

**Story County Hospital and  
Long-Term Care Facility**  
Nevada, Iowa

**Basic Financial Statements and Supplementary Information**  
June 30, 2013 and 2012

**Together with Independent Auditor's Report**

# Story County Hospital and Long-Term Care Facility

## Table of Contents

---

	<u>Page</u>
Officials -- June 30, 2013 .....	1
Independent Auditor's Report .....	2 – 3
Management's Discussion and Analysis .....	4 – 7
Basic Financial Statements:	
Statements of Net Position June 30, 2013 and 2012 .....	8
Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2013 and 2012 .....	9
Statements of Cash Flows For the Years Ended June 30, 2013 and 2012 .....	10 – 11
Notes to Financial Statements June 30, 2013 and 2012 .....	12 – 25
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) .....	26
Other Supplementary Information:	
Exhibit 1 - Combining Statement of Net Position June 30, 2013 .....	27
Exhibit 2 - Combining Schedule of Revenue, Expenses and Changes in Net Position For the Year Ended June 30, 2013 .....	28
Exhibit 3 - Patient Service Revenue For the Years Ended June 30, 2013 and 2012 .....	29
Exhibit 4 - Other Operating Revenue For the Years Ended June 30, 2013 and 2012 .....	30
Exhibit 5 - Departmental Expenses For the Years Ended June 30, 2013 and 2012 .....	31
Exhibit 6 - Patient Receivables and Allowance for Doubtful Accounts For the Years Ended June 30, 2013 and 2012 .....	32
Exhibit 7 - Inventory/Prepaid Expenses For the Years Ended June 30, 2013 and 2012 .....	33
Exhibit 8 - Financial and Statistical Highlights For the Years Ended June 30, 2013 and 2012 .....	34
Independent Auditor's 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 .....	35 – 36
Schedule of Findings and Responses .....	37 – 38
Audit Staff .....	39

# Story County Hospital and Long-Term Care Facility

Officials  
June 30, 2013

---

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Trustees:</b>		
David Anderson	Chairman	December 2014
Glenda Bradshaw	Member	December 2016
Gaylan Scofield	Secretary / Treasurer	December 2016
Elizabeth Hertz	Member	December 2018
Patrick Sheets	Vice Chairman	December 2018
James Wright Jr.	Member	December 2016
<b>Hospital Officials:</b>		
Tom Mulrooney	Interim Chief Executive Officer	
Jane Ramthun	Chief Financial Officer	

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Story County Hospital and Long-Term Care Facility (Hospital) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2013 and 2012, and the respective change in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 7 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other supplementary statements (Exhibits 1 – 8) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information in Exhibits 1-8 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in Exhibits 1 – 8 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

SEIM JOHNSON, LLP

Omaha, Nebraska,  
September 20, 2013.

# Story County Hospital and Long-Term Care Facility

## Management's Discussion and Analysis June 30, 2013 and 2012

---

### Introduction

This management's discussion and analysis of the financial performance of Story County Hospital and Long-Term Care Facility (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

### Financial Highlights

- The Hospital's net position increased in 2013 by \$773,923 or 14%. In 2012, net position increased by \$268,465 or 5%.
- The Hospital reported an increase in operating loss for 2013 of \$68,794 at a loss of \$1,355,857 compared to a loss of \$1,287,063 in 2012.
- The Hospital's non-operating revenues increased by \$574,202 in 2013 compared to 2012.

### Required Financial Statements

- The basic financial statements of Story County Hospital and Long-Term Care Facility report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long term financial information about its activities.
- The statements of net position include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations of Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and the financial flexibility of the Hospital.
- All of the current year's revenues and expenses are accounted for in the statements of revenue, expenses, and changes in net position. This statement measures changes in the Hospital's operations over the past 2 years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.
- The final required financial statement is the statements of cash flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

### Financial Analysis of Story County Hospital and Long-Term Care Facility

The statements of net position and the statements of revenue, expenses, and changes in net position report information about the Hospital's activities. These two statements report the net position of the Hospital and its changes. Increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in commercial insurance contracting should also be considered.

# Story County Hospital and Long-Term Care Facility

## Management's Discussion and Analysis June 30, 2013 and 2012

---

### The Hospital's Net Position

The Hospital's net position is the difference between assets and liabilities. The Hospital's net position increased this past year by \$773,923 or 14% as shown in **Table 1**.

*Table 1: Statements of Net Position*

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013-2012</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
<b>Assets:</b>					
Total current assets	\$ 8,972,381	8,112,851	8,129,485	859,530	11%
Capital assets, net	14,003,906	14,885,060	15,953,614	(881,154)	-6%
Assets limited as to use or restricted	2,807,107	2,111,828	1,367,676	695,279	33%
Other non-current assets	<u>342,525</u>	<u>368,794</u>	<u>397,999</u>	<u>(26,269)</u>	-7%
Total assets	<u>\$ 26,125,919</u>	<u>25,478,533</u>	<u>25,848,774</u>	<u>647,386</u>	3%
<b>Liabilities:</b>					
Long-term debt	\$ 15,719,591	16,184,755	16,669,738	(465,164)	-3%
Estimated third-party payor settlements	206,655	213,352	707,500	(6,697)	-3%
Other current and non-current liabilities	<u>3,874,573</u>	<u>3,529,249</u>	<u>3,188,824</u>	<u>345,324</u>	10%
Total liabilities	<u>19,800,819</u>	<u>19,927,356</u>	<u>20,566,062</u>	<u>(126,537)</u>	-1%
<b>Net Position:</b>					
Net investment in capital assets	325,870	741,860	1,325,431	(415,990)	-56%
Restricted	1,609,632	1,586,221	1,720,776	23,411	1%
Unrestricted	<u>4,389,598</u>	<u>3,223,096</u>	<u>2,236,505</u>	<u>1,166,502</u>	36%
Total net position	<u>\$ 6,325,100</u>	<u>5,551,177</u>	<u>5,282,712</u>	<u>773,923</u>	14%

### Operating Results and Changes in the Hospital's Net Position

In 2013, the Hospital's operating revenue increased by \$893,639 and the loss from operations decreased by \$68,794. Total net position increased by \$773,923 or 14% as shown in **Table 2**. The majority of this increase is caused by an increase in property taxes.

## Story County Hospital and Long-Term Care Facility

### Management's Discussion and Analysis June 30, 2013 and 2012

**Table 2: Operating Results and Changes in Net Position**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013-2012</u> Change	<u>Percent</u> Change
<b>Operating revenue:</b>					
Net patient service revenue before provision	\$ 19,116,084	18,348,598	17,842,230	767,486	4%
Provision for bad debt	(1,214,916)	(1,111,749)	(1,183,619)	(103,167)	9%
Other operating revenue	958,400	729,080	132,366	229,320	31%
Total operating revenue	<u>18,859,568</u>	<u>17,965,929</u>	<u>16,790,977</u>	<u>893,639</u>	5%
<b>Expenses:</b>					
Salaries and employee benefits	11,083,723	10,750,325	10,189,032	333,398	3%
Purchased services and other	6,948,873	6,307,304	6,325,582	641,569	10%
Depreciation and amortization	1,415,203	1,398,490	1,249,034	16,713	1%
Interest	767,626	796,873	826,600	(29,247)	-4%
Total expenses	<u>20,215,425</u>	<u>19,252,992</u>	<u>18,590,248</u>	<u>962,433</u>	5%
<b>Operating loss</b>	<u>(1,355,857)</u>	<u>(1,287,063)</u>	<u>(1,799,271)</u>	<u>(68,794)</u>	5%
<b>Nonoperating Revenue:</b>					
Property taxes	2,015,524	1,429,464	1,383,351	586,060	41%
Investment income	51,699	67,161	48,704	(15,462)	-23%
Other nonoperating revenue	62,307	58,703	14,025	3,604	6%
Total nonoperating revenue, net	<u>2,129,530</u>	<u>1,555,328</u>	<u>1,446,080</u>	<u>574,202</u>	37%
<b>Excess of revenue over (under) expenses before capital grants and contributions</b>	773,673	268,265	(353,191)	505,408	188%
<b>Capital grants and contributions</b>	250	200	300	50	25%
Increase (decrease) in net position	773,923	268,465	(352,891)	505,458	188%
Net position – beginning of year	5,551,177	5,282,712	5,635,603	268,465	5%
Net position – end of year	\$ <u>6,325,100</u>	<u>5,551,177</u>	<u>5,282,712</u>	<u>773,923</u>	14%

#### Operating Loss

The first component of the overall change in the Hospital's net position is its operating income or loss - generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The primary components affecting operating income are:

- Rate and volume increases
- Medicare/Medicaid Cost Report Settlements and other third party contractual relationships
- Salary adjustments to stay competitive
- Employee health insurance
- Professional/Physician contracts for ancillary departments

A major component of the Hospital's costs is expenses for salaries and benefits. In 2013 salaries and benefit costs totaled \$11,083,723. In 2012 salaries and benefit costs totaled \$10,750,325. Part of the reason for the increase of 3% is that the Hospital had an increase in the IPERS contribution and there was a wage increase in February 2013.

The Hospital at times provides care for patients who have little or no health insurance or other means of repayment. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital.

#### Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied for the Hospital, interest revenue, and investment earnings. The county property tax levy amounted to \$2,015,524 in 2013 and \$1,429,464 in 2012.

# **Story County Hospital and Long-Term Care Facility**

## **Management's Discussion and Analysis June 30, 2013 and 2012**

---

### **Cash Flows**

Changes in cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. Cash flows provided by operating activities decreased from \$424,979 in 2012 to \$188,405 in 2013 due mainly to an increase in patient accounts receivable.

### **Capital Asset and Debt Administration**

#### **Capital Assets**

At the end of 2013 and 2012, the Hospital had \$14,003,906 and \$14,885,060, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. In 2013, the Hospital purchased new equipment costing \$529,000. Approximately \$462,000 was spent to acquire new equipment in 2012.

#### **Debt**

At June 30, 2013 and 2012, the Hospital had \$15,719,591 and \$16,184,755, respectively, in debt outstanding. There was no new debt issued in 2013.

### **Other Economic Factors**

The 2013 fiscal year provided the Hospital substantial challenges due to federal program reimbursement requirements, pressures from other insurers, and the fluctuation of patient demand.

Inflation continued in 2013 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals.

### **Contacting Hospital 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 or requests for additional information should be directed to:

Story County Hospital  
Attn: CEO  
640 S. 19<sup>th</sup> Street  
Nevada IA 50201  
515-382-2111

## Story County Hospital and Long-Term Care Facility

### Statements of Net Position June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,920,927	1,818,989
Short-term investments	793,643	1,011,480
Assets limited as to use or restricted, current portion	375,021	375,825
Receivables -		
Patients, net of estimated uncollectible accounts of \$988,843 in 2013 and \$818,338 in 2012, respectively	2,978,148	2,377,151
Other	182,375	12,871
Pledges, current portion	900	13,232
Inventories	277,341	287,100
Other current assets	281,917	206,411
Succeeding year property tax receivable	2,162,109	2,009,792
Total current assets	<u>8,972,381</u>	<u>8,112,851</u>
Pledges receivable, net of current portion	332	543
Assets limited as to use or restricted, net of current portion	2,807,107	2,111,828
Capital assets, net	14,003,906	14,885,060
Deferred financing costs	342,193	368,251
Total assets	<u>\$ 26,125,919</u>	<u>25,478,533</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Current portion of long-term debt	\$ 459,821	469,948
Accounts payable	491,418	389,214
Accrued salaries, vacation and benefits payable	1,161,840	1,059,666
Estimated third-party payor settlements	206,655	213,352
Accrued interest payable	52,781	64,000
Deferred revenue for succeeding year property tax receivable	2,162,109	2,009,792
Total current liabilities	<u>4,534,624</u>	<u>4,205,972</u>
Resident trust funds	6,425	6,577
Long-term debt, net of unamortized discount and current portion	15,259,770	15,714,807
Total liabilities	<u>19,800,819</u>	<u>19,927,356</u>
Commitments and contingencies		
<b>NET POSITION</b>		
Net investment in capital assets	325,870	741,860
Restricted	1,609,632	1,586,221
Unrestricted	4,389,598	3,223,096
Total net position	<u>6,325,100</u>	<u>5,551,177</u>
Total liabilities and net position	<u>\$ 26,125,919</u>	<u>25,478,533</u>

See notes to financial statements

## Story County Hospital and Long-Term Care Facility

### Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 19,116,084	18,348,598
Provision for bad debt	(1,214,916)	(1,111,749)
Net patient service revenue	17,901,168	17,236,849
Other operating revenue	958,400	729,080
Total operating revenue	<u>18,859,568</u>	<u>17,965,929</u>
EXPENSES:		
Salaries	8,893,987	8,644,751
Employee benefits	2,189,736	2,105,574
Professional fees and purchased services	3,234,856	3,021,313
Supplies and other	3,595,053	3,157,204
Insurance	118,964	128,787
Depreciation and amortization	1,415,203	1,398,490
Interest	767,626	796,873
Total expenses	<u>20,215,425</u>	<u>19,252,992</u>
OPERATING LOSS	<u>(1,355,857)</u>	<u>(1,287,063)</u>
NONOPERATING REVENUE (EXPENSES):		
Property taxes	2,015,524	1,429,464
Investment income	51,699	67,161
Noncapital grants and contributions	32,325	90,679
Fundraising	(15,222)	(47,723)
Other, net	45,204	15,747
Nonoperating revenues, net	<u>2,129,530</u>	<u>1,555,328</u>
EXCESS REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	773,673	268,265
CAPITAL GRANTS AND CONTRIBUTIONS	<u>250</u>	<u>200</u>
INCREASE IN NET POSITION	773,923	268,465
NET POSITION, Beginning of year	<u>5,551,177</u>	<u>5,282,712</u>
NET POSITION, End of year	<u>\$ 6,325,100</u>	<u>5,551,177</u>

See notes to financial statements

## Story County Hospital and Long-Term Care Facility

### Statements of Cash Flows For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 17,293,474	16,975,216
Cash paid for employee salaries and benefits	(10,981,549)	(10,695,667)
Cash paid to suppliers and contractors	(7,081,920)	(6,583,650)
Other receipts and payments, net	<u>958,400</u>	<u>729,080</u>
Net cash provided by operating activities	<u>188,405</u>	<u>424,979</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	32,325	90,679
Fundraising, net	(2,679)	(24,024)
Other, net	45,552	14,450
Property tax receipts	<u>2,015,524</u>	<u>1,429,464</u>
Net cash provided by noncapital financing activities	<u>2,090,722</u>	<u>1,510,569</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(508,241)	(303,253)
Interest payments	(778,845)	(796,537)
Proceeds from issuance of long-term debt	--	953,833
Principal payments on long-term debt	<u>(465,164)</u>	<u>(1,438,816)</u>
Net cash used in capital and related financing activities	<u>(1,752,250)</u>	<u>(1,584,773)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in investments and assets limited as to use or restricted, net	(476,638)	(80,079)
Investment income	<u>51,699</u>	<u>67,161</u>
Net cash used in investing activities	<u>(424,939)</u>	<u>(12,918)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	101,938	337,857
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,818,989</u>	<u>1,481,132</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,920,927</u>	<u>1,818,989</u>

*See notes to financial statements*

## Story County Hospital and Long-Term Care Facility

### Statements of Cash Flows (Continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,355,857)	(1,287,063)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,415,203	1,398,490
Interest expense included in operating expenses	767,626	796,873
(Increase) decrease in current assets -		
Receivables -		
Patients	(600,997)	232,515
Other	(169,504)	(3,453)
Inventories	9,759	(17,200)
Other current assets	(75,506)	49,163
Increase (decrease) in current liabilities -		
Accounts payable	102,204	(304,856)
Accrued salaries, vacation and benefits payable	102,174	54,658
Estimated third-party payor settlements	(6,697)	(494,148)
Net cash provided by operating activities	\$ <u>188,405</u>	<u>424,979</u>

*See notes to financial statements*

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2013 and 2012

---

### (1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a description of the reporting entity and a summary of significant accounting policies of Story County Hospital and Long-Term Care Facility (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a Critical Access Hospital, operating with 17 acute-care beds and 80 long-term care beds. The Hospital also has related health care ancillary and outpatient services.

#### A. *Reporting Entity*

Generally accepted accounting principles require the financial reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. 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.

#### B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

#### C. *Basis of Presentation*

The statement of net position displays the Hospital's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2013 and 2012

---

Net investment in capital assets – This component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position results when constraints placed on net position items through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net positions that do not meet the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

### D. *Basis of Accounting and Accounting Standards*

The Hospital's financial statements are presented on the accrual basis of accounting. Revenue is recognized when earned, expenses are recognized when incurred.

The Hospital's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is primarily responsible for establishing GAAP for state and local governments through its pronouncements. Governments had been also required to follow the statements and interpretations of the Financial Accounting Standards Board, Accounting Principles Board opinions, and Accounting Research Bulletins issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. In December 2010, GASB issued statement No. 62 which incorporated all relevant guidance in GASB standards.

### E. *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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

### F. *Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees, donor, or under debt agreements.

### G. *Investments*

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of expenses over revenue unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of expenses over revenue unless the investments are trading securities. Periodically the Hospital reviews its investments to determine whether any unrealized losses are other than temporary. During 2013 and 2012, there were no investment declines that were determined to be other than temporary.

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2013 and 2012

---

### H. *Patient Receivables, Net*

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

### I. *Inventories*

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

### J. *Property Tax Receivable*

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

### K. *Assets Limited as to Use or Restricted*

Assets limited as to use or restricted include the following:

By Board of Trustees - Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

By Donors - These funds are maintained by the Hospital according to the terms of donor restrictions to a specific time period or purpose.

By Debt Agreements - These funds are reserve funds held as security for the Series 2008A and 2008B bonds. These funds are used for the payment of principal and interest on the Series 2008A and 2008B bonds when insufficient funds are available in the sinking or construction funds.

### L. *Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2013 and 2012

---

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	5 to 30 years
Buildings and building improvements	5 to 40 years
Equipment, computers and furniture	3 to 20 years

The Hospital's capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of capital assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of expenses over revenue, unless explicit donor stipulations specify how the donated assets must be used. Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as restricted support. Absent explicit donor stipulations about how long those capital assets must be maintained, expirations of donor restrictions are reported when the donated or acquired capital assets are placed into service.

#### *M. Deferred Financing Costs*

Deferred financing costs related to the issuance of the Hospital revenue refunding bonds are being amortized over the life of the related bonds under the straight-line and effective interest method. Amortization expense of \$26,058 and \$26,883 for 2013 and 2012, respectively, is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net position.

#### *N. 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 statement of position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. Accrued compensated absences payable at June 30, 2013 and 2012 was \$464,712 and \$470,564, respectively.

#### *O. Statement of Revenue, Expenses and Changes in Net Position*

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

#### *P. Net Patient Service Revenue*

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2013 and 2012

---

**Q. *Grants and Contributions***

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

**R. *Income Taxes***

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Story, Iowa. As such, the Hospital is exempt from paying income taxes. 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.

**S. *Excess of Expenses Over Revenue***

The statements of revenue, expenses and changes in net position include excess of expenses over revenue as a performance indicator. Changes in unrestricted net position that are excluded from excess of expenses over revenue, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of capital assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

**T. *Charity Care***

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination. Charges excluded from patient service revenue under the Hospital's charity care policy were \$333,995 and \$342,133, for 2013 and 2012, respectively.

**U. *Risk Management***

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**V. *Change in Accounting Principle***

During 2013, the Hospital has adopted the provisions of GASB Statement No. 63. GASB Statement No. 63 required additional changes such as referring to "Net Assets" as "Net Position" on the statements of net position.

**W. *Reclassification***

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 reporting format.

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2013 and 2012

---

### X. Subsequent Events

The Hospital considered events occurring through September 20, 2013 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

### (2) Cash, Investments and Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Hospital manages the following risks in accordance with their formal investment policy:

*Credit Risk:* Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013 and 2012, the Hospital is invested in certificate of deposits and mutual funds that are not rated.

*Interest Rate Risk:* The Hospital has a formal investment policy that limits investment maturities to 397 days or less as a means of managing its exposure to fair value losses arising from changes in interest rates for current operating funds (funds which are reasonably expected to be used for the operation of the hospital within fifteen months). Other investments are to have maturities consistent with the needs of the Hospital.

*Custodial credit risk:* Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Hospital's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Hospital's agent in the Hospital's name.

The composition of investments and assets limited as to use or restricted as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Investments:		
Operating reserves:		
Cash and cash equivalents	\$ 701	597
Certificates of deposit	792,942	1,010,883
Total investments	<u>\$ 793,643</u>	<u>1,011,480</u>

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for capital improvements:		
Cash and cash equivalents	1,741,156	1,044,470
By Donor:		
Cash and cash equivalents	100,727	115,282
Corporate stock	105,606	106,674
	<u>206,333</u>	<u>221,956</u>
By Debt Agreements – Reserve Accounts:		
Cash and cash equivalents	18,500	18,500
Certificates of deposit	1,113,231	1,086,577
Government money market funds	102,908	116,150
	<u>1,234,639</u>	<u>1,221,227</u>
Total assets limited as to use or restricted	3,182,128	2,487,653
Less amounts required to meet current obligations	<u>375,021</u>	<u>375,825</u>
Long-term portion	\$ <u>2,807,107</u>	<u>2,111,828</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 44,444	57,281
Change in unrealized gain, net	<u>7,255</u>	<u>9,880</u>
Total investment return	\$ <u>51,699</u>	<u>67,161</u>

### (3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

**Medicare.** Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. The "American Taxpayer Relief Act of 2012" postponed sequestration for two months. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, will incur a two percent reduction in Medicare payment.

**Medicaid.** Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2013 and 2012

The Hospital has also entered into payment agreements with certain commercial insurance carriers. This basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

The following illustrates the Hospital's patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 5,646,682	5,481,290
Outpatient	14,221,323	12,891,459
Long-term care	3,386,324	3,637,369
Clinics	<u>3,517,495</u>	<u>3,512,032</u>
Total gross patient service revenue	<u>26,771,824</u>	<u>25,522,150</u>
Deductions from patient service revenue:		
Medicare	3,166,221	3,174,913
Medicaid	1,186,816	1,253,174
Other payors	2,968,708	2,403,332
Charity care	<u>333,995</u>	<u>342,133</u>
Total deductions from patient service revenue	<u>7,655,740</u>	<u>7,173,552</u>
Net patient service revenue before provision for bad debt	<u>\$ 19,116,084</u>	<u>18,348,598</u>

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 31% and 20%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2013 compared to 33% for Medicare and 20% for Medicaid in 2012. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

#### (4) Other Revenue

Other revenue for the years ended June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Electronic health record incentive payments	\$ 218,600	616,032
Pharmacy revenue – 340B program	628,039	--
Meals sold	45,009	41,186
Wellness programs	35,689	32,708
Other	<u>31,063</u>	<u>39,154</u>
	<u>\$ 958,400</u>	<u>729,080</u>

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2013 and 2012

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2013 and 2012, the Hospital qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee.

The EHR incentive payment will be earned and received through various payments through 2015. The incentive amount is computed using several elements, one of which includes using the value of un-depreciated assets required to implement the EHR system. As of June 30, 2013 and 2012 the Hospital has elected to record \$218,600 and \$616,032 of the incentive payment as other operating revenue in the period earned, and defer approximately \$89,000 and \$152,000 related to future Medicare reimbursement. In addition, the Iowa Department of Health and Human Services provides EHR incentive payments that will be earned and received through various payments through 2014. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

#### (5) Composition of Patient Receivables

Patient receivables as of June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Patient receivables	\$ 4,903,321	3,962,791
Less estimated third-party contractual adjustments	(936,330)	(767,302)
Less allowance for doubtful accounts	<u>(988,843)</u>	<u>(818,338)</u>
	<u>\$ 2,978,148</u>	<u>2,377,151</u>

The Hospital is located in Nevada, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2013</u>	<u>2012</u>
Medicare	30%	24%
Medicaid	10	10
Other third-party payors	31	34
Private pay	<u>29</u>	<u>32</u>
	<u>100%</u>	<u>100%</u>

#### (6) Pledges Receivable

During November 2006, the Foundation began a capital campaign to assist in funding the construction of a new hospital facility. A discount rate of 5% and 6% was used in 2013 and 2012, respectively. Pledges receivable consisted of the following:

	<u>2013</u>	<u>2012</u>
Due within one year	\$ 900	13,232
Due in two to five years	<u>400</u>	<u>1,300</u>
	1,300	14,532
Less allowance for uncollectible pledges	<u>(68)</u>	<u>(757)</u>
	<u>\$ 1,232</u>	<u>13,775</u>

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2013 and 2012

### (7) Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012 were as follows:

	June 30, 2012	Additions	Transfers and Disposals	June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 321,622	--	--	321,622
Construction in progress	34,307	298,533	(144,302)	188,538
Total capital assets, not being depreciated	<u>355,929</u>	<u>298,533</u>	<u>(144,302)</u>	<u>510,160</u>
Capital assets, being depreciated:				
Land improvements	1,265,043	--	--	1,265,043
Building and leasehold improvements	16,355,265	--	--	16,355,265
Fixed equipment	2,747,439	--	(85,992)	2,661,447
Major movable equipment	4,307,481	230,484	(27,533)	4,510,432
Total capital assets, being depreciated	<u>24,675,228</u>	<u>230,484</u>	<u>(113,525)</u>	<u>24,792,187</u>
Less accumulated depreciation:				
Land improvements	399,992	109,634	--	509,626
Building and leasehold improvements	5,375,804	711,712	--	6,087,516
Fixed equipment	1,595,752	131,005	(85,992)	1,640,765
Major movable equipment	2,774,549	436,794	(150,809)	3,060,534
Total accumulated depreciation	<u>10,146,097</u>	<u>1,389,145</u>	<u>(236,801)</u>	<u>11,298,441</u>
Total capital assets, being depreciated, net	<u>14,529,131</u>	<u>(1,158,661)</u>	<u>123,276</u>	<u>13,493,746</u>
Total capital assets, net	<u>\$ 14,885,060</u>	<u>(860,128)</u>	<u>(21,026)</u>	<u>14,003,906</u>
	June 30, 2011	Additions	Transfers and Disposals	June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 321,622	--	--	321,622
Construction in progress	130,953	113,917	(210,563)	34,307
Total capital assets, not being depreciated	<u>452,575</u>	<u>113,917</u>	<u>(210,563)</u>	<u>355,929</u>
Capital assets, being depreciated:				
Land improvements	1,265,043	--	--	1,265,043
Building and leasehold improvements	16,355,265	--	--	16,355,265
Fixed equipment	2,740,397	7,042	--	2,747,439
Major movable equipment	3,955,916	454,046	(102,481)	4,307,481
Total capital assets, being depreciated	<u>24,316,621</u>	<u>461,088</u>	<u>(102,481)</u>	<u>24,675,228</u>
Less accumulated depreciation:				
Land improvements	289,785	110,207	--	399,992
Building and leasehold improvements	4,663,244	712,560	--	5,375,804
Fixed equipment	1,464,184	132,170	(602)	1,595,752
Major movable equipment	2,398,369	416,670	(40,490)	2,774,549
Total accumulated depreciation	<u>8,815,582</u>	<u>1,371,607</u>	<u>(41,092)</u>	<u>10,146,097</u>
Total capital assets, being depreciated, net	<u>15,501,039</u>	<u>(910,519)</u>	<u>(61,389)</u>	<u>14,529,131</u>
Total capital assets, net	<u>\$ 15,953,614</u>	<u>(796,602)</u>	<u>(271,952)</u>	<u>14,885,060</u>

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2013 and 2012

#### (8) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2013 and 2012 consisted of the following:

	<u>June 30, 2012</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
U.S. Bank (A)	\$ 25,714	--	(25,714)	--	--
Zearing Note (D)	60,067	--	(13,600)	46,467	13,600
Series 2008A (E)	8,085,000	--	--	8,085,000	--
USDA Rural Development (F)	152,248	--	(11,829)	140,419	12,343
Series 2008B (G)	7,005,000	--	(315,000)	6,690,000	325,000
State Bank & Trust (H)	903,393	--	(104,302)	799,091	108,878
	<u>16,231,422</u>	<u>--</u>	<u>(470,445)</u>	<u>15,760,977</u>	<u>459,821</u>
Less unamortized discount	<u>(46,667)</u>			<u>(41,386)</u>	
	<u>\$ 16,184,755</u>			<u>15,719,591</u>	
	<u>June 30, 2011</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2012</u>	<u>Due Within One Year</u>
U.S. Bank (A)	\$ 52,175	--	(26,461)	25,714	25,714
State Bank & Trust - MOB (B)	434,245	--	(434,245)	--	--
State Bank & Trust (C)	603,259	--	(603,259)	--	--
Zearing Note (D)	73,667	--	(13,600)	60,067	13,600
Series 2008A (E)	8,085,000	--	--	8,085,000	--
USDA Rural Development (F)	163,588	--	(11,340)	152,248	11,323
Series 2008B (G)	7,310,000	--	(305,000)	7,005,000	315,000
State Bank & Trust (H)	--	953,833	(50,440)	903,393	104,311
	<u>16,721,934</u>	<u>953,833</u>	<u>(1,444,345)</u>	<u>16,231,422</u>	<u>469,948</u>
Less unamortized discount	<u>(52,196)</u>			<u>(46,667)</u>	
	<u>\$ 16,669,738</u>			<u>16,184,755</u>	

- (A) The note payable to the bank requires monthly payments of \$2,375 with interest at 4.99%; collateralized by revenues; due May 2013.
- (B) The note payable to the bank requires monthly payments of \$13,300 with interest at 4.85%; This note was refinanced in November 2011.
- (C) The note payable to the bank requires monthly payments of \$6,292 with interest at 4.85%; This note was refinanced in November 2011.
- (D) A noninterest 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 real estate.
- (E) 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 (3.28% at June 30, 2013), reset at five year intervals (next reset is June 2018), collateralized by hospital revenues other than taxation.
- (F) 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.

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2013 and 2012

- (G) Series 2008B Revenue Bonds, issued in the original amount of \$7,605,000 as serial bonds due in varying amounts through 2028 with interest at 3.50% to 5.05%, collateralized by hospital revenues other than taxation.
- (H) The note payable to the bank requires monthly payments of \$11,766 with interest at 4.25%; collateralized by revenues; due December 2019.

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. In accordance with the bond agreements, the Hospital has established debt service, construction, principal, and interest reserve funds that are included on the balance sheet as assets limited as to use or restricted. In addition, the Hospital is required to meet an earnings covenant whereby debt service coverage is at or above 1.25 as well as meet certain liquidity tests.

At June 30, 2013, the Hospital was in compliance with the required covenants.

A summary of the Hospital's future principal and interest payments as of June 30, 2013 is as follows:

Year	Principal	Interest	Total
2014	\$ 459,821	633,181	1,093,002
2015	480,156	611,145	1,091,301
2016	495,644	592,404	1,088,048
2017	508,565	572,549	1,081,114
2018	523,951	551,349	1,075,300
2019 – 2023	2,447,840	2,422,915	4,870,755
2024 – 2028	2,760,000	1,820,040	4,580,040
2029 – 2033	600,000	1,260,540	1,860,540
2034 – 2038	7,485,000	1,227,540	8,712,540
	<u>\$ 15,760,977</u>	<u>9,691,663</u>	<u>25,452,640</u>

#### (9) Net Position Balances

Restricted net positions are restricted for the following at June 30, 2013 and 2012:

	2013	2012
By donors for capital assets	\$ 374,993	364,993
By debt agreement -		
Debt service reserve fund	1,113,231	1,086,578
Interest reserve fund	53,751	67,845
Construction reserve fund	22,029	22,026
Principal reserve fund	45,628	44,779
	<u>\$ 1,609,632</u>	<u>1,586,221</u>

#### (10) Designated Net Position

Of the \$4,389,598 and \$3,223,096 of unrestricted net position reported in 2013 and 2012, respectively \$1,741,156 and \$1,044,470 has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated funds remain under control of the Board of Trustees, which may as its discretion later use the funds for other purposes.

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2013 and 2012

---

### (11) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and \$3,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare 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.

### (12) Pension Plan

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

Plan members are required to contribute 5.78% of their annual salary and the Hospital is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were approximately \$746,000, \$688,000 and \$572,000, respectively.

### (13) Commitments and Contingencies

Litigation – The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Hospital's future financial position or results from operations.

Operating Leases – The Hospital leases certain equipment under operating leases expiring at various dates though December 2016. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2013, that have initial lease terms in excess of one year:

2014	\$ 220,866
2015	139,258
2016	137,218
2017	102,993
2018	<u>52,937</u>
	<u>\$ 653,272</u>

### (14) Deferred Compensation Plan

The Hospital offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all Hospital employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The plan complies with IRC Section 457, which requires the plan to hold its assets in trust. Under these requirements, the Hospital does not own the amounts deferred by employees and, therefore, the liability and corresponding investment is not reflected in the financial statements. The plan assets totaled \$784,844 and \$630,194 as of June 30, 2013 and 2012, respectively.

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2013 and 2012

---

### (15) Risks and Uncertainties

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

### (16) Management Contract

Effective January 31, 2013, the Hospital ended its management agreement with Mercy Medical Center – Des Moines (Mercy) and entered into a contractual agreement UnityPoint Health (UnityPoint) effective February 1, 2013. Under the agreements, UnityPoint provides, and Mercy provided, management and other services to the Hospital. The arrangements do not alter the authority or responsibility of the Board of Trustees of the Hospital; however, the agreements provide substantial operational and strategic support. The UnityPoint agreement expires on January 31, 2016. The amount to be paid by the Hospital under the UnityPoint agreement for administrative services is \$154,000 for the first year of the agreement and will be adjusted annually by an amount not to exceed 4%.

## Story County Hospital and Long-Term Care Facility

### Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) June 30, 2013

This budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from Story County Hospital and Long-Term Care Facility preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2013, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 2,015,524	--	2,015,524	2,003,441	12,083
Add: Other revenues / receipts	18,920,528	(607,944)	18,312,584	20,734,483	(2,421,899)
Less: Expenses / disbursements	<u>20,170,221</u>	<u>119,735</u>	<u>20,289,956</u>	<u>21,946,435</u>	<u>1,656,479</u>
Net	765,831	(727,679)	38,152	791,489	<u>(25,658)</u>
Balance beginning of year	<u>4,917,791</u>	<u>(3,119,900)</u>	<u>1,797,891</u>	<u>4,458,471</u>	
Balance end of year	<u>\$ 5,683,622</u>	<u>(3,847,579)</u>	<u>1,836,043</u>	<u>5,249,960</u>	

*See accompanying independent auditor's report*

**Combining Statement of Net Position  
June 30, 2013**

	<b>Story County Hospital</b>	<b>Story County Hospital Foundation</b>	<b>Eliminations</b>	<b>Total</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,836,043	84,884	--	1,920,927
Short-term investments	417,640	376,003	--	793,643
Assets limited as to use or restricted, current portion	375,021	--	--	375,021
Receivables -				
Patients, net of estimated uncollectible accounts of \$988,843 and \$818,338 in 2013 and 2012	2,978,148	--	--	2,978,148
Other	175,464	6,911	--	182,375
Pledges, current portion	--	900	--	900
Inventories	277,341	--	--	277,341
Other current assets	281,917	--	--	281,917
Succeeding year property tax receivable	2,162,109	--	--	2,162,109
	<u>8,503,683</u>	<u>468,698</u>	<u>--</u>	<u>8,972,381</u>
Total current assets	8,503,683	468,698	--	8,972,381
Pledges receivable, net of current portion	--	332	--	332
Assets limited as to use or restricted, net of current position	2,633,659	173,448	--	2,807,107
Capital assets, net	14,003,906	--	--	14,003,906
Deferred financing costs	342,193	--	--	342,193
	<u>\$ 25,483,441</u>	<u>642,478</u>	<u>--</u>	<u>26,125,919</u>
Total assets	\$ 25,483,441	642,478	--	26,125,919
<b>LIABILITIES AND NET ASSETS</b>				
Current liabilities:				
Current portion of long-term debt	\$ 459,821	--	--	459,821
Accounts payable	490,418	1,000	--	491,418
Accrued salaries, vacation and benefits payable	1,161,840	--	--	1,161,840
Estimated third-party payor settlements	206,655	--	--	206,655
Accrued interest payable	52,781	--	--	52,781
Deferred revenue for succeeding year property tax receivable	2,162,109	--	--	2,162,109
	<u>4,533,624</u>	<u>1,000</u>	<u>--</u>	<u>4,534,624</u>
Total current liabilities	4,533,624	1,000	--	4,534,624
Resident trust funds	6,425	--	--	6,425
Long-term debt, net of unamortized discount and current portion	15,259,770	--	--	15,259,770
	<u>19,799,819</u>	<u>1,000</u>	<u>--</u>	<u>19,800,819</u>
Total liabilities	19,799,819	1,000	--	19,800,819
Commitments and contingencies				
<b>NET POSITION</b>				
Net investment in capital assets	325,870	--	--	325,870
Restricted	1,234,639	374,993	--	1,609,632
Unrestricted	4,123,113	266,485	--	4,389,598
	<u>5,683,622</u>	<u>641,478</u>	<u>--</u>	<u>6,325,100</u>
Total net position	5,683,622	641,478	--	6,325,100
Total liabilities and net position	\$ 25,483,441	642,478	--	26,125,919

See accompanying independent auditor's report

**Combining Schedule of Revenue, Expenses and Changes in Net Position  
For the Year Ended June 30, 2013**

	Story County Hospital	Story County Hospital Foundation	Eliminations	Total
OPERATING REVENUE:				
Net patient service revenue				
before provision for bad debt	\$ 19,116,084	--	--	19,116,084
Provision for bad debt	<u>(1,214,916)</u>	<u>--</u>	<u>--</u>	<u>(1,214,916)</u>
Net patient service revenue	17,901,168	--	--	17,901,168
Other	<u>958,400</u>	<u>--</u>	<u>--</u>	<u>958,400</u>
Total operating revenue	<u>18,859,568</u>	<u>--</u>	<u>--</u>	<u>18,859,568</u>
EXPENSES:				
Salaries	8,893,987	--	--	8,893,987
Employee benefits	2,189,736	--	--	2,189,736
Professional fees and purchased services	3,234,856	--	--	3,234,856
Supplies and other	3,595,053	--	--	3,595,053
Insurance	118,964	--	--	118,964
Depreciation and amortization	1,415,203	--	--	1,415,203
Interest	<u>767,626</u>	<u>--</u>	<u>--</u>	<u>767,626</u>
Total expenses	<u>20,215,425</u>	<u>--</u>	<u>--</u>	<u>20,215,425</u>
OPERATING LOSS	<u>(1,355,857)</u>	<u>--</u>	<u>--</u>	<u>(1,355,857)</u>
NONOPERATING REVENUE (EXPENSES):				
Property taxes	2,015,524	--	--	2,015,524
Investment income	43,121	8,578	--	51,699
Noncapital grants and contributions	17,589	14,736	--	32,325
Fundraising	--	(15,222)	--	(15,222)
Other, net	<u>45,204</u>	<u>--</u>	<u>--</u>	<u>45,204</u>
Nonoperating revenues, net	<u>2,121,438</u>	<u>8,092</u>	<u>--</u>	<u>2,129,530</u>
EXCESS REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	765,581	8,092	--	773,673
CAPITAL GRANTS AND CONTRIBUTIONS	<u>250</u>	<u>--</u>	<u>--</u>	<u>250</u>
INCREASE IN NET POSITION	765,831	8,092	--	773,923
NET POSITION, Beginning of year	<u>4,917,791</u>	<u>633,386</u>	<u>--</u>	<u>5,551,177</u>
NET POSITION, End of year	<u>\$ 5,683,622</u>	<u>641,478</u>	<u>--</u>	<u>6,325,100</u>

*See accompanying independent auditor's report*

Story County Hospital and Long-Term Care Facility

Exhibit 3

Patient Service Revenue  
For the Years Ended June 30, 2013 and 2012

	2013				2012			
	Inpatient	Outpatient	Long-term care	Total	Inpatient	Outpatient	Long-term care	Total
DAILY PATIENT SERVICES:								
Medical and surgical	\$ 651,821	347,626	--	999,447	653,761	286,069	--	939,830
Swing-bed	1,168,375	--	--	1,168,375	1,163,917	--	--	1,163,917
Long-term care	--	--	3,011,591	3,011,591	--	--	3,180,854	3,180,854
	<u>1,820,196</u>	<u>347,626</u>	<u>3,011,591</u>	<u>5,179,413</u>	<u>1,817,678</u>	<u>286,069</u>	<u>3,180,854</u>	<u>5,284,601</u>
OTHER PROFESSIONAL SERVICES:								
Emergency	11,309	1,941,942	--	1,953,251	25,985	1,976,531	--	2,002,516
Operating and recovery room	389,224	2,663,228	--	3,052,452	210,008	1,965,480	--	2,175,488
Anesthesiology	32,536	556,543	--	589,079	22,546	345,841	--	368,387
Radiology	257,624	2,655,970	--	2,913,594	279,926	2,575,184	--	2,855,110
Laboratory	456,406	2,260,174	284	2,716,864	470,687	2,049,804	--	2,520,491
Physical therapy	346,196	966,734	--	1,312,930	360,075	1,057,734	--	1,417,809
Speech therapy	11,216	15,660	--	26,876	15,192	26,273	--	41,465
Occupational therapy	178,238	216,946	--	395,184	178,261	226,913	--	405,174
Electrocardiology	13,380	211,501	--	224,881	10,959	207,289	--	218,248
Medical and surgical supplies	1,050,045	785,868	76,532	1,912,445	887,314	738,968	128,942	1,755,224
Pharmacy	1,021,388	615,727	297,917	1,935,032	1,145,582	500,875	327,573	1,974,030
Orthopedic	58,924	206,046	--	264,970	56,257	197,617	--	253,874
Ambulance	--	990,872	--	990,872	820	968,450	--	969,270
Clinics	--	3,134,000	--	3,134,000	--	3,101,690	--	3,101,690
Miscellaneous	--	169,981	--	169,981	--	178,773	--	178,773
	<u>3,826,486</u>	<u>17,391,192</u>	<u>374,733</u>	<u>21,592,411</u>	<u>3,663,612</u>	<u>16,117,422</u>	<u>456,515</u>	<u>20,237,549</u>
GROSS PATIENT SERVICE REVENUE \$	<u>5,646,682</u>	<u>17,738,818</u>	<u>3,386,324</u>	<u>26,771,824</u>	<u>5,481,290</u>	<u>16,403,491</u>	<u>3,637,369</u>	<u>25,522,150</u>
LESS CONTRACTUAL ADJUSTMENTS AND CHARITY CARE				(7,655,740)				(7,173,552)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				19,116,084				18,348,598
PROVISION FOR BAD DEBT				(1,214,916)				(1,111,749)
NET PATIENT SERVICE REVENUE				\$ <u>17,901,168</u>				\$ <u>17,236,849</u>

See accompanying independent auditor's report

**Other Operating Revenue**  
**For the Years Ended June 30, 2013 and 2012**

---

	<u>2013</u>	<u>2012</u>
Electronic health record incentive payments	\$ 218,600	616,032
Pharmacy revenue - 340B program	628,039	--
Meals sold	45,009	41,186
Wellness programs	35,689	32,708
Other	<u>31,063</u>	<u>39,154</u>
	<u>\$ 958,400</u>	<u>729,080</u>

*See accompanying independent auditor's report*

Story County Hospital and Long-Term Care Facility

Exhibit 5

Departmental Expenses  
For the Years Ended June 30, 2013 and 2012

	2013				2012			
	Salaries and Wages	Professional Fees and Purchased Services	Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Other	Total
<b>NURSING SERVICES:</b>								
Nursing administration	\$ 91,445	--	1,825	93,270	91,639	--	2,872	94,511
Adults and pediatrics	1,053,351	19,625	233,066	1,306,042	1,002,911	25,410	230,833	1,259,154
Operating room	380,548	182,060	232,259	794,867	400,064	158,546	184,342	742,952
Emergency service	631,898	502,657	44,693	1,179,248	482,320	501,085	37,046	1,020,451
	<u>2,157,242</u>	<u>704,342</u>	<u>511,843</u>	<u>3,373,427</u>	<u>1,976,934</u>	<u>685,041</u>	<u>455,093</u>	<u>3,117,068</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Laboratory	276,597	114,932	193,672	585,201	304,379	85,579	236,012	625,970
Central supply	84,653	16,627	688,545	789,825	85,700	16,755	547,217	649,672
Social service	202,538	113	569	203,220	144,966	87	1,918	146,971
Electrocardiology	122,033	40,271	8,366	170,670	70,508	29,466	11,922	111,896
Radiology	217,893	263,365	223,172	704,430	220,873	246,740	219,981	687,594
Pharmacy	57,816	187,373	595,593	840,782	59,592	182,242	397,549	639,383
Anesthesiology	157,155	--	7,709	164,864	63,250	31,442	3,298	97,990
Physical therapy	--	520,975	9,025	530,000	--	555,163	10,443	565,606
Speech therapy	--	14,080	--	14,080	--	34,283	--	34,283
Occupational therapy	--	143,693	256	143,949	--	142,786	318	143,104
Medical records	229,056	4,488	39,270	272,814	233,724	4,611	43,776	282,111
Zearing clinic	212,441	27,800	38,635	278,876	220,607	29,184	45,868	295,659
Nevada clinic	1,400,664	26,563	107,103	1,534,330	1,371,340	37,401	120,728	1,529,469
Maxwell clinic	156,335	11,701	27,650	195,686	136,071	9,542	25,474	171,087
Slater clinic	119,054	9,751	23,255	152,060	88,609	8,926	24,686	122,221
Ambulance	97,497	2,030	44,727	144,254	192,946	2,307	45,106	240,359
Wellness center	69,543	105	5,988	75,636	95,987	131	2,650	98,768
Acupuncture	74,527	3,874	11,957	90,358	74,170	4,215	14,239	92,624
Long-term care	1,530,343	96,730	82,661	1,709,734	1,584,016	18,099	96,121	1,698,236
Orthopedic	--	180,080	--	180,080	--	164,450	--	164,450
	<u>5,008,145</u>	<u>1,664,551</u>	<u>2,108,153</u>	<u>8,780,849</u>	<u>4,946,738</u>	<u>1,603,409</u>	<u>1,847,306</u>	<u>8,397,453</u>
<b>GENERAL SERVICES:</b>								
Plant operation and maintenance	157,347	44,841	370,752	572,940	160,956	39,478	325,300	525,734
Dietary	441,601	4,346	283,169	729,116	417,018	1,919	263,911	682,848
Housekeeping	231,087	10,247	39,485	280,819	227,468	7,259	45,125	279,852
Laundry	46,566	25	17,008	63,599	42,738	262	9,707	52,707
	<u>876,601</u>	<u>59,459</u>	<u>710,414</u>	<u>1,646,474</u>	<u>848,180</u>	<u>48,918</u>	<u>644,043</u>	<u>1,541,141</u>
<b>ADMINISTRATIVE SERVICES</b>	<b>749,827</b>	<b>805,845</b>	<b>265,302</b>	<b>1,820,974</b>	<b>741,684</b>	<b>682,679</b>	<b>212,028</b>	<b>1,636,391</b>
<b>NONDEPARTMENTAL:</b>								
Employee benefits	102,172	659	2,189,077	2,291,908	131,215	1,266	2,104,308	2,236,789
Depreciation and amortization	--	--	1,415,203	1,415,203	--	--	1,398,490	1,398,490
Interest	--	--	767,626	767,626	--	--	796,873	796,873
Insurance	--	--	118,964	118,964	--	--	128,787	128,787
	<u>102,172</u>	<u>659</u>	<u>4,490,870</u>	<u>4,593,701</u>	<u>131,215</u>	<u>1,266</u>	<u>4,428,458</u>	<u>4,560,939</u>
<b>TOTAL EXPENSES</b>	<b>\$ 8,893,987</b>	<b>3,234,856</b>	<b>8,086,582</b>	<b>20,215,425</b>	<b>8,644,751</b>	<b>3,021,313</b>	<b>7,586,928</b>	<b>19,252,992</b>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2013 and 2012**

ANALYSIS OF AGING:

Days Since Discharge	2013		2012	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,248,469	45 %	2,014,829	50 %
31 - 60	809,910	17	654,995	17
61 - 90	585,094	12	237,492	6
91 - 120	282,253	6	279,454	7
121 and over	977,595	20	776,021	20
	<u>4,903,321</u>	<u>100 %</u>	<u>3,962,791</u>	<u>100 %</u>
Less:				
Allowance for doubtful accounts	(988,843)		(818,338)	
Allowance for contractual adjustments	<u>(936,330)</u>		<u>(767,302)</u>	
	<u>\$ 2,978,148</u>		<u>2,377,151</u>	

	2013	2012
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 818,338	711,361
Provision of uncollectible accounts	1,214,916	1,111,749
Recoveries of accounts previously written off	(177,051)	(179,583)
Accounts written off	<u>(867,360)</u>	<u>(825,189)</u>
Balance, end of year	<u>\$ 988,843</u>	<u>818,338</u>

*See accompanying independent auditor's report*

**Inventory/Prepaid Expenses  
For the Years Ended June 30, 2013 and 2012**

---

	<u>2013</u>	<u>2012</u>
INVENTORY:		
Pharmacy	\$ 126,117	115,678
Central store	43,681	41,735
Laboratory	11,036	48,618
Operating room	46,752	38,232
Dietary	18,439	19,473
Radiology	11,484	5,570
Emergency room	5,185	4,075
Other	<u>14,647</u>	<u>13,719</u>
	<u>\$ 277,341</u>	<u>287,100</u>
	<u>2013</u>	<u>2012</u>
PREPAID EXPENSES:		
Insurance	\$ 49,924	44,481
Maintenance contracts	<u>231,993</u>	<u>161,930</u>
	<u>\$ 281,917</u>	<u>206,411</u>

*See accompanying independent auditor's report*

**Financial and Statistical Highlights  
For the Years Ended June 30, 2013 and 2012**

---

	<u>2013</u>	<u>2012</u>
Patient days:		
Adult and pediatric -		
Medicare	395	483
All other	350	260
Swing-bed -		
Skilled	1,719	1,771
Intermediate	400	399
Long-term care	<u>18,634</u>	<u>20,081</u>
Total	<u><u>21,498</u></u>	<u><u>22,994</u></u>
Patient discharges:		
Hospital adult and pediatric -		
Medicare	124	147
All other	<u>99</u>	<u>97</u>
Total	<u><u>223</u></u>	<u><u>244</u></u>
Average length of stay (based on discharge days):		
Hospital adult and pediatric -		
Medicare	3.18 days	3.29 days
All other	3.54 days	2.68 days
Surgical procedures	577	625
Emergency room visits	3,451	3,526
Number of employees - full-time equivalents	182.95	188.94

**Independent Auditor's 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  
Story County Hospital and Long-Term Care Facility  
Nevada, Iowa:

We have audited, in accordance with the 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, the financial statements of Story County Hospital and Long-Term Care Facility (Hospital) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated September 20, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item II-A-13 that we consider to be a significant deficiency.

**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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Hospital's Response to Findings**

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SEIM JOHNSON, LLP

Omaha, Nebraska,  
September 20, 2013.

## Story County Hospital and Long-Term Care Facility

### Schedule of Findings and Responses For the Year Ended June 30, 2013

---

#### Part I: Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) One significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statement.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

#### Part II: Findings Related to the Financial Statements

##### *Instances of Non-Compliance:*

No matters were reported.

##### *Significant Deficiency:*

###### **II-A-13**

<i>Criteria:</i>	The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.
<i>Condition:</i>	We identified a misstatement in the financial statements during the audit that was not initially identified by the Hospital's internal controls.
<i>Effect:</i>	An audit entry was required to adjust third party payor settlements.
<i>Cause:</i>	Management performed an estimate for its third party payor settlements but did not fully record the results of its estimate.
<i>Recommendation:</i>	The Hospital should review and revise its process over its third party payor settlement estimate.
<i>Response:</i>	The Hospital concurs with the recommendation.
<i>Conclusion:</i>	Response accepted.

#### Part III: Other Findings Related to Required Statutory Reporting

##### **III-A-13**

Official Depositories: A resolution naming official depositories has been adopted by the Board. Deposit limits at a financial institution were not exceeded.

##### **III-B-13**

Certified Budget: Hospital disbursements during the year ended June 30, 2013 did not exceed amounts budgeted.

##### **III-C-13**

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

## Story County Hospital and Long-Term Care Facility

### Schedule of Findings and Responses For the Year Ended June 30, 2013

---

#### III-D-13

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

#### III-E-13

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

#### III-F-13

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

#### III-G-13

Deposits and Investments: We noted no instances of noncompliance with the deposit and investments provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

#### III-H-13

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

**Story County Hospital and Long-Term Care Facility**

**Audit Staff  
For the Year Ended June 30, 2013**

---

**This audit was performed by:**

Brian D. Green, FHFMA, CPA, Partner

Jeremy J. Behrens, FHFMA, CPA, Senior Manager

Nicole R. McDonald, Manager

Bryce A. Arp, Staff Auditor