

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

**Basic Financial Statements and
Supplementary Information
June 30, 2014 and 2013**

Together with Independent Auditor's Report

Story County Hospital and Long-Term Care Facility

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Story County Hospital and Long-Term Care Facility

Officials
June 30, 2014

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-------------|--------------|---------------------|
|-------------|--------------|---------------------|

Board of Trustees:

| | | |
|------------------|-----------------------|---------------|
| 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 |
| Sue Crum | Member | December 2014 |

Hospital Officials:

| | |
|--------------|-------------------------|
| Tim Ahlers | 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, 2014 and 2013, 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. 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, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014 the Hospital adopted new accounting guidance to reflect the provisions of Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 7) and budgetary comparison information (page 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other supplementary information (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 (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 (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 19, 2014 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 19, 2014.

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis June 30, 2014 and 2013

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 fiscal years ended June 30, 2014 and 2013. It should be read in conjunction with the accompanying financial statements which begin on page 8.

Financial Highlights

- The Hospital's net position increased in 2014 by \$1,168,200 or 20%. In 2013, net position increased by \$431,730 or 8%.
- The Hospital reported a decrease in operating loss for 2014 of \$132,694 at a loss of \$1,197,105 compared to a loss of \$1,329,799 in 2013.
- The Hospital's non-operating revenues increased by \$235,575 in 2014 compared to 2013.

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, deferred outflows, liabilities, deferred inflows, and net position and provide information about the nature and amounts of investments in resources and the obligations of Hospital creditors. 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 two 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, 2014 and 2013

The Hospital's Net Position

The Hospital's net position is the difference between assets, deferred outflows, liabilities, and deferred inflow. The Hospital's net position increased this past year by \$1,168,200 or 20% as shown in **Table 1**.

Table 1: Statements of Net Position

| | <u>2014</u> | <u>2013 Restated</u> | <u>2012</u> | <u>2014-2013 Change</u> | <u>Percent Change</u> |
|---|---------------------|--------------------------|-------------------|-----------------------------|---------------------------|
| Assets: | | | | | |
| Total current assets | \$ 9,815,483 | 8,972,381 | 8,112,851 | 843,102 | 9% |
| Capital assets, net | 13,842,694 | 14,003,906 | 14,885,060 | (161,212) | -1% |
| Assets limited as to use or restricted | 3,531,095 | 2,807,107 | 2,111,828 | 723,988 | 26% |
| Other non-current assets | 400 | 332 | 368,794 | 68 | 20% |
| Total assets | <u>27,189,672</u> | <u>25,783,726</u> | <u>25,478,533</u> | <u>1,405,946</u> | 5% |
| Liabilities: | | | | | |
| Long-term debt | 15,264,786 | 15,719,591 | 16,184,755 | (454,805) | -3% |
| Estimated third-party payor settlements | 363,053 | 206,655 | 213,352 | 156,398 | 76% |
| Other current and non-current liabilities | <u>2,229,108</u> | <u>1,712,464</u> | <u>3,529,249</u> | <u>516,644</u> | 30% |
| Total liabilities | <u>17,856,947</u> | <u>17,638,710</u> | <u>19,927,356</u> | <u>218,237</u> | 1% |
| Deferred Inflows of Resources, | | | | | |
| Unavailable property tax revenue | <u>2,181,618</u> | <u>2,162,109</u> | -- | <u>19,509</u> | 1% |
| Net Position: | | | | | |
| Net investment in capital assets | 619,463 | 325,870 | 741,860 | 293,593 | 90% |
| Restricted - expendable | 1,567,404 | 1,609,632 | 1,586,221 | (42,228) | -3% |
| Unrestricted | <u>4,964,240</u> | <u>4,047,405</u> | <u>3,223,096</u> | <u>916,835</u> | 23% |
| Total net position | <u>\$ 7,151,107</u> | <u>5,982,907</u> | <u>5,551,177</u> | <u>1,168,200</u> | 20% |

Operating Results and Changes in the Hospital's Net Position

In 2014, the Hospital's operating revenue increased by \$1,228,790 and the loss from operations decreased by \$132,694. In 2013, the Hospital's operating revenue increased by \$893,639 and the loss from operations increased by \$42,736. The total 2014 net position increased by \$1,168,200 or 20% as shown in **Table 2**. The majority of this increase is caused by an increase in operating revenue.

