- Facilities at the Care Center require constant maintenance and upkeep.
- Shortages in finding qualified employees.
- Potential changes in reimbursement rates.

The Care Center anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Care Center's ability to react to unknown issues.

Contacting the Care Center's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Care Center's finances and to show the Care Center's accountability for the money it receives. If you have questions about this report and or need additional financial information, contact Akron City Convalescent Care Center, P.O. Box 830, Akron, Iowa.

AKRON CITY CONVALESCENT CARE CENTER

STATEMENTS OF NET ASSETS

JUNE 30, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 73,713	\$ 70,763
Accounts receivable (less allowance for doubtful accounts of \$2,000 in 2007 and 2006)	109,638	115,118
Supplies inventory	3,415	2,749
Prepaid expenses	<u>9,427</u>	<u>9,842</u>
Total current assets	<u>\$ 196,193</u>	<u>\$ 198,472</u>
 NONCURRENT ASSETS:		
Restricted cash	4,010	2,935
Capital assets, net of accumulated depreciation	<u>929,380</u>	<u>959,725</u>
Total noncurrent assets	<u>\$ 933,390</u>	<u>\$ 962,660</u>
 Total assets	<u>\$ 1,129,583</u>	<u>\$ 1,161,132</u>

LIABILITIES AND NET ASSETS

LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 31,012	\$ 23,208
Accrued salaries and wages	44,891	38,194
Payroll taxes withheld and accrued	-	10,201
Accrued compensation	80,443	78,126
Due to City of Akron	60,000	85,000
Current maturities of long-term debt	<u>59,874</u>	<u>57,933</u>
Total current liabilities	<u>\$ 276,220</u>	<u>\$ 292,662</u>
 Long-term debt, excluding current maturities	<u>\$ 374,133</u>	<u>\$ 434,216</u>
 Total liabilities	<u>\$ 650,353</u>	<u>\$ 726,878</u>
 NET ASSETS:		
Invested in capital assets, net of related debt	\$ 495,373	\$ 467,576
Unrestricted (deficit)	<u>(16,143)</u>	<u>(33,322)</u>
 Total net assets	<u>\$ 479,230</u>	<u>\$ 434,254</u>

AKRON CITY CONVALESCENT CARE CENTER

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES:		
Net revenue from services to patients and residents	\$ 1,858,604	\$ 1,700,678
Other operating revenues	<u>10,116</u>	<u>10,095</u>
Total operating revenues	<u>\$ 1,868,720</u>	<u>\$ 1,710,773</u>
OPERATING EXPENSES:		
Administrative and general	\$ 403,390	\$ 376,728
Plant operations and maintenance	76,025	71,158
Dietary	240,411	215,175
Laundry	39,344	35,840
Housekeeping	37,476	40,283
Nursing services:		
Salaries	762,572	703,725
Supplies and other	36,737	31,255
Drugs and medical supplies	13,198	4,707
Activities	38,802	35,599
Social services	24,333	22,928
Physical therapy	23,237	15,005
Other services	7,952	7,450
Depreciation	31,093	28,203
Village South Apartment Complex (including depreciation)	45,078	43,462
Village North Apartment Complex (including depreciation)	<u>80,245</u>	<u>83,329</u>
Total operating expenses	<u>\$ 1,859,893</u>	<u>\$ 1,714,847</u>
OPERATING INCOME (LOSS)	<u>\$ 8,827</u>	<u>\$ (4,074)</u>
NON-OPERATING REVENUES:		
Donations	\$ 36,071	\$ 77,235
Interest income	<u>78</u>	<u>45</u>
Total non-operating revenues	<u>\$ 36,149</u>	<u>\$ 77,280</u>
CHANGES IN NET ASSETS	\$ 44,976	\$ 73,206
NET ASSETS BEGINNING OF YEAR	<u>434,254</u>	<u>361,048</u>
NET ASSETS END OF YEAR	<u><u>\$ 479,230</u></u>	<u><u>\$ 434,254</u></u>

See accompanying notes to the financial statements.

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AKRON CITY CONVALESCENT CARE CENTER

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patient and resident services	\$ 1,864,084	\$ 1,644,436
Other operating revenues	10,116	10,095
Cash paid to suppliers for goods and services	(464,124)	(429,782)
Cash paid to employees for services	(1,301,266)	(1,185,210)
Interest paid on bank note payable	<u>(15,322)</u>	<u>(17,210)</u>
Net cash provided by operating activities	<u>\$ 93,488</u>	<u>\$ 22,329</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Donations received	\$ 24,447	\$ 48,611
Advance from City of Akron	-	35,000
Payments to City of Akron	<u>(25,000)</u>	<u>-</u>
Net cash provided by (used for) non-capital financing activities	<u>\$ (553)</u>	<u>\$ 83,611</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	\$ (30,846)	\$ (4,905)
Principal paid on bank note payable	<u>(58,142)</u>	<u>(56,254)</u>
Net cash used for capital and related financing activities	<u>\$ (88,988)</u>	<u>\$ (61,159)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>\$ 78</u>	<u>\$ 45</u>
NET INCREASE IN CASH	\$ 4,025	\$ 44,826
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>73,698</u>	<u>28,872</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u><u>\$ 77,723</u></u>	<u><u>\$ 73,698</u></u>
Reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and cash equivalents	\$ 73,713	\$ 70,763
Restricted cash	<u>4,010</u>	<u>2,935</u>
Total cash and cash equivalents	<u><u>\$ 77,723</u></u>	<u><u>\$ 73,698</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	<u>\$ 8,827</u>	<u>\$ (4,074)</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	\$ 61,191	\$ 57,066
Donated services	11,624	28,624
Changes in assets and liabilities:		
Accounts receivable	5,480	(56,242)
Supplies inventory	(666)	(618)
Prepaid expenses	415	1,447
Accounts payable	7,804	(6,746)
Accrued salaries and wages	6,697	3,338
Payroll taxes withheld and accrued	(10,201)	748
Accrued compensation	<u>2,317</u>	<u>(1,214)</u>
Total adjustments	<u>\$ 84,661</u>	<u>\$ 26,403</u>
Net cash provided by operating activities	<u><u>\$ 93,488</u></u>	<u><u>\$ 22,329</u></u>

See accompanying notes to the financial statements.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Akron City Convalescent Care Center is a component unit of the City of Akron, Iowa established to provide and maintain health care facilities, and to promote the general health of the community. The Care Center is governed by a Board of Trustees in accordance with Chapter 392 of the Code of Iowa and Akron City Ordinance. Prior to July 1, 1986, the Care Center operated as Akron City Hospital.

The Care Center is licensed as a nursing facility with a bed capacity of fifty two beds. Substantially all of the Care Center's patients and residents are local residents and a majority of them are entitled to benefits under the Medicaid/Title XIX program. The Care Center also operates two assisted living apartment complexes separate from the licensed facility.

The Care Center's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Basis of Presentation

The Statement of Net Assets displays the Care Center's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt - consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

- B. Measurement focus and 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 basic 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 its financial activity, the Care Center 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 Procedure.

- C. Use of Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- D. Assets, Liabilities and Net Assets - The following accounting policies are followed in preparing the statement of net assets:

Cash and Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents consist of all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased.

Accounts Receivable - Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

Supplies Inventory - Supplies inventory is valued at cost (first-in, first-out) or market, whichever is lower.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

Restricted Assets - Restricted assets consist primarily of funds designated by the Board of Trustees for the improvement, replacement and expansion of capital assets. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Capital Assets - Capital assets are carried at cost. Depreciation is computed over the estimated useful lives of the assets by the straight-line method. The useful lives of the buildings and improvements (including the Assisted Living Apartment Complexes) range from ten to fifty years. The useful lives of equipment range from three to twenty-five years.

- E. Statement of Revenues, Expenses and Changes in Net Assets - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.
- F. Net Patient Service Revenue- Patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for service rendered.

Revenue from services provided to Medicaid (Title XIX) nursing care patients under an agreement with the Iowa Department of Human Services is recorded at reimbursement rates determined by the Department. These rates are below the Care Center's established rates.

NOTE B - CASH AND INVESTMENTS:

The Care Center'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.

The City of Akron has adopted an investment policy in accordance with state law. Eligible investments include interest-bearing accounts or certificates of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa and obligations of the United States Government, its agencies and instrumentalities.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE C - ACCOUNTS RECEIVABLE:

Accounts receivable at June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Medicaid/Title XIX:		
Nursing Care	\$ 58,968	\$ 78,261
Other Payors	41,873	13,953
Patients/Residents	<u>10,797</u>	<u>24,904</u>
	\$ 111,638	\$ 117,118
Less: Allowance for doubtful accounts	<u>2,000</u>	<u>2,000</u>
	<u>\$ 109,638</u>	<u>\$ 115,118</u>

NOTE D - CONTRACT COSTS RECEIVABLE/PAYABLE:

The Care Center has entered into reimbursement agreements for nursing services rendered to Veterans Administration and Medicaid patients. The Care Center enters into contracts with the Veterans Administration to provide reimbursement at stated per diem rates on a patient by patient basis. The Medicaid program has adopted a prospective per diem reimbursement method which represents full payment on submitted claims.

NOTE E - RESTRICTED CASH:

During the year ended June 30, 1998 the Center paid off its revenue notes. All of the reserve funds were then transferred to a Capital Reserve Account, based on a resolution of the Board of Trustees.

The Care Center's Board restricted assets have been invested by the City of Akron. As of June 30, 2007 and 2006 the Capital Reserve Account was \$4,010 and \$2,935, respectively.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE F - CAPITAL ASSETS:

Capital assets activity for the year ended at June 30, 2007 was as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Capital assets not being depreciated:				
Land	\$ 23,004	\$ -	\$ -	\$ 23,004
Capital assets being depreciated:				
Building and improvements	\$ 1,814,421	\$ 8,095	\$ (5,300)	\$ 1,817,216
Equipment and furnishings	<u>238,901</u>	<u>22,751</u>	<u>(3,291)</u>	<u>258,361</u>
Total capital assets being depreciated	<u>\$ 2,053,322</u>	<u>\$ 30,846</u>	<u>\$ (8,591)</u>	<u>\$ 2,075,577</u>
Less accumulated depreciation:				
Buildings and improvements	\$ 904,918	\$ 47,440	\$ (5,300)	\$ 947,058
Equipment and furnishings	<u>211,683</u>	<u>13,751</u>	<u>(3,291)</u>	<u>222,143</u>
Total accumulated depreciation	<u>\$ 1,116,601</u>	<u>\$ 61,191</u>	<u>\$ (8,591)</u>	<u>\$ 1,169,201</u>
Total capital assets being depreciated, net	<u>\$ 936,721</u>	<u>\$ (30,345)</u>	<u>\$ -</u>	<u>\$ 906,376</u>
Total capital assets, net	<u>\$ 959,725</u>	<u>\$ (30,345)</u>	<u>\$ -</u>	<u>\$ 929,380</u>

NOTE G - DUE TO THE CITY OF AKRON:

During the year ended June 30, 2005, the City of Akron loaned the Care Center \$50,000. The funds were used for payroll and insurance expenses. During the year ended June 30, 2006, an additional \$35,000 was advanced to the Care Center to cover operating expenses. Akron Care Center made payments of \$25,000 to the City of Akron during the year ended June 30, 2007 resulting in an outstanding balance of \$60,000 which is due on demand.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE H - LONG-TERM DEBT:

Long-term debt consists of a note payable to the bank with an original principal of \$625,000. The note financed the construction of the Village North Apartment Complex, an 8-unit assisted living facility completed in December 2003. The note is payable in 120 equal monthly installments of \$6,122, including interest at 3.3 percent. The note shall be payable solely and only out of the net revenue of the Care Center and shall be a first lien on the future net revenues of the Care Center. The future maturities are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 59,874	\$ 13,590	\$ 73,464
2009	61,880	11,584	73,464
2010	63,953	9,511	73,464
2011	66,096	7,368	73,464
2012	68,311	5,153	73,464
2013-2014	<u>113,893</u>	<u>3,465</u>	<u>117,358</u>
Total	\$ 434,007	\$ 50,671	\$ 484,678
Less: Current maturities	<u>59,874</u>		
Balance due, net	<u>\$ 374,133</u>		

NOTE I - OPERATING LEASES:

The Care Center leases various equipment under operating leases. Rental expense under these leases was \$2,739 and \$3,011 for the years ended June 30, 2007 and 2006, respectively.

NOTE J - RELATED PARTY TRANSACTIONS:

The Care Center purchases its electricity, water, sewer and garbage services from the City of Akron's municipal utility. The total amounts purchased for the years ended June 30, 2007 and 2006 were \$28,138 and \$27,429, respectively. In addition, the Care Center received cash donations of \$23,475 and \$16,043 and donated services of \$11,624 and \$28,260 from its administrator for the year ended June 30, 2007 and 2006.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE K - PENSION AND RETIREMENT BENEFITS:

The Care Center 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 percent of their annual salary and the Care Center is required to contribute 5.75 percent of annual covered payroll. Contribution requirements are established by State statute. The Care Center's contribution to IPERS for the years ended June 30, 2007 and 2006 were \$61,853 and \$56,668, respectively, equal to the required contributions for each year.

NOTE L - RISK MANAGEMENT:

The Care Center 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. The Care Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

The Care Center's workers compensation insurance coverage is purchased from an association of Iowa long-term care providers. The program includes a minimum contribution to cover projected claims and administration costs as well as a potential maximum contribution level. If a member's actual claims for any policy year exceed the claim fund amount included in the minimum contribution, after adjustment for actual payrolls, the member is required to contribute the excess, up to the stated maximum contribution.

Losses for claims in excess of the minimum contributions to the claim fund are accrued when information provided by the Association indicates an assessment is probable and can be reasonably estimated. At June 30, 2007, there were no claims in excess of the minimum contributions to the claim fund.

AKRON CITY CONVALESCENT CARE CENTER

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

NOTE M - GOING CONCERN:

The Care Center's percentage of occupancy for the last three years is summarized as follows:

June 30, 2007	<u>76.4%</u>
June 30, 2006	<u>71.7%</u>
June 30, 2005	<u>77.6%</u>

As a result of the low percentage of occupancy, operating expenses have exceeded the operating revenues resulting in net operating losses in the years ended June 30, 2005 and 2006. The year ended June 30, 2007 resulted in net operating income of \$8,827.

	<u>June 30,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating revenues	\$ 1,720,018	\$ 1,710,773	\$ 1,868,720
Operating expenses	<u>1,796,791</u>	<u>1,714,847</u>	<u>1,859,893</u>
Net operating income (loss)	<u>\$ (76,773)</u>	<u>\$ (4,074)</u>	<u>\$ 8,827</u>

Although management reduced operating expenses in both of the prior years, the reductions were not sufficient to eliminate the net operating losses. The large operating losses in previous years have placed a significant strain on the Care Center's cash flow, resulting in current liabilities exceeding current assets by \$80,027 as of June 30, 2007. In addition, the Care Center had a \$16,143 deficit in unrestricted net assets as of June 30, 2007.

An in-kind contribution of services in the amount of \$11,624 from an employee of the Care Center was used to help pay certain operating expenses for the year ended June 30, 2007.

The Board of Trustees has approved a budget for the year ending June 30, 2008 that reflects revenues in excess of expenses. The budget is based upon the assumption that the percentage of occupancy will be about 72 percent. In addition, management plans to maintain operating expenses at or below operating revenues to the extent possible. However, if operating expenses exceed operating revenues, management will request additional funds from the City of Akron to help pay for certain operating expenses.

Because it is unclear whether management will be successful in eliminating net operating losses or obtaining additional funds from the City of Akron, there is uncertainty about the Care Center's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should the Care Center be unable to continue as a going concern.

REQUIRED SUPPLEMENTARY INFORMATION

AKRON CITY CONVALESCENT CARE CENTER

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES

AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL (ACCRUAL BASIS)

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2007

	Actual Accrual Basis	Budgeted Amounts Original/ Amended*	Final to Actual Accrual Basis Variance
OPERATING REVENUES:			
Net revenue from services to patients and residents	\$ 1,858,604	\$ 1,746,640	\$ 111,964
Other operating revenues	<u>10,116</u>	<u>13,550</u>	<u>(3,434)</u>
Total operating revenues	<u>\$ 1,868,720</u>	<u>\$ 1,760,190</u>	<u>\$ 108,530</u>
OPERATING EXPENSES:			
Administrative and general	\$ 403,390	\$ 376,200	\$ (27,190)
Plant operations and maintenance	76,025	65,000	(11,025)
Dietary	240,411	220,150	(20,261)
Laundry	39,344	38,750	(594)
Housekeeping	37,476	47,500	10,024
Nursing services:			
Salaries	762,572	709,000	(53,572)
Supplies and other	36,737	32,750	(3,987)
Drugs and medical supplies	13,198	6,400	(6,798)
Activities	38,802	38,750	(52)
Social services	24,333	23,100	(1,233)
Physical therapy	23,237	12,250	(10,987)
Other services	7,952	3,900	(4,052)
Depreciation	31,093	26,000	(5,093)
Village North and South Apartment Complex (including depreciation)	<u>125,323</u>	<u>173,514</u>	<u>48,191</u>
Total operating expenses	<u>\$ 1,859,893</u>	<u>\$ 1,773,264</u>	<u>\$ (86,629)</u>
OPERATING INCOME (LOSS)	<u>\$ 8,827</u>	<u>\$ (13,074)</u>	<u>\$ 21,901</u>
NON-OPERATING REVENUES:			
Donations	\$ 36,071	\$ 20,500	\$ 15,571
Interest income	<u>78</u>	<u>-</u>	<u>78</u>
Total non-operating revenues	<u>\$ 36,149</u>	<u>\$ 20,500</u>	<u>\$ 15,649</u>
CHANGES IN NET ASSETS	<u>\$ 44,976</u>	<u>\$ 7,426</u>	<u>\$ 37,550</u>

*Budget was not amended.

See accompanying independent auditors' report.

AKRON CITY CONVALESCENT CARE CENTER

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION -

BUDGETARY REPORTING

JUNE 30, 2007

The Akron City Convalescent Care Center's Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Care Center on the accrual basis of accounting. The Akron City Convalescent Care Center submits the adopted budget to the City of Akron where it is incorporated within the City of Akron's certified budget. The City of Akron is responsible for following the requirements of public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The City of Akron's 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 expenses.

OTHER SUPPLEMENTARY INFORMATION

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULES OF REVENUE

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Net operating revenue from services to patients and residents:		
Nursing charges	\$ 1,705,726	\$ 1,542,930
Rent income:		
Village South Apartment Complex	49,333	48,000
Village North Apartment Complex	<u>103,500</u>	<u>103,580</u>
	<u>\$ 1,858,559</u>	<u>\$ 1,694,510</u>
Other services to patients and residents:		
Medical supplies and drugs	<u>\$ 45</u>	<u>\$ 6,168</u>
Total net operating revenue from services to patients and residents	<u>\$ 1,858,604</u>	<u>\$ 1,700,678</u>
Other operating revenue:		
Meals other than patients:		
Guest meals	\$ 2,240	\$ 1,742
Activities income - craft room	3,558	845
Refunds and miscellaneous	<u>4,318</u>	<u>7,508</u>
Total other operating revenue	<u>\$ 10,116</u>	<u>\$ 10,095</u>

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULES OF EXPENSES

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Administrative and general:		
Salaries	\$ 95,213	\$ 92,790
Bad Debt	3,950	-
Office supplies	9,706	7,560
Telephone	4,705	4,591
Advertising	4,481	3,453
Licenses and dues	1,707	1,754
Legal and accounting	21,307	13,550
Payroll taxes - including IPERS	139,847	125,342
Insurance:		
Property and liability	43,744	44,509
Workers' compensation	22,929	24,245
Directors' and officers' liability	2,800	2,834
Employee health	35,977	44,199
Employee physicals and vaccinations	4,349	4,607
Education and travel	2,593	689
Finance charges paid	244	94
Computer - software	4,841	5,348
Other	4,997	1,163
	<u>\$ 403,390</u>	<u>\$ 376,728</u>
Plant operations and maintenance:		
Gas	\$ 24,157	\$ 27,766
Electricity and water (City of Akron Municipal Utilities)	19,682	19,507
Repairs and maintenance	31,231	23,761
Other	955	124
	<u>\$ 76,025</u>	<u>\$ 71,158</u>
Dietary:		
Salaries	\$ 143,726	\$ 133,197
Food	85,958	72,704
Supplies and other	10,727	9,274
	<u>\$ 240,411</u>	<u>\$ 215,175</u>
Laundry:		
Salaries	\$ 14,814	\$ 11,643
Contract services	19,923	20,816
Linen	3,086	1,759
Supplies and other	1,521	1,622
	<u>\$ 39,344</u>	<u>\$ 35,840</u>

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULES OF EXPENSES

YEARS ENDED JUNE 30, 2007 AND 2006

(CONTINUED)

	<u>2007</u>	<u>2006</u>
Housekeeping:		
Salaries	\$ 29,333	\$ 30,895
Supplies and other	<u>8,143</u>	<u>9,388</u>
	<u>\$ 37,476</u>	<u>\$ 40,283</u>
Nursing services - salaries:		
Registered nurses	\$ 164,612	\$ 191,562
Licensed practical nurses	157,986	100,632
Aides	<u>439,974</u>	<u>411,531</u>
	<u>\$ 762,572</u>	<u>\$ 703,725</u>
Nursing services - supplies and other:		
Supplies	\$ 23,442	\$ 24,551
Education	3,791	102
Medical records software support	7,186	5,158
Resident support	<u>2,318</u>	<u>1,444</u>
	<u>\$ 36,737</u>	<u>\$ 31,255</u>
Drugs and medical supplies:		
Drugs	\$ 12,122	\$ 534
Medical supplies	<u>1,076</u>	<u>4,173</u>
	<u>\$ 13,198</u>	<u>\$ 4,707</u>
Activities:		
Salaries	\$ 31,188	\$ 30,065
Supplies	5,119	2,262
Van maintenance and expense	<u>2,495</u>	<u>3,272</u>
	<u>\$ 38,802</u>	<u>\$ 35,599</u>
Social services:		
Salaries	\$ 24,134	\$ 22,928
Supplies	<u>199</u>	<u>-</u>
	<u>\$ 24,333</u>	<u>\$ 22,928</u>
Physical therapy:		
Consultant	\$ 1,775	\$ 2,652
Salaries - aide	21,221	12,156
Supplies	<u>241</u>	<u>197</u>
	<u>\$ 23,237</u>	<u>\$ 15,005</u>

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULES OF EXPENSES

YEARS ENDED JUNE 30, 2007 AND 2006

(CONTINUED)

	<u>2007</u>	<u>2006</u>
Other services:		
Medical director	\$ 2,400	\$ 2,400
Pharmacy consultant	1,200	1,200
Patient physician fees	<u>4,352</u>	<u>3,850</u>
	<u>\$ 7,952</u>	<u>\$ 7,450</u>
Depreciation:		
Building	\$ 20,946	\$ 18,551
Equipment	<u>10,147</u>	<u>9,652</u>
	<u>\$ 31,093</u>	<u>\$ 28,203</u>
Village South Apartment Complex:		
Salaries	\$ 19,894	\$ 21,270
Payroll taxes - including IPERS	2,264	3,254
Telephone	465	505
Gas	2,048	2,287
Electricity and water (City of Akron Municipal Utilities)	3,128	2,832
Insurance	1,500	1,500
Depreciation	7,701	6,597
Miscellaneous	1,384	2,578
Repairs and maintenance	<u>6,694</u>	<u>2,639</u>
	<u>\$ 45,078</u>	<u>\$ 43,462</u>
Village North Apartment Complex:		
Salaries	\$ 25,065	\$ 25,660
Payroll taxes - including IPERS	2,433	3,105
Telephone	425	463
Gas	1,590	1,626
Electricity and water (City of Akron Municipal Utilities)	5,328	5,090
Insurance	3,600	3,600
Interest	15,322	17,210
Depreciation	22,397	22,266
Miscellaneous	3,811	4,113
Repairs and maintenance	<u>274</u>	<u>196</u>
	<u>\$ 80,245</u>	<u>\$ 83,329</u>
 Total expenses	 <u>\$ 1,859,893</u>	 <u>\$ 1,714,847</u>

See accompanying independent auditors' report.

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULES OF REVENUES AND EXPENSES - VILLAGE SOUTH APARTMENT COMPLEX

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Rent income	\$ 49,333	\$ 48,000
Expenses:		
Salaries	\$ 19,894	\$ 21,270
Payroll taxes - including IPERS	2,264	3,254
Telephone	465	505
Gas	2,048	2,287
Electricity and water (City of Akron Municipal Utilities)	3,128	2,832
Insurance	1,500	1,500
Depreciation	7,701	6,597
Miscellaneous	1,384	2,578
Repairs and maintenance	<u>6,694</u>	<u>2,639</u>
	<u>\$ 45,078</u>	<u>\$ 43,462</u>
Excess of revenue over expenses	<u>\$ 4,255</u>	<u>\$ 4,538</u>

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULES OF REVENUES AND EXPENSES - VILLAGE NORTH APARTMENT COMPLEX

YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Rent income	\$ <u>103,500</u>	\$ <u>103,580</u>
Expenses:		
Salaries	\$ 25,065	\$ 25,660
Payroll taxes - including IPERS	2,433	3,105
Telephone	425	463
Gas	1,590	1,626
Electricity and water (City of Akron Municipal Utilities)	5,328	5,090
Insurance	3,600	3,600
Interest	15,322	17,210
Depreciation	22,397	22,266
Miscellaneous	3,811	4,113
Repairs and maintenance	<u>274</u>	<u>196</u>
	\$ <u>80,245</u>	\$ <u>83,329</u>
Excess of revenue over expenses	<u>\$ 23,255</u>	<u>\$ 20,251</u>

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULE OF STATISTICS

YEAR ENDED JUNE 30, 2007

	<u>All Patients</u>	<u>Medicaid Title XIX Patients</u>
52 Bed Nursing Facility:		
Number of patients, July 1, 2006	44	27
Admissions	28	12
Discharges, including deaths	(36)	(16)
Transfers	-	3
Number of patients, June 30, 2007	<u>36</u>	<u>26</u>
Total patient days	14,500	9,803
Percentage of occupancy	76.4%	51.7%
Average number of patients per day	40	27
Village South Apartment Complex:		
Rent charges	\$ 49,333	*
Gross potential rent (assuming single occupancy)	\$ 72,000	*
Percentage of occupancy	69%	*
Village North Apartment Complex:		
Rent charges	\$ 103,500	*
Gross potential rent (assuming single occupancy)	\$ 110,400	*
Percentage of occupancy	94%	*

* Statistic not applicable.

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULE OF INSURANCE COVERAGE

JUNE 30, 2007

Property:	
Building - nursing home	\$ 4,269,000
Garage	33,000
Six unit apartment building	577,000
Eight unit apartment building	766,000
Contents	896,900
Business interruption	720,000
Adult congregate living facilities professional liability:	
Per person	1,000,000
Total	3,000,000
General liability:	
Per occurrence	1,000,000
Total	3,000,000
Business auto coverage:	
Combined single limit	1,000,000
Uninsured/underinsured motorists	1,000,000
Workers' compensation (\$500,000 employer liability)	1,000,000
Employee dishonesty	10,000
Computer equipment	15,000
Directors' and officers' liability	1,000,000
Sexual misconduct liability:	
Per occurrence	1,000,000
Total	3,000,000



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
Akron City Convalescent Care Center

We have audited the financial statements of Akron City Convalescent Care Center as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated September 4, 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 Akron City Convalescent Care Center'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 Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency I-A-07 described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.



A material weakness is a significant deficiency, or 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 entity'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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, the significant deficiency described above item I-A-07, we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Akron City Convalescent Care Center'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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Care Center's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Care Center. 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.

The Care Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Care Center's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City officials, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

King, Reinsch, Prosser & Co. L.L.P.

Sioux City, Iowa
September 4, 2007

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

Material Weakness:

I-A-07 Material Adjustments to Financial Statements - During the audit, material adjustments were made to the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets. The material adjustments consisted of capitalizing fixed assets that were expensed, adjusting principal payments on debt that were expensed, and recording in-kind services. The net affect of these adjustments was an approximate \$88,000 increase in the change in net assets.

Recommendation - The Care Center should implement procedures to ensure all capital asset additions are capitalized, principal payments on debt are properly recorded, and in-kind services are recorded as a contribution.

Response - We will consider revising our procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion - Response accepted

Part II: Other Findings Related to Required Statutory Reporting:

II-A-07 Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amount budgeted.

Recommendation - The Care Center should implement procedures to ensure that the budget is amended before expenses exceed budgeted amounts in total.

Response - We will monitor actual to budget expenses in total and amend the budget if needed.

Conclusion - Response accepted.

II-B-07 Questionable Expenses - No questionable expenses were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-07 Travel Expense - No disbursements of Care Center money for travel expenses of spouses of Care Center officials and/or employees were noted.

AKRON CITY CONVALESCENT CARE CENTER

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2007

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

- II-D-07 Business Transactions - No business transactions were noted between the Care Center and Care Center officials.
- II-E-07 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-07 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and Chapter 12C of the Code of Iowa and the Care Center's investment policy were noted.