Story County Hospital and Long-Term Care Facility

Accountants' Report and Financial Statements

June 30, 2008 and 2007

Story County Hospital and Long-Term Care Facility

June 30, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, 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 16, 2008, 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.

experience BKD

Praxity
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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. 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 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.

BKD, LLP

Kansas City, Missouri
December 16, 2008

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis

Years Ended June 30, 2008 and 2007

Introduction

This management's discussion and analysis of the financial performance of Story County Hospital and Long-Term Care Facility (the Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2008 and 2007. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased between 2008 and 2007 by $663,988 and decreased by $25,828 between 2007 and 2006.
- The Hospital's net assets increased $714,525 or 14% in 2008 and $1,461,998 or 41% in 2007.
- The Hospital reported operating losses in 2008 and 2007 of $1,094,972 and $357,314, respectively. The operating loss in 2008 increased by $737,658 compared to the operating loss reported in 2007 and decreased by $249,940 in 2007 compared to the operating loss reported in 2006.

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 $714,525 or 14% in 2008 over 2007 and $1,461,998, or 41% in 2007 over 2006.

Table 1: Assets, Liabilities and Net Assets

	2008	2007	2006
Assets			
Patient accounts receivable, net	$ 2,849,729	$ 2,729,915	$ 1,666,733
Other current assets	4,413,085	6,944,958	2,061,378
Capital assets, net	5,652,038	5,134,871	4,287,874
Other noncurrent assets	14,017,136	379,609	85,397
Total assets	$ 26,931,988	$ 15,189,353	$ 8,101,382
Liabilities			
Current liabilities	$ 3,739,536	$ 8,234,323	$ 2,515,886
Long-term debt	17,453,842	1,929,722	2,023,339
Other liabilities	7,940	9,163	8,010
Total liabilities	21,201,318	10,173,208	4,547,235
Net Assets			
Invested in capital assets, net of related debt	609,927	3,941,755	3,112,253
Restricted expendable			
Building project	779,679	501,642	40,000
Debt Service Fund	1,053,205	-	-
By contributors and grantors	106,226	38,337	37,387
Unrestricted	3,181,633	534,411	364,507
Total net assets	5,730,670	5,016,145	3,554,147
Total liabilities and net assets	$ 26,931,988	$ 15,189,353	$ 8,101,382

In 2008 a significant change is the increase in other noncurrent assets of $13,375,541. This increase primarily represents the receipt of the project funds through the bond issue related to the new hospital construction. There was a corresponding increase in long-term debt of $15,524,120, primarily related to the issuance of the $15,690,000 of Series 2008 Revenue Bonds (see *Note 8*). Capital assets also increased by $517,167 (net of depreciation), again, primarily related to the hospital replacement project. Other current assets decreased by $2,531,873 due to the use of the short-term investments from 2007 to pay off the revenue bond anticipation note in 2008.

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.

Operating Results and Changes in the Hospital's Net Assets

In 2008, the Hospital's net assets increased by $714,525 or 14% as shown in Table 2. This increase is made up of several different components and represents a decrease of $747,473 from 2007 when the increase in net assets was $1,461,998.

Table 2: Operating Results and Changes in Net Assets

	2008	2007	2006
Operating Revenues			
Net patient service revenue	$ 13,070,879	$ 12,897,526	$ 11,342,813
Operating Expenses			
Salaries and wages and employee benefits	8,029,244	7,438,906	6,923,269
Medical professional fees	1,649,974	1,570,856	1,417,518
Depreciation and amortization	540,103	506,989	500,842
Other operating expenses	3,946,530	3,738,089	3,108,438
Total operating expenses	14,165,851	13,254,840	11,950,067
Operating Loss	(1,094,972)	(357,314)	(607,254)
Nonoperating Revenues (Expenses)			
Property taxes	1,230,163	1,180,716	990,990
Interest income	104,020	137,084	3,564
Non-capital grants and gifts	43,300	55,769	62,097
Other	30,012	28,531	221
Interest expense	(248,730)	(196,717)	(101,107)
Total nonoperating revenues	1,158,765	1,205,383	955,765
Capital Grants and Contributions	691,010	613,929	50,000
Unrealized Loss	(40,278)	-	-
Increase in Net Assets	$ 714,525	$ 1,461,998	$ 398,511

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 2008, 2007 and 2006, 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 2008 increased by $737,658, or 206%, as compared to 2007. The primary components of the increased operating loss are:

- Net patient service revenues increased $173,353 or 1% during fiscal year 2008. Most of the increase was found in SNF/NF revenues, while hospital and clinic revenues were relatively flat.
- Operating expenses increased approximately 7% or $911,011, $590,338 of which was related to salaries and benefits.
- Supplies and medical professional fees increased $292,277 or 6%.

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

- Net patient service revenues increased $1,554,713 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 lending 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.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income and interest expense, and grants. For 2008, the primary difference compared to 2007 was the increase in interest expense of $52,013 related to the financing activities during the year.

For 2007, 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%.

Capital Grants and Contributions

The Hospital Foundation received capital gifts and grants of $691,010 and $613,929, from various sources in 2008 and 2007. The increase in capital gifts and grants totaled $77,081 and $563,929 in 2008 and 2007, respectively. The large amount of gifts in 2008 and 2007 were 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 2008 and 2007 as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2008 and 2007, the Hospital had $5,652,038 and $5,134,871 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2008, the Hospital invested $1,065,317 in new capital assets, including $809,639 related to the new hospital facility. In 2007, the Hospital purchased new capital assets costing $1,372,973, including construction related items of $669,066.

Debt

At June 30, 2008 and 2007, the Hospital had $17,880,257 and $7,309,712 in notes payable and capital lease obligations outstanding, respectively. In 2008, the Hospital issued Series 2008 Revenue Bonds in the amount of $15,690,000. The $5,000,000 short-term note issued in 2007 was repaid and an additional $6,000,000 short-term note was issued and repaid during 2008.

In 2007, 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.

Factors Bearing on the Future

The Hospital has filed for and received Certificate of Need approval for the construction of a replacement hospital facility. As mentioned above, Series 2008 Revenue Bonds were issued to finance the construction of the new hospital. 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, 2008 and 2007

Assets

	2008	2007
Current Assets		
Cash and cash equivalents	$ 1,193,970	$ 529,982
Short-term investments	1,225,486	4,597,124
Patient accounts receivable, net of allowance; 2008 – $694,423, 2007 – $291,663	2,849,729	2,729,915
Property taxes receivable	1,263,856	1,235,862
Other receivables	12,162	52,874
Pledges receivable, current portion	333,988	169,533
Supplies	242,821	234,249
Prepaid expenses	140,802	125,334
Total current assets	7,262,814	9,674,873
Noncurrent Cash, Deposits, Pledges and Investments		
Resident trust agreement	7,940	9,163
Externally restricted by donors	142,208	86,974
Pledges receivable, net of allowances	445,691	283,472
Held by trustee	12,945,907	-
	13,541,746	379,609
Capital Assets, net	5,652,038	5,134,871
Other Assets		
Deferred financing costs (net of amortization; 2008 - $2,940)	475,390	-
Total Assets	$ 26,931,988	$ 15,189,353

See Notes to Financial Statements

Liabilities and Net Assets

	2008	2007
Current Liabilities		
Current maturities of long-term debt	$ 426,415	$ 5,379,990
Accounts payable	720,541	546,455
Accounts payable - construction	304,954	-
Accrued expenses	850,684	847,609
Estimated amounts due to third-party payers	173,086	224,407
Deferred revenue for property taxes	1,263,856	1,235,862
Total current liabilities	3,739,536	8,234,323
Long-term Debt	17,453,842	1,929,722
Other Long-term Liabilities		
Resident trust fund	7,940	9,163
Total liabilities	21,201,318	10,173,208
Net Assets		
Invested in capital assets, net of related debt	609,927	3,941,755
Restricted expendable		
Building project	779,679	501,642
Debt service	1,053,205	-
By contributors and grantors	106,226	38,337
Unrestricted	3,181,633	534,411
Total net assets	5,730,670	5,016,145
Total Liabilities and Net Assets	$ 26,931,988	$ 15,189,353

Story County Hospital and Long-Term Care Facility

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	$ 13,829,975	$ 13,502,461
Provision for uncollectible accounts	(759,096)	(604,935)
Net patient service revenue	13,070,879	12,897,526
Operating Expenses		
Salaries and wages	6,621,097	6,223,620
Employee benefits	1,408,147	1,215,286
Medical professional fees	1,649,974	1,570,856
Insurance	163,386	168,104
Supplies and other	3,783,144	3,569,985
Depreciation and amortization	540,103	506,989
Total operating expenses	14,165,851	13,254,840
Operating Loss	(1,094,972)	(357,314)
Nonoperating Revenues (Expenses)		
Property taxes	1,230,163	1,180,716
Interest income	104,020	137,084
Noncapital grants and gifts	43,300	55,769
Other	30,012	28,531
Interest	(248,730)	(196,717)
Total nonoperating revenues	1,158,765	1,205,383
Excess of Revenues Over Expenses Before Capital Grants and Gifts and Unrealized Loss	63,793	848,069
Capital Grants and Gifts	691,010	613,929
Unrealized Loss	(40,278)	-
Increase in Net Assets	714,525	1,461,998
Net Assets, Beginning of Year	5,016,145	3,554,147
Net Assets, End of Year	$ 5,730,670	$ 5,016,145

See Notes to Financial Statements

Story County Hospital and Long-Term Care Facility

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

	2008	2007
Operating Activities		
Receipts from and on behalf of patients	$ 12,899,744	$ 11,867,635
Payments to and on behalf of employees	(8,026,169)	(7,159,488)
Payments to suppliers and contractors	(5,446,458)	(5,094,765)
Other receipts, net	(256,066)	(490,565)
Net cash used in operating activities	(828,949)	(877,183)
Noncapital Financing Activities		
Property taxes	1,230,163	1,180,716
Noncapital grants and gifts	43,300	55,769
Other	30,012	28,531
Net cash provided by noncapital financing activities	1,303,475	1,265,016
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(11,549,484)	(240,745)
Interest paid on capital debt and leases	(248,730)	(196,717)
Proceeds from issuance of debt	22,190,000	5,287,812
Deferred financing costs	(545,361)	-
Purchase of capital assets	(765,119)	(1,425,143)
Proceeds from sale of capital assets	5,300	7,243
Capital grants and gifts	691,010	613,929
Net cash provided by capital and related financing activities	9,777,616	4,046,379
Investing Activities		
Purchase of investments	(9,651,896)	(4,597,124)
Interest on deposits	63,742	137,084
Net cash used in investing activities	(9,588,154)	(4,460,040)
Increase (Decrease) in Cash and Cash Equivalents	663,988	(25,828)
Cash and Cash Equivalents, Beginning of Year	529,982	555,810
Cash and Cash Equivalents, End of Year	$ 1,193,970	$ 529,982

Story County Hospital and Long-Term Care Facility

Statements of Cash Flows (Continued)

Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	$ (1,094,972)	$ (357,314)
Depreciation and amortization	540,103	506,989
Gain on sale of assets	7,503	-
Changes in operating assets and liabilities		
Patient accounts receivable, net	(119,814)	(1,063,182)
Other receivables	12,718	(239,290)
Supplies	(8,572)	(4,217)
Prepaid expenses	(318,526)	(362,989)
Estimated amounts due from and to third-party payers	(51,321)	33,291
Accounts payable and accrued expenses	203,932	609,529
Net cash used in operating activities	$ (828,949)	$ (877,183)
Supplemental Cash Flows Information		
Capital acquisitions included in accounts payable	$ 304,954	$ 16,152

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2008 and 2007

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.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2008 and 2007, 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, 2008 and 2007, 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.

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.

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.

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 $398,018 and $340,470 for 2008 and 2007, 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 Administrative Contractor. 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.

Approximately 50% and 45% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2008 and 2007, 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, 2008 and 2007. The Hospital's deposits in banks at June 30, 2008 and 2007 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 $14,249,020 at June 30, 2008.

Summary of Carrying Values

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

	2008	2007
Carrying value		
Deposits	$ 1,266,491	$ 626,119
Investments	14,249,020	4,597,124
	$ 15,515,511	$ 5,223,243
Included in the following balance sheet captions		
Cash and cash equivalents	$ 1,193,970	$ 529,982
Resident Trust Agreement	7,940	9,163
Externally restricted by donors	142,208	86,974
Short-term investments	1,225,486	4,597,124
Held by trustee	12,945,907	-
	$ 15,515,511	$ 5,223,243

Interest Income

Interest income for the years ended June 30, 2008 and 2007, amounted to $104,020 and $134,563, respectively. Unrealized loss on investments for the years ended June 30, 2008 and 2007, was $40,278 and $0, 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, 2008 and 2007 consisted of:

	2008	2007
Medicare	$ 1,222,677	$ 1,244,496
Medicaid	351,091	292,314
Other third-party payers	1,079,603	1,043,255
Patients	890,781	441,513
	3,544,152	3,021,578
Less allowance for uncollectible accounts	694,423	291,663
	$ 2,849,729	$ 2,729,915

Note 5: Pledges Receivable

During November 2006, the Hospital Foundation began a capital campaign to assist in funding the construction of a new hospital facility. A discount rate of 6% was used in 2008 and 2007. Pledges receivable consisted of the following:

	2008	2007
Due within one year	$ 351,567	$ 169,533
Due in one to five years	469,888	309,154
	821,455	478,687
Less allowance for uncollectible pledges	41,776	25,682
	$ 779,679	$ 453,005

Note 6: Capital Assets

Capital assets activity for the years ended June 30, 2008 and 2007 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2008					
Land	$ 422,176	$ 721	$ -	$ -	$ 422,897
Land improvements	97,523	-	-	-	97,523
Buildings and leasehold improvements	5,037,172	-	(11,746)	-	5,025,426
Fixed equipment	2,210,786	8,840	(4,078)	-	2,215,548
Major movable equipment	2,537,340	246,117	(106,382)	426,893	3,103,968
Equipment under capital lease	374,958	-	-	(374,958)	-
Construction in progress	691,419	809,639	-	(51,935)	1,449,123
	11,371,374	1,065,317	(122,206)	-	12,314,485
Less accumulated depreciation					
Land improvements	63,871	5,236	-	-	69,107
Buildings and leasehold improvements	3,042,807	122,001	-	-	3,164,808
Fixed equipment	1,065,789	134,347	(2,447)	-	1,197,689
Major movable equipment	1,914,053	262,549	(95,742)	149,983	2,230,843
Equipment under capital lease	149,983	-	-	(149,983)	-
	6,236,503	524,133	(98,189)	-	6,662,447
Capital assets, net	$ 5,134,871	$ 541,184	$ (24,017)	$ -	$ 5,652,038

	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
	10,090,487	1,372,973	(92,086)	-	11,371,374
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
	5,802,613	518,733	(84,843)	-	6,236,503
Capital assets, net	$ 4,287,874	$ 854,240	$ (7,243)	$ -	$ 5,134,871

Note 7: 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.

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2008 and 2007:

	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable U.S. Bank (B)	$ 145,521	$ -	$ (21,505)	$ 124,016	$ 22,741
Note payable State Bank & Trust – MOB (C)	893,375	-	(106,337)	787,038	111,943
Note payable State Bank & Trust (D)	768,728	-	(37,874)	730,854	40,441
Capital lease obligations (E)	249,021	-	(90,339)	158,682	77,722
UMB Note (F)	5,000,000	6,000,000	(11,000,000)	-	-
Zearing Note (G)	128,067	-	(13,600)	114,467	13,600
SBT-LOC Dairyland (H)	125,000	300,000	(275,000)	150,000	150,000
Hospital revenue refunding bonds series 2008A (I)	-	8,085,000	-	8,085,000	-
USDA Rural Development hospital revene note (J)	-	200,000	(4,829)	195,171	9,968
Hospital revenue bonds series 2008B (K)	-	7,605,000	-	7,605,000	-
Total long-term debt	$ 7,309,712	$ 22,190,000	$ (11,549,484)	$ 17,950,228	$ 426,415
Less unamortized discount	-			(69,971)	
	$ 7,309,712			$ 17,880,257	

Story County Hospital and Long-Term Care Facility

Notes to Financial Statements

June 30, 2008 and 2007

	2007				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
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	125,000
Total long-term debt	$ 2,262,645	$ 5,287,812	$ (240,745)	$ 7,309,712	$ 5,379,989

(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 was collateralized by equipment.

(B) Note payable bank. Monthly payments of $2,375 with interest at 4.99%; collateralized by revenues due May 2013.

(C) The note payable bank requires monthly payments of $12,300 with interest at 4.85%. Due May 2015. Collateralized by revenues.

(D) Note payable bank. Monthly payments of $6,292 with interest at 4.85% through July 2016 and a balloon payment of $339,000; due August 2016.

(E) Capital lease CT Scanner. 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 and was paid in December 2007, and a note in the amount of $6 million as a revenue bond anticipation note was issued. Interest at 4.00%, collateralized by the proceeds of the note, due October 2008. This note was paid in May 2008 upon issuance of the Series 2008 bonds in notes (J) and (K).

(G) A non-interest bearing note was issued in the amount of $136,000 in 2007. Due in 120 monthly payments of $1,133, collateralized by a mortgage on the real estate.

(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 unsecured line was paid in September 2007 and a new unsecured line of credit was issued in the amount of $300,000. Interest at 6.75%, due June 2008. The note was for funding the purchase of computer equipment. This note was paid in July 2008.

(I) Series 2008A Revenue Refunding Bonds, issued in the original amount of $8,085,000 as a term bond due June 2038, semi-annual interest due at a variable rate of 195 points over the Bloomberg Index (5.5% at June 30, 2008), reset at five year intervals, collateralized by hospital revenues other than taxation.

(J) USDA Rural Development Revenue Note; Series 2007, original amount of $200,000; $1,506 due monthly with interest at 4.25% with final payment December 2022; payable from hospital revenues other than taxation.

(K) Series 2008B Revenue Bonds, issued in the original amount of $7,605,000 as serial bonds due in varying amounts from 2011 through 2028 with interest at 3.10% to 5.00%, collateralized by hospital revenues other than taxation.

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

Year Ending June 30, 2008	Total to be Paid	Principal	Interest
2009	$ 1,262,158	$ 426,415	$ 835,743
2010	1,112,158	288,852	823,306
2011	1,323,629	512,547	811,082
2012	1,298,609	532,667	765,942
2013	1,322,145	551,208	770,937
2014 – 2018	6,164,895	2,622,307	3,542,588
2019 – 2023	5,198,727	2,170,000	3,028,727
2024 – 2028	5,197,229	2,760,000	2,437,229
2029 – 2033	2,021,250	-	2,021,250
2034 – 2038	10,073,795	8,086,232	1,987,563
	$ 34,974,595	$ 17,950,228	$ 17,024,367

The terms of the USDA Rural Development loan require a reserve fund to be established with monthly deposits of $151 until the account totals $18,072.

In conjunction with the issuance of the Series 2008 bonds, the Hospital has agreed to comply with certain covenants as described in the related Bond Indenture. A Bond Reserve fund has been established and is to be maintained with a minimum balance of $1,053,250. In addition, the Hospital is required to meet an earnings covenant whereby debt service coverage is at or above 1.25. Commencing with the reporting date June 30, 2009, the Hospital must also meet certain liquidity tests.

At June 30, 2008, the Hospital was in compliance with the required covenants.

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 $457,912 and $434,563 at June 30, 2008 and 2007, respectively.

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

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 3.9% and 3.7% of their annual covered salaries and the Hospital is required to contribute 6.05% and 5.75% of annual covered payroll for 2008 and 2007, respectively. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2008, 2007 and 2006 were $394,000, $347,000 and $329,000, respectively, which equaled the required contributions for each year.

Note 11: 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, 2008, excluding the Story County Hospital Foundation:

	Actual	Accrual Adjustments	Cash Basis	Budget
Revenues				
Amount to be raised by taxation	$ 1,230,163	$ -	$ 1,230,163	$ 1,222,500
Other revenues/receipts	13,185,814	(171,135)	13,014,679	14,459,928
Total revenues	14,415,977	(171,135)	14,244,842	15,682,428
Less expenses/disbursements	14,376,240	123,166	14,499,406	14,607,123
Change in net assets	39,737	(294,301)	(254,564)	1,075,305
Net assets, beginning of year	4,330,050	(2,750,600)	1,579,450	1,579,450
Net assets, end of year	$ 4,369,787	$ (3,044,901)	$ 1,324,886	$ 2,654,755

Supplementary Information

Story County Hospital and Long-Term Care Facility

Combining Balance Sheet

June 30, 2008

Assets

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Current Assets				
Cash and cash equivalents	$ 1,196,382	$ (2,412)		$ 1,193,970
Short-term investments	765,486	460,000		1,225,486
Patient accounts receivable, net of allowance; 2008 – $694,423	2,849,729			2,849,729
Property taxes receivable	1,263,856			1,263,856
Other receivables	12,162			12,162
Pledges receivable, current portion		333,988		333,988
Supplies	242,821			242,821
Prepaid expenses	140,802			140,802
Total current assets	6,471,238	791,576		7,262,814
Noncurrent Cash, Deposits, Pledges and Investments				
Resident trust agreement	7,940			7,940
Externally restricted by donors	28,592	113,616		142,208
Pledges receivable, net of allowances		445,691		445,691
Held by trustee	12,945,907			12,945,907
	12,982,439	559,307		13,541,746
Capital Assets, net	5,642,038	10,000		5,652,038
Other Assets				
Deferred financing costs (net of amortization; 2008 - $2,940)	475,390			475,390
Total Assets	$ 25,571,105	$ 1,360,883	$ -	$ 26,931,988

See Independent Accountants' Report

Liabilities and Net Assets

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	$ 426,415			$ 426,415
Accounts payable	720,541			720,541
Accounts payable - construction	304,954			304,954
Accrued expenses	850,684			850,684
Estimated amounts due to third-party payers	173,086			173,086
Deferred revenue for property taxes	1,263,856			1,263,856
Total current liabilities	3,739,536			3,739,536
Long-term Debt	17,453,842			17,453,842
Other Long-term Liabilities				
Resident trust fund	7,940			7,940
Total liabilities	21,201,318			21,201,318
Net Assets				
Invested in capital assets, net of related debt	609,927			609,927
Restricted expendable				
Building project		$ 779,679		779,679
Debt service	1,053,205			1,053,205
By contributors and grantors	28,599	77,627		106,226
Unrestricted	2,678,056	503,577		3,181,633
Total net assets	4,369,787	1,360,883		5,730,670
Total Liabilities and Net Assets	$ 25,571,105	$ 1,360,883	$ -	$ 26,931,988

Story County Hospital and Long-Term Care Facility

Combining Schedule of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2008

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	$ 13,829,975			$ 13,829,975
Provision for uncollectible accounts	(759,096)			(759,096)
Net patient service revenue	13,070,879			13,070,879
Operating Expenses				
Salaries and wages	6,598,491	$ 22,606		6,621,097
Employee benefits	1,408,147			1,408,147
Medical professional fees	1,649,974			1,649,974
Insurance	163,386			163,386
Supplies and other	3,767,409	15,735		3,783,144
Depreciation and amortization	540,103			540,103
Total operating expenses	14,127,510	38,341		14,165,851
Operating Loss	(1,056,631)	(38,341)		(1,094,972)
Nonoperating Revenues (Expenses)				
Property taxes	1,230,163			1,230,163
Interest income	97,190	6,830		104,020
Noncapital grants and gifts	7,748	35,552		43,300
Other	30,012			30,012
Interest	(248,730)			(248,730)
Total nonoperating revenues	1,116,383	42,382		1,158,765
Excess (Deficit) of Revenues Over Expenses Before Capital Grants and Gifts and Unrealized Loss	59,752	4,041		63,793
Capital Grants and Gifts		691,010		691,010
Unrealized Loss	(20,015)	(20,263)		(40,278)
Increase in Net Assets	39,737	674,788		714,525
Net Assets, Beginning of Year	4,330,050	686,095		5,016,145
Net Assets, End of Year	$ 4,369,787	$ 1,360,883	$ -	$ 5,730,670

Story County Hospital and Long-Term Care Facility

Schedules of Patient Service Revenues

Years Ended June 30, 2008 and 2007

	2008				2007			
	Total	Inpatient	Outpatient	LTC	Total	Inpatient	Outpatient	LTC
Daily Patient Services								
Medical and surgical	$ 412,787	$ 311,889	$ 100,898		$ 458,466	$ 335,850	$ 122,616	
Swing-bed	909,580	909,580			809,785	809,785		
Long-term care	2,967,851			$ 2,967,851	2,759,373			$ 2,759,373
	4,290,218	1,221,469	100,898	2,967,851	4,027,624	1,145,635	122,616	2,759,373
Other Professional Services								
Operating and recovery room	1,310,575	254,470	1,056,105		1,195,969	259,238	936,731	
Anesthesiology	541,189	80,786	460,403		471,126	116,482	354,644	
Radiology	1,608,342	132,837	1,475,505		1,551,209	108,197	1,443,012	
Laboratory	2,124,122	319,485	1,804,637		2,015,083	289,544	1,725,539	
Respiratory therapy	99,877	86,609	13,268		108,515	94,716	13,799	
Physical therapy	1,402,704	339,890	1,062,814		1,486,892	371,407	1,115,485	
Occupational therapy	296,891	139,809	157,082		326,257	141,837	184,420	
Speech therapy	17,330	3,375	13,955		15,246	5,571	9,675	
Electrocardiology	81,688	4,504	77,184		136,192	4,015	132,177	
Medical and surgical supplies	1,317,084	646,384	647,366	23,334	1,407,390	794,311	588,647	24,432
Pharmacy	1,505,490	788,211	415,360	301,919	1,646,890	681,253	622,785	342,852
Clinic	1,871,583	56	1,871,527		1,839,068		1,839,068	
Emergency room	885,593	9,884	875,709		745,927	2,374	743,553	
Ambulance	698,386		698,386		525,020		525,020	
Acupuncture	107,794		107,794		92,189		92,189	
Wellness center	46,257		46,257		49,100		49,100	
Miscellaneous	104,518		104,518		134,879		134,879	
	14,019,423	2,806,300	10,887,870	325,253	13,746,952	2,868,945	10,510,723	367,284
Gross Patient Service Revenue	18,309,641	$ 4,027,769	$ 10,988,768	$ 3,293,104	17,774,576	$ 4,014,580	$ 10,633,339	$ 3,126,657
Contractual Adjustments	(4,479,666)				(4,272,115)			
Net Patient Service Revenue before Provision for Uncollectible Accounts	13,829,975				13,502,461			
Provision for Uncollectible Accounts	(759,096)				(604,935)			
Net Patient Service Revenue	$ 13,070,879				$ 12,897,526			

See Independent Accountants' Report

Story County Hospital and Long-Term Care Facility

Schedules of Operating Expenses

Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	$ 81,429	$ 71,203	$ 10,226	$ 78,710	$ 73,644	$ 5,066
Adults and pediatrics	1,169,630	941,638	227,992	1,087,014	845,489	241,525
Operating room	393,617	230,396	163,221	345,386	204,104	141,282
Emergency	530,427	133,806	396,621	477,549	95,379	382,170
	2,175,103	1,377,043	798,060	1,988,659	1,218,616	770,043
Other Professional Services						
Central supply	375,546	48,644	326,902	472,305	49,327	422,978
Medical records	237,046	166,806	70,240	184,216	109,828	74,388
Social service	117,743	114,528	3,215	109,229	107,554	1,675
Long-term care	1,531,925	1,171,929	359,996	1,335,567	1,169,164	166,403
Anesthesiology	170,121	-	170,121	140,040	-	140,040
Radiology	393,246	183,233	210,013	394,525	173,300	221,225
Laboratory	583,091	311,080	272,011	597,835	298,361	299,474
Respiratory therapy	39,408	14,019	25,389	34,687	12,480	22,207
Physical therapy	558,078	-	558,078	584,430	-	584,430
Occupational therapy	112,441	-	112,441	123,845	-	123,845
Speech pathology	9,071	-	9,071	11,593	-	11,593
Electrocardiology	38,516	25,632	12,884	48,386	39,974	8,412
Pharmacy	637,840	44,008	593,832	668,901	29,668	639,233
Zearing clinic	263,798	208,579	55,219	270,379	214,671	55,708
Nevada clinic	1,257,768	1,097,572	160,196	1,295,460	1,177,574	117,886
Maxwell clinic	216,411	171,699	44,712	187,918	146,817	41,101
Slater clinic	150,804	109,640	41,164	97,126	77,330	19,796
After-hours clinic	2,503	2,503	-	501	501	-
Ambulance	304,863	259,402	45,461	283,247	224,816	58,431
Wellness center	162,495	139,878	22,617	156,359	136,502	19,857
Psychologist	3,365	16	3,349	3,063	66	2,997
Acupuncture	97,214	66,445	30,769	79,074	52,626	26,448
	7,263,293	4,135,613	3,127,680	7,078,686	4,020,559	3,058,127
General Services						
Operation of plant	445,240	151,285	293,955	407,436	147,320	260,116
Laundry and linen	65,380	55,057	10,323	63,340	47,860	15,480
Housekeeping	224,871	182,961	41,910	234,507	194,759	39,748
Dietary	581,188	330,829	250,359	552,822	306,785	246,037
	1,316,679	720,132	596,547	1,258,105	696,724	561,381
Administrative Services	1,260,799	365,703	895,096	1,004,484	270,388	734,096
Employee Benefits	1,408,147	-	1,408,147	1,215,286	-	1,215,286
Depreciation	540,103	-	540,103	506,989	-	506,989
Insurance	163,386	-	163,386	168,104	-	168,104
	$ 14,127,510	$ 6,598,491	$ 7,529,019	$ 13,220,313	$ 6,206,287	$ 7,014,026

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, 2008 and 2007

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2008	2007	2008	2007
Days Since Discharge				
0 – 30	$ 1,708,200	$ 1,938,287	40%	50%
31 – 60	510,822	759,885	12	20
61 – 90	348,451	443,582	8	11
91 – 120	357,852	180,518	8	5
Over four months	1,370,838	552,145	32	14
	4,296,163	3,874,417	100%	100%
Less contractual allowances	752,011	852,839		
	3,544,152	3,021,578		
Less allowance for uncollectible accounts	694,423	291,663		
	$ 2,849,729	$ 2,729,915		

Allowance for Uncollectible Accounts

	2008	2007
Balance, beginning of year	$ 291,663	$ 273,781
Provision for year (before reduction for recoveries)	864,797	695,582
Recoveries of accounts previously written off	105,701	90,647
Reclassification to contractual adjustments	1,700	(249,713)
	1,263,861	810,297
Less accounts written off	569,438	518,634
Balance, end of year	$ 694,423	$ 291,663

Story County Hospital and Long-Term Care Facility

Schedules of Supplies and Prepaid Expenses

Years Ended June 30, 2008 and 2007

Supplies

	2008	2007
Central stores	$ 41,959	$ 39,792
Pharmacy	88,531	80,420
Laboratory	44,385	44,272
Dietary	20,439	18,508
Operating room	33,515	29,798
Emergency room	2,032	2,001
Radiology	4,153	7,591
Other	7,807	11,867
	$ 242,821	$ 234,249

Prepaid Expenses

	2008	2007
Insurance	$ 35,001	$ 41,631
Maintenance and other	105,801	83,703
	$ 140,802	$ 125,334

Story County Hospital and Long-Term Care Facility

Schedule of Officials

Year Ended June 30, 2008

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	
Jane Ramthun (effective September 2008)	Chief Financial Officer	

Story County Hospital and Long-Term Care Facility

Schedules of Financial and Statistical Data

Years Ended June 30, 2008 and 2007

	2008	2007
Patient Days (Exclusive of Swing-bed)		
Medicare	384	447
Medicaid	14	20
Private and other	108	114
	506	581
Medicare and Medicaid Percent	78.7%	80.4%
Percent of Occupancy (Acute)	5.5%	6.4%
Discharges (Exclusive of Swing-bed)		
Medicare	128	136
Medicaid	5	7
Private and other	45	38
	178	181
Average Length of Stay in Days	2.8	3.2

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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, 2008, and have issued our report thereon dated December 16, 2008. 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 controls. We consider the deficiency described in the accompanying schedule of findings and responses as item 08-1 to be a significant deficiency in internal control over financial reporting.

experience BKD

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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 controls.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We also noted certain additional matters that are reported below or we reported to the Hospital's management in a separate letter dated December 16, 2008.

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, 2008 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, 2008. 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, 2008.

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, 2008 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 the following was noted:

Criteria or Specific Requirement - Management is responsible for establishing policies regarding questionable expenditures.

Condition - The Board of Trustees has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context - Written policies are not in effect.

Effect - Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause - Written policies are not in place.

Recommendation - Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions - Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform to this requirement.

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, 2007, 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 fiscal year 2008 for the year ended June 30, 2007.

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.

BKD, LLP

Kansas City, Missouri
December 16, 2008

Story County Hospital and Long-Term Care Facility

Schedule of Findings and Responses

Year Ended June 30, 2008

Reference Number	Finding
08-1	Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over external financial reporting. Condition—The Foundation's (the Hospital's blended component unit) financial statements required significant adjusting journal entries for external financial statement presentation in accordance with generally accepted accounting principles. Context—Procedures related to review of non-standard journal entries led to adjustments that were required to comply with generally accepted accounting principles. Effect—Adjusting journal entries of significant amounts were proposed and recorded by management. Cause—Closing and review procedures for certain non-standard journal entries and the related supporting detail did not detect certain mispostings. 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. 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.

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Board of Trustees and Management
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, 2008, 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 controls 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 2007 audit engagement in a letter dated December 19, 2007.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

Foundation Accounting

We noted Foundation pledges receivable were not reconciled at year-end. We recommend procedures be developed to track the receipt of new pledges and record payments monthly. This listing should be reconciled to the general ledger monthly and reviewed for potential uncollectible pledges. During testing, we also noted the Foundation had received several contributions of stock dating back to 2002, which had not been recorded. We recommend that all contributions be tracked and recorded when received.

Other Control Deficiencies

Segregation of Duties in the Purchases Cycle

There is a lack of segregation of duties in the purchases area as the Purchasing Director has conflicting duties between access and monitoring responsibilities. There are compensating controls in place which, when operating effectively, mitigate the risk of material misstatement to an inconsequential level.

Segregation of Duties in the Revenue Cycle

There is a lack of segregation of duties in the revenue area as the Receptionist has conflicting duties between access and monitoring responsibilities. There are compensating controls in place which, when operating effectively, mitigate the risk of material misstatement to an inconsequential level.

Accounting Effectiveness

In the process of performing our audit, we noted that there was a lack of review and reconciliation in multiple areas of the accounting function. Accounting tasks such as timely and accurate monthly reconciliations, crosschecks and reviews play a key role in providing the accuracy of accounting data and financial information that comprise interim and year-end financial statements. We recommend procedures be developed to address the reconciliation processes for all accounts and adequate support for reconciliations be maintained. Considerable time was spent and audit adjustments arose in the following areas:

- Bad debt and contractual allowances
- Bond issuance costs and related amortization
- Capital assets and construction in process
- Accounts payable was not fully reconciled with supporting detail
- Notes payable and related accrued interest

Other Matters

Although not considered material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters, which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the

financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Information Technology Backups

Daily backups of information systems are performed and maintained. However, these backups are not periodically tested as to the effectiveness of the backup data or the quality of the backup files. We recommend periodically testing the effectiveness of restoration and the quality of backup files in the event the files would be needed to restore lost data.

Physical Inventory of Capital Assets

Our discussions with management and our review of the detailed capital asset records reveals that numerous assets recorded on the Hospital's records have been disposed of or are no longer in use. We believe this indicates the need for a complete physical inventory of capital assets. This procedure will provide the Hospital with an accurate inventory of capital assets. The resulting capital asset listing also will provide a strong source of detail and control to establish a future system of safeguards for capital assets.

* * * * * * * *

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

BKD, LLP

Kansas City, Missouri
December 16, 2008