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis June 30, 2014 and 2013

Table 2: Operating Results and Changes in Net Position

| | 2014 | 2013 Restated | 2012 | 2014-2013 Change | Percent Change |
|---|---------------------|--------------------|--------------------|---------------------|-------------------|
| Operating revenue: | | | | | |
| Net patient service revenue | \$ 20,047,050 | 19,116,084 | 18,348,598 | 930,966 | 5% |
| Provision for bad debt | (1,114,554) | (1,214,916) | (1,111,749) | 100,362 | -8% |
| Other operating revenue | 1,155,862 | 958,400 | 729,080 | 197,462 | 21% |
| Total operating revenue | <u>20,088,358</u> | <u>18,859,568</u> | <u>17,965,929</u> | <u>1,228,790</u> | 7% |
| Operating expenses: | | | | | |
| Salaries and employee benefits | 12,144,612 | 11,083,723 | 10,750,325 | 1,060,889 | 10% |
| Purchased services and other | 7,142,456 | 6,948,873 | 6,307,304 | 193,583 | 3% |
| Depreciation | 1,366,980 | 1,389,145 | 1,398,490 | (22,165) | -2% |
| Interest | 631,415 | 767,626 | 796,873 | (136,211) | -18% |
| Total expenses | <u>21,285,463</u> | <u>20,189,367</u> | <u>19,252,992</u> | <u>1,096,096</u> | 5% |
| Operating loss | <u>(1,197,105)</u> | <u>(1,329,799)</u> | <u>(1,287,063)</u> | <u>132,694</u> | -10% |
| Nonoperating Revenue: | | | | | |
| Property taxes | 2,152,780 | 2,015,524 | 1,383,351 | 137,256 | 7% |
| Investment income | 61,537 | 51,699 | 48,704 | 9,838 | 19% |
| Other nonoperating revenue | 150,788 | 62,307 | 14,025 | 88,481 | 142% |
| Total nonoperating revenue, net | <u>2,365,105</u> | <u>2,129,530</u> | <u>1,446,080</u> | <u>235,575</u> | 11% |
| Excess of revenue over expenses | 1,168,000 | 799,731 | 159,017 | 368,269 | 46% |
| Capital grants and contributions | 200 | 250 | 200 | (50) | -20% |
| Increase in net position | <u>1,168,200</u> | <u>799,981</u> | <u>159,217</u> | <u>368,219</u> | 46% |
| Net position, beginning of year, as previously reported | 5,982,907 | 5,551,177 | 5,282,712 | 431,730 | 8% |
| Cumulative effect of accounting change | -- | (368,251) | -- | 368,251 | -100% |
| Net position, beginning of year, as restated | 5,982,907 | 5,182,926 | 5,282,712 | 799,981 | 15% |
| Net position – end of year | <u>\$ 7,151,107</u> | <u>5,982,907</u> | <u>5,551,177</u> | <u>1,168,200</u> | 20% |

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 (loss) are:

- Rate and volume changes
- Medicare/Medicaid cost report settlements and other third party contractual relationships
- Salary adjustments to stay competitive
- Employee health insurance and other benefits
- Professional/Physician contracts for ancillary departments

A major component of the Hospital's costs is expenses for salaries and benefits. In 2014 salaries and benefit costs totaled \$12,144,612. In 2013 salaries and benefit costs totaled \$11,083,723. Part of the reason for the increase of 10% between 2014 and 2013 is that the Hospital added approximately ten additional full time employee equivalents, had an increase in the required employer IPERS contribution rate, and there were annual employee rate increases. 2013 salaries and benefit costs increased 3% compared to 2012.

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.

Story County Hospital and Long-Term Care Facility

Management's Discussion and Analysis June 30, 2014 and 2013

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied for the Hospital, interest revenue, contributions, and investment earnings. The county property tax levy amounted to \$2,152,780 in 2014 and \$2,015,524 in 2013.

Cash Flows

Changes in cash flows are consistent with changes in operating loss and nonoperating revenues, discussed earlier. Cash flows used in operating activities were \$189,777 in 2014 compared to cash flows provided by operating activities of \$188,405 in 2013. The change between 2014 and 2013 was a result of the increase in cash paid for employee salaries and benefits.

Capital Asset and Debt Administration

Capital Assets

At the end of 2014 and 2013, the Hospital had \$13,842,694 and \$14,003,906, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2014, the Hospital purchased new equipment costing approximately \$1,200,000. In 2013, the Hospital purchased new equipment costing approximately \$529,000.

Debt

At June 30, 2014 and 2013, the Hospital had \$15,264,786 and \$15,719,591, respectively, in debt outstanding. There was no new debt issued in 2014 or 2013.

Other Economic Factors

The 2014 and 2013 fiscal years provided the Hospital substantial challenges due to federal program reimbursement requirements, pressures from other insurers, and the fluctuation of patient demand.

Inflation continued in 2014 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. 19th Street
Nevada IA 50201
515-382-2111

Story County Hospital and Long-Term Care Facility

Statements of Net Position June 30, 2014 and 2013

| | <u>2014</u> | <u>2013 Restated</u> |
|---|---------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,066,302 | 1,920,927 |
| Short-term investments | 795,580 | 793,643 |
| Assets limited as to use or restricted, current portion | 389,032 | 375,021 |
| Receivables - | | |
| Patients, net of estimated uncollectible accounts of \$1,378,893 in 2014 and \$988,843 in 2013, respectively | 4,531,292 | 2,978,148 |
| Other | 299,556 | 182,375 |
| Pledges, current portion | -- | 900 |
| Succeeding year property tax | 2,181,618 | 2,162,109 |
| Inventories | 317,094 | 277,341 |
| Other current assets | 235,009 | 281,917 |
| Total current assets | <u>9,815,483</u> | <u>8,972,381</u> |
| Noncurrent assets: | | |
| Pledges receivable, net of current portion | 400 | 332 |
| Assets limited as to use or restricted, net of current portion | 3,531,095 | 2,807,107 |
| Capital assets, net | <u>13,842,694</u> | <u>14,003,906</u> |
| Total assets | <u>27,189,672</u> | <u>25,783,726</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Current portion of long-term debt | 480,141 | 459,821 |
| Accounts payable | 907,308 | 491,418 |
| Accrued salaries, vacation and benefits payable | 1,261,655 | 1,161,840 |
| Estimated third-party payor settlements | 363,053 | 206,655 |
| Accrued interest payable | <u>51,442</u> | <u>52,781</u> |
| Total current liabilities | 3,063,599 | 2,372,515 |
| Long-term liabilities: | | |
| Resident trust funds | 8,703 | 6,425 |
| Long-term debt, net of unamortized discount and current portion | <u>14,784,645</u> | <u>15,259,770</u> |
| Total liabilities | <u>17,856,947</u> | <u>17,638,710</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable property tax revenue | <u>2,181,618</u> | <u>2,162,109</u> |
| Commitments and contingencies | | |
| NET POSITION | | |
| Net investment in capital assets | 619,463 | 325,870 |
| Restricted - expendable | 1,567,404 | 1,609,632 |
| Unrestricted | <u>4,964,240</u> | <u>4,047,405</u> |
| Total net position | <u>\$ 7,151,107</u> | <u>5,982,907</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, 2014 and 2013

| | <u>2014</u> | <u>2013 Restated</u> |
|--|---------------------|----------------------|
| OPERATING REVENUE: | | |
| Net patient service revenue before provision for bad debt | \$ 20,047,050 | 19,116,084 |
| Provision for bad debt | (1,114,554) | (1,214,916) |
| Net patient service revenue | 18,932,496 | 17,901,168 |
| Other operating revenue | 1,155,862 | 958,400 |
| Total operating revenue | <u>20,088,358</u> | <u>18,859,568</u> |
| OPERATING EXPENSES: | | |
| Salaries and wages | 9,716,108 | 8,893,987 |
| Employee benefits | 2,428,504 | 2,189,736 |
| Professional fees and purchased services | 3,384,393 | 3,234,856 |
| Supplies and other | 3,641,114 | 3,595,053 |
| Insurance | 116,949 | 118,964 |
| Depreciation | 1,366,980 | 1,389,145 |
| Interest | 631,415 | 767,626 |
| Total operating expenses | <u>21,285,463</u> | <u>20,189,367</u> |
| OPERATING LOSS | <u>(1,197,105)</u> | <u>(1,329,799)</u> |
| NONOPERATING REVENUE (EXPENSES), NET: | | |
| Property taxes | 2,152,780 | 2,015,524 |
| Investment income | 61,537 | 51,699 |
| Noncapital grants and contributions | 156,511 | 32,325 |
| Fundraising | (18,380) | (15,222) |
| Other, net | 12,657 | 45,204 |
| Nonoperating revenue, net | <u>2,365,105</u> | <u>2,129,530</u> |
| EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS | 1,168,000 | 799,731 |
| CAPITAL GRANTS AND CONTRIBUTIONS | <u>200</u> | <u>250</u> |
| INCREASE IN NET POSITION | <u>1,168,200</u> | <u>799,981</u> |
| NET POSITION, beginning of year, as previously reported | 5,982,907 | 5,551,177 |
| CUMULATIVE EFFECT OF ACCOUNTING CHANGE (NOTE 16) | <u>--</u> | <u>(368,251)</u> |
| NET POSITION, beginning of year, as restated | <u>5,982,907</u> | <u>5,182,926</u> |
| NET POSITION, end of year | <u>\$ 7,151,107</u> | <u>5,982,907</u> |

See notes to financial statements

Story County Hospital and Long-Term Care Facility

Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013 Restated</u> |
|---|---------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from patients and third-party payors | \$ 17,535,750 | 17,293,474 |
| Cash paid for employee salaries and benefits | (12,044,797) | (10,981,549) |
| Cash paid to suppliers and contractors | (6,836,592) | (7,081,920) |
| Other receipts and payments, net | 1,155,862 | 958,400 |
| Net cash provided by (used in) operating activities | <u>(189,777)</u> | <u>188,405</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Noncapital grants and contributions | 156,511 | 32,325 |
| Fundraising, net | (17,548) | (2,679) |
| Other, net | 14,935 | 45,552 |
| Property tax receipts | 2,152,780 | 2,015,524 |
| Net cash provided by noncapital financing activities | <u>2,306,678</u> | <u>2,090,722</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of capital assets | (1,205,768) | (508,491) |
| Interest payments | (632,754) | (778,845) |
| Capital grants and contributions | 200 | 250 |
| Principal payments on long-term debt | (454,805) | (465,164) |
| Net cash used in capital and related financing activities | <u>(2,293,127)</u> | <u>(1,752,250)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Change in investments and assets limited as to use or restricted, net | (739,936) | (476,638) |
| Investment income | 61,537 | 51,699 |
| Net cash used in investing activities | <u>(678,399)</u> | <u>(424,939)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (854,625) | 101,938 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>1,920,927</u> | <u>1,818,989</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 1,066,302</u> | <u>1,920,927</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, 2014 and 2013

| | <u>2014</u> | <u>2013 Restated</u> |
|---|---------------------|----------------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES: | | |
| Operating loss | \$ (1,197,105) | (1,329,799) |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,366,980 | 1,389,145 |
| Interest expense included in operating expenses | 631,415 | 767,626 |
| (Increase) decrease in current assets - | | |
| Receivables - | | |
| Patients | (1,553,144) | (600,997) |
| Other | (117,181) | (169,504) |
| Inventories | (39,753) | 9,759 |
| Other current assets | 46,908 | (75,506) |
| Increase (decrease) in current liabilities - | | |
| Accounts payable | 415,890 | 102,204 |
| Accrued salaries, vacation and benefits payable | 99,815 | 102,174 |
| Estimated third-party payor settlements | 156,398 | (6,697) |
| Net cash provided by (used in) operating activities | \$ <u>(189,777)</u> | <u>188,405</u> |

See notes to financial statements

Story County Hospital and Long-Term Care Facility

Note to Financial Statements June 30, 2014 and 2013

(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

For financial reporting purposes, Story County Hospital and Long-Term Care Facility has included all the funds of the Hospital, specifically all assets, deferred outflows, liabilities, deferred inflows, revenue and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

In accordance with the Governmental Accounting Standards Board criteria, 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 statements of net position display the Hospital's assets, deferred inflows, liabilities, and deferred outflow, with the difference reported as net position. Net position is reported in the following categories/components:

Story County Hospital and Long-Term Care Facility

Note to Financial Statements June 30, 2014 and 2013

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 - expendable – This component of net position results when constraints placed on net use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

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 for use, generally it is the Hospital's policy to use restricted net position first.

D. *Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The Hospital's basic financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned, expenses are recognized when incurred.

E. *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, deferred outflows, liabilities, and deferred inflows 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 revenue over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities. Periodically, the Hospital reviews its investments to determine whether any unrealized losses are other than temporary. During 2014 and 2013, there were no investment declines that were determined to be other than temporary.

Story County Hospital and Long-Term Care Facility

Note to Financial Statements June 30, 2014 and 2013

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 uncollectable 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 uncollectable 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 uncollectable 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 uncollectable 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 uncollectable accounts.

I. *Inventories*

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

J. *Deferred Inflows of Resources*

Deferred inflows of resources consist of succeeding year property taxes receivable which will not be recognized as revenue until the year for which it is levied. It 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 taxes 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 that fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year.

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, Net*

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

Note to Financial Statements June 30, 2014 and 2013

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. 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, 2014 and 2013 was \$500,193 and \$464,712, respectively.

N. 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. Property tax levied to finance the current year is included as nonoperating revenues and peripheral or incidental transactions are reported as nonoperating revenues and expenses.

O. 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.

P. 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.

Story County Hospital and Long-Term Care Facility

Note to Financial Statements June 30, 2014 and 2013

Q. *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.

R. *Excess of Revenue Over Expenses Before Capital Grants and Contributions*

The statements of revenue, expenses and changes in net position include excess of revenue over expenses before capital grants and contributions as a performance indicator. Changes in unrestricted net position that are excluded from excess of revenue over expenses before capital grants and contributions, 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).

S. *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 \$405,114 and \$333,995, for 2014 and 2013, respectively.

T. *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.

U. *Change in Accounting Principle*

During 2014, the Hospital adopted the provisions of GASB Statement No, 65, which requires reclassification of certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources on the statement of net position. GASB 65 also requires recognition of certain items previously reported as assets and liabilities as outflows of resources or inflows of resources on the statement of revenue, expenses and changes in net position. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The cumulative effect of the accounting change in connection with the implementation of GASB 65 was a reduction of \$368,251 in net position as of the beginning of 2013 (see Note 16).

V. *Subsequent Events*

The Hospital considered events occurring through September 19, 2014 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

Story County Hospital and Long-Term Care Facility

Note to Financial Statements June 30, 2014 and 2013

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

The Hospital's deposits in banks at June 30, 2014 and 2013 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, 2014 and 2013, 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, 2014 and 2013 is as follows:

| | <u>2014</u> | <u>2013</u> |
|---------------------------|-------------------|----------------|
| Investments: | | |
| Operating reserves: | | |
| Cash and cash equivalents | \$ 612 | 701 |
| Certificates of deposit | <u>794,968</u> | <u>792,942</u> |
| Total investments | <u>\$ 795,580</u> | <u>793,643</u> |

Story County Hospital and Long-Term Care Facility

Note to Financial Statements June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|------------------|
| Assets Limited as to Use or Restricted: | | |
| By the Board of Trustees for capital improvements: | | |
| Cash and cash equivalents | \$ 2,438,190 | 1,741,156 |
| By Donor: | | |
| Cash and cash equivalents | 95,823 | 100,727 |
| Corporate stock | 107,370 | 105,606 |
| | <u>203,193</u> | <u>206,333</u> |
| By Debt Agreements – Reserve Accounts: | | |
| Cash and cash equivalents | 18,500 | 18,500 |
| Certificates of deposit | 1,157,447 | 1,113,231 |
| Government money market funds | 102,797 | 102,908 |
| | <u>1,278,744</u> | <u>1,234,639</u> |
| Total assets limited as to use or restricted | 3,920,127 | 3,182,128 |
| Less amounts required to meet current obligations | <u>389,032</u> | <u>375,021</u> |
| Long-term portion | \$ <u>3,531,095</u> | <u>2,807,107</u> |

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2014 and 2013 is summarized as follows:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|------------------|---------------|
| Interest and dividends | \$ 58,677 | 44,444 |
| Change in unrealized gain, net | <u>2,860</u> | <u>7,255</u> |
| Total investment return | \$ <u>61,537</u> | <u>51,699</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.

Story County Hospital and Long-Term Care Facility

Note to Financial Statements June 30, 2014 and 2013

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. Long-term care services are reimbursed at a prospectively determined rate per day of care. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

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

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

| | <u>2014</u> | <u>2013</u> |
|---|----------------------|-------------------|
| Gross patient service revenue: | | |
| Inpatient services and swing bed | \$ 5,161,013 | 5,646,682 |
| Outpatient | 16,390,017 | 14,221,323 |
| Long-term care | 3,685,796 | 3,386,324 |
| Clinics | 3,334,171 | 3,517,495 |
| Total gross patient service revenue | <u>28,570,997</u> | <u>26,771,824</u> |
| Deductions from patient service revenue: | | |
| Medicare | 3,108,385 | 3,166,221 |
| Medicaid | 1,642,728 | 1,186,816 |
| Other payors | 3,367,720 | 2,968,708 |
| Charity care | 405,114 | 333,995 |
| Total deductions from patient service revenue | <u>8,523,947</u> | <u>7,655,740</u> |
| Net patient service revenue before provision for bad debts | <u>\$ 20,047,050</u> | <u>19,116,084</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 39% and 23%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2014 compared to 31% for Medicare and 20% for Medicaid in 2013. 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.

Story County Hospital and Long-Term Care Facility

Note to Financial Statements June 30, 2014 and 2013

(4) Other Operating Revenue

Other operating revenue for the years ended June 30, 2014 and 2013 consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|----------------|
| Electronic health record incentive payments | \$ 369,300 | 218,600 |
| Pharmacy revenue – 340B program | 545,553 | 628,039 |
| Meals sold | 49,481 | 45,009 |
| Wellness programs | 38,406 | 35,689 |
| Other | 153,122 | 31,063 |
| | <u>\$ 1,155,862</u> | <u>958,400</u> |

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 2014 and 2013, 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, 2014 and 2013 the Hospital has elected to record \$260,000 and \$-0-, respectively, of the incentive payment as other operating revenue in the period earned, and defer approximately \$320,000 and \$89,000, respectively, 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 that ended with the 2014 payment. A payment of \$109,300 and \$218,600 was received for the years ending June 30, 2014 and 2013, respectively. 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, 2014 and 2013 consist of the following:

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|------------------|
| Patient receivables | \$ 8,431,454 | 4,903,321 |
| Less estimated third-party contractual adjustments | (2,521,269) | (936,330) |
| Less allowance for uncollectable accounts | (1,378,893) | (988,843) |
| | <u>\$ 4,531,292</u> | <u>2,978,148</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>2014</u> | <u>2013</u> |
|--------------------------|-------------|-------------|
| Medicare | 25% | 30% |
| Medicaid | 23 | 10 |
| Other third-party payors | 42 | 31 |
| Private pay | 10 | 29 |
| | <u>100%</u> | <u>100%</u> |

Story County Hospital and Long-Term Care Facility

Note to Financial Statements June 30, 2014 and 2013

(6) Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013 were as follows:

| | June 30, 2013 | Additions | Transfers and Disposals | June 30, 2014 |
|--|----------------------|--------------------|----------------------------|-------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 321,622 | -- | -- | 321,622 |
| Construction in progress | 188,538 | 848,271 | (954,693) | 82,116 |
| Total capital assets, not being depreciated | <u>510,160</u> | <u>848,271</u> | <u>(954,693)</u> | <u>403,738</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 1,265,043 | -- | -- | 1,265,043 |
| Building and leasehold improvements | 16,355,265 | 89,878 | 185,317 | 16,630,460 |
| Fixed equipment | 2,661,447 | 25,507 | -- | 2,686,954 |
| Major movable equipment | 4,510,432 | 242,112 | 530,087 | 5,282,631 |
| Total capital assets, being depreciated | <u>24,792,187</u> | <u>357,497</u> | <u>715,404</u> | <u>25,865,088</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | 509,626 | 97,586 | -- | 607,212 |
| Building and leasehold improvements | 6,087,516 | 720,723 | (13,000) | 6,795,239 |
| Fixed equipment | 1,640,765 | 128,615 | -- | 1,769,380 |
| Major movable equipment | 3,060,534 | 420,056 | (226,289) | 3,254,301 |
| Total accumulated depreciation | <u>11,298,441</u> | <u>1,366,980</u> | <u>(239,289)</u> | <u>12,426,132</u> |
| Total capital assets, being depreciated, net | <u>13,493,746</u> | <u>(1,009,483)</u> | <u>954,693</u> | <u>13,438,956</u> |
| Total capital assets, net | <u>\$ 14,003,906</u> | <u>(161,212)</u> | <u>--</u> | <u>13,842,694</u> |
| | | | | |
| | 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> |

Story County Hospital and Long-Term Care Facility

Note to Financial Statements June 30, 2014 and 2013

(7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2014 and 2013 consisted of the following:

- (A) 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.
- (B) 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, 2014), reset at five year intervals (next reset is June 2018), collateralized by hospital revenues other than taxation.
- (C) 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.
- (D) 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 3.30% to 5.00%, collateralized by hospital revenues other than taxation.
- (E) The note payable to the bank requires monthly payments of \$11,766 with interest at 4.25%; collateralized by revenues; due December 2019.
- (F) The note payable to the bank requires monthly payments of \$2,375 with interest at 4.99%; collateralized by revenues; due May 2013.

| | <u>June 30,</u> <u>2013</u> | <u>Borrowings</u> | <u>Payments</u> | <u>June 30,</u> <u>2014</u> | <u>Due Within</u> <u>One Year</u> |
|----------------------------|--------------------------------|-------------------|------------------|--------------------------------|--------------------------------------|
| Zearing Note (A) | \$ 46,467 | -- | (13,600) | 32,867 | 13,600 |
| Series 2008A (B) | 8,085,000 | -- | -- | 8,085,000 | -- |
| USDA Rural Development (C) | 140,419 | -- | (12,342) | 128,077 | 12,870 |
| Series 2008B (D) | 6,690,000 | -- | (325,000) | 6,365,000 | 340,000 |
| State Bank & Trust (E) | 799,091 | -- | (108,886) | 690,205 | 113,671 |
| | <u>15,760,977</u> | <u>--</u> | <u>(459,828)</u> | <u>15,301,149</u> | <u>480,141</u> |
| Less unamortized discount | <u>(41,386)</u> | | | <u>(36,363)</u> | |
| | <u>\$ 15,719,591</u> | | | <u>15,264,786</u> | |
| | | | | | |
| | <u>June 30,</u> <u>2012</u> | <u>Borrowings</u> | <u>Payments</u> | <u>June 30,</u> <u>2013</u> | <u>Due Within</u> <u>One Year</u> |
| Zearing Note (A) | \$ 60,067 | -- | (13,600) | 46,467 | 13,600 |
| Series 2008A (B) | 8,085,000 | -- | -- | 8,085,000 | -- |
| USDA Rural Development (C) | 152,248 | -- | (11,829) | 140,419 | 12,343 |
| Series 2008B (D) | 7,005,000 | -- | (315,000) | 6,690,000 | 325,000 |
| State Bank & Trust (E) | 903,393 | -- | (104,302) | 799,091 | 108,878 |
| U.S. Bank (F) | 25,714 | -- | (25,714) | -- | -- |
| | <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> | |

Story County Hospital and Long-Term Care Facility

Note to Financial Statements June 30, 2014 and 2013

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 statement of net position 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, 2014, the Hospital was in compliance with the required covenants.

A summary of the Hospital's future principal and interest payments as of June 30, 2014 is as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|----------------------|------------------|-------------------|
| 2015 | \$ 480,141 | 611,145 | 1,091,286 |
| 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 | 545,269 | 528,691 | 1,073,960 |
| 2020 – 2024 | 2,402,579 | 2,310,974 | 4,713,553 |
| 2025 – 2029 | 2,860,000 | 1,681,790 | 4,541,790 |
| 2030 – 2034 | -- | 1,227,540 | 1,227,540 |
| 2035 – 2038 | 7,485,000 | 982,032 | 8,467,032 |
| | <u>\$ 15,301,149</u> | <u>9,058,474</u> | <u>24,359,623</u> |

(8) Net Position Balances

Restricted net positions are restricted for the following at June 30, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|------------------------------|---------------------|------------------|
| By donors for capital assets | \$ 288,660 | 374,993 |
| By debt agreement - | | |
| Debt service reserve fund | 1,157,447 | 1,113,231 |
| Interest reserve fund | 52,371 | 53,751 |
| Construction reserve fund | 22,031 | 22,029 |
| Principal reserve fund | 46,895 | 45,628 |
| | <u>\$ 1,567,404</u> | <u>1,609,632</u> |

(9) Designated Net Position

Of the \$4,964,240 and \$4,047,405 of unrestricted net position reported in 2014 and 2013, respectively \$2,438,190 and \$1,741,156 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

Note to Financial Statements June 30, 2014 and 2013

(10) 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 \$3,000,000 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.

(11) 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 5.95% and 5.78% of their annual salary and the Hospital is required to contribute 8.93% and 8.76% of annual covered salary for the years ended June 30, 2014 and 2013, respectively. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were approximately \$829,000, \$746,000 and \$688,000, respectively, equal to the required contributions for each year.

(12) 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 through 2019. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2014, that have initial lease terms in excess of one year:

| | |
|------|-------------------|
| 2015 | \$ 234,546 |
| 2016 | 232,506 |
| 2017 | 198,281 |
| 2018 | 145,846 |
| 2019 | <u>14,296</u> |
| | <u>\$ 825,475</u> |

(13) 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.

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, 2014

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 \$1,007,088 and \$784,844 as of June 30, 2014 and 2013, respectively.

(14) Management Contract

The Hospital has various contractual agreements with UnityPoint Health (UnityPoint) under which UnityPoint provides 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 paid by the Hospital under the UnityPoint agreement for administrative services totaled approximately \$432,000 and \$126,000 for the years ended June 30, 2014 and 2013, respectively.

(15) Significant Estimates and Concentrations

Current Economic Conditions

The current protracted economic environment continues to present hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including rising unemployment rates, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts and contributions receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

(16) Change in Accounting Principle

In accordance with GASB Statement No. 65, which was adopted effective July 1, 2012, the Hospital restated the ending net position at June 30, 2012 and depreciation expense for the year ended June 30, 2013, in connection with unamortized bond issuance costs. According to GASB 65, debt issuance costs are recognized as expenses in the period incurred, rather than as deferred costs and subsequently amortized.

| | <u>As Previously Reported</u> | <u>Adjustments</u> | <u>Restated Balance</u> |
|-----------------------------|-----------------------------------|--------------------|-----------------------------|
| Deferred financing costs | \$ 342,193 | (342,193) | -- |
| Depreciation expense | 1,415,203 | (26,058) | 1,389,145 |
| Increase in net position | 773,923 | 26,058 | 799,981 |
| Net position, June 30, 2012 | 5,551,177 | (368,251) | 5,182,926 |

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, 2014

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, 2014, the Hospital's expenditures did exceed the amounts budgeted.

| | Hospital Only (Excludes Foundation) | | | | Variance Favorable (Unfavorable) |
|--------------------------------|--|--------------------------------|-----------------------|-------------------|---|
| | Actual Accrual Basis | Accrual Adjustments | Cash Basis | Budget | |
| Amount raised by taxation | \$ 2,152,780 | -- | 2,152,780 | 2,134,165 | 18,615 |
| Add: Other revenues / receipts | 20,257,000 | (1,396,946) | 18,860,054 | 21,557,247 | (2,697,193) |
| Less: Expenses / disbursements | <u>21,272,806</u> | <u>543,955</u> | <u>21,816,761</u> | <u>21,782,514</u> | <u>(34,247)</u> |
| Net | 1,136,974 | (1,940,901) | (803,927) | 1,908,898 | <u>(771,924)</u> |
| Balance beginning of year | <u>5,341,429</u> | <u>(3,505,386)</u> | <u>1,836,043</u> | <u>6,396,357</u> | |
| Balance end of year | <u>\$ 6,478,403</u> | <u>(5,446,287)</u> | <u>1,032,116</u> | <u>8,305,255</u> | |

See accompanying independent auditor's report

**Combining Statement of Net Position
June 30, 2014**

| | Story County Hospital | Story County Hospital Foundation | Eliminations | Total |
|---|--------------------------------------|---|---------------------|--------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 1,032,116 | 34,186 | -- | 1,066,302 |
| Short-term investments | 319,577 | 476,003 | -- | 795,580 |
| Assets limited as to use or restricted, current portion | 389,032 | -- | -- | 389,032 |
| Receivables - | | | | |
| Patients, net of estimated uncollectible accounts of \$1,378,893 in 2014 and \$988,843 in 2013 | 4,531,292 | -- | -- | 4,531,292 |
| Other | 287,750 | 11,806 | -- | 299,556 |
| Succeeding year property tax | 2,181,618 | -- | -- | 2,181,618 |
| Inventories | 317,094 | -- | -- | 317,094 |
| Other current assets | 235,009 | -- | -- | 235,009 |
| Total current assets | 9,293,488 | 521,995 | -- | 9,815,483 |
| Noncurrent assets: | | | | |
| Pledges receivable, net of current portion | -- | 400 | -- | 400 |
| Assets limited as to use or restricted, net of current position | 3,380,786 | 150,309 | -- | 3,531,095 |
| Capital assets, net | 13,842,694 | -- | -- | 13,842,694 |
| Total assets | 26,516,968 | 672,704 | -- | 27,189,672 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Current portion of long-term debt | 480,141 | -- | -- | 480,141 |
| Accounts payable | 907,308 | -- | -- | 907,308 |
| Accrued salaries, vacation and benefits payable | 1,261,655 | -- | -- | 1,261,655 |
| Estimated third-party payor settlements | 363,053 | -- | -- | 363,053 |
| Accrued interest payable | 51,442 | -- | -- | 51,442 |
| Total current liabilities | 3,063,599 | -- | -- | 3,063,599 |
| Long-term liabilities: | | | | |
| Resident trust funds | 8,703 | -- | -- | 8,703 |
| Long-term debt, net of unamortized discount and current portion | 14,784,645 | -- | -- | 14,784,645 |
| Total liabilities | 17,856,947 | -- | -- | 17,856,947 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable property tax revenue | 2,181,618 | -- | -- | 2,181,618 |
| Commitments and contingencies | | | | |
| NET POSITION | | | | |
| Net investment in capital assets | 619,463 | -- | -- | 619,463 |
| Restricted - expendable | 1,278,744 | 288,660 | -- | 1,567,404 |
| Unrestricted | 4,580,196 | 384,044 | -- | 4,964,240 |
| Total net position | \$ 6,478,403 | 672,704 | -- | 7,151,107 |

See accompanying independent auditor's report

**Combining Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2014**

| | <u>Story County Hospital</u> | <u>Story County Hospital Foundation</u> | <u>Eliminations</u> | <u>Total</u> |
|---|--------------------------------------|---|---------------------|--------------------|
| OPERATING REVENUE: | | | | |
| Net patient service revenue | | | | |
| before provision for bad debt | \$ 20,047,050 | -- | -- | 20,047,050 |
| Provision for bad debt | <u>(1,114,554)</u> | <u>--</u> | <u>--</u> | <u>(1,114,554)</u> |
| Net patient service revenue | 18,932,496 | -- | -- | 18,932,496 |
| Other | <u>1,155,862</u> | <u>--</u> | <u>--</u> | <u>1,155,862</u> |
| Total operating revenue | <u>20,088,358</u> | <u>--</u> | <u>--</u> | <u>20,088,358</u> |
| OPERATING EXPENSES: | | | | |
| Salaries and wages | 9,716,108 | -- | -- | 9,716,108 |
| Employee benefits | 2,428,504 | -- | -- | 2,428,504 |
| Professional fees and purchased services | 3,384,393 | -- | -- | 3,384,393 |
| Supplies and other | 3,641,114 | -- | -- | 3,641,114 |
| Insurance | 116,949 | -- | -- | 116,949 |
| Depreciation | 1,366,980 | -- | -- | 1,366,980 |
| Interest | <u>631,415</u> | <u>--</u> | <u>--</u> | <u>631,415</u> |
| Total operating expenses | <u>21,285,463</u> | <u>--</u> | <u>--</u> | <u>21,285,463</u> |
| OPERATING LOSS | <u>(1,197,105)</u> | <u>--</u> | <u>--</u> | <u>(1,197,105)</u> |
| NONOPERATING REVENUE (EXPENSES), NET: | | | | |
| Property taxes | 2,152,780 | -- | -- | 2,152,780 |
| Investment income | 53,412 | 8,125 | -- | 61,537 |
| Noncapital grants and contributions | 22,330 | 134,181 | -- | 156,511 |
| Fundraising | -- | (18,380) | -- | (18,380) |
| Other, net | <u>12,657</u> | <u>--</u> | <u>--</u> | <u>12,657</u> |
| Nonoperating revenue, net | <u>2,241,179</u> | <u>123,926</u> | <u>--</u> | <u>2,365,105</u> |
| EXCESS OF REVENUE OVER EXPENSES | 1,044,074 | 123,926 | -- | 1,168,000 |
| CAPITAL GRANTS AND CONTRIBUTIONS | <u>200</u> | <u>--</u> | <u>--</u> | <u>200</u> |
| TRANSFERS (TO) FROM AFFILIATES | <u>92,700</u> | <u>(92,700)</u> | <u>--</u> | <u>--</u> |
| INCREASE IN NET POSITION | 1,136,974 | 31,226 | -- | 1,168,200 |
| NET POSITION, beginning of year, as restated | <u>5,341,429</u> | <u>641,478</u> | <u>--</u> | <u>5,982,907</u> |
| NET POSITION, end of year | <u>\$ 6,478,403</u> | <u>672,704</u> | <u>--</u> | <u>7,151,107</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, 2014 and 2013

| | 2014 | | | | 2013 | | | |
|---|---------------------|-------------------|------------------|----------------------|------------------|-------------------|------------------|----------------------|
| | Inpatient | Outpatient | Long-term care | Total | Inpatient | Outpatient | Long-term care | Total |
| DAILY PATIENT SERVICES: | | | | | | | | |
| Medical and surgical | \$ 1,802,191 | 319,917 | -- | 2,122,108 | 651,821 | 347,626 | -- | 999,447 |
| Swing-bed | -- | -- | -- | -- | 1,168,375 | -- | -- | 1,168,375 |
| Long-term care | -- | -- | 3,685,796 | 3,685,796 | -- | -- | 3,011,591 | 3,011,591 |
| | <u>1,802,191</u> | <u>319,917</u> | <u>3,685,796</u> | <u>5,807,904</u> | <u>1,820,196</u> | <u>347,626</u> | <u>3,011,591</u> | <u>5,179,413</u> |
| OTHER PROFESSIONAL SERVICES: | | | | | | | | |
| Emergency | 10,739 | 2,420,638 | -- | 2,431,377 | 11,309 | 1,941,942 | -- | 1,953,251 |
| Operating and recovery room | 394,404 | 3,318,838 | -- | 3,713,242 | 389,224 | 2,663,228 | -- | 3,052,452 |
| Anesthesiology | 26,695 | 617,192 | -- | 643,887 | 32,536 | 556,543 | -- | 589,079 |
| Radiology | 196,408 | 2,913,201 | -- | 3,109,609 | 257,624 | 2,655,970 | -- | 2,913,594 |
| Laboratory | 368,328 | 2,680,664 | -- | 3,048,992 | 456,406 | 2,260,174 | 284 | 2,716,864 |
| Physical therapy | 374,802 | 1,077,127 | -- | 1,451,929 | 346,196 | 966,734 | -- | 1,312,930 |
| Speech therapy | 20,945 | 34,594 | -- | 55,539 | 11,216 | 15,660 | -- | 26,876 |
| Occupational therapy | 177,971 | 211,145 | -- | 389,116 | 178,238 | 216,946 | -- | 395,184 |
| Electrocardiology | 5,881 | 180,817 | -- | 186,698 | 13,380 | 211,501 | -- | 224,881 |
| Medical and surgical supplies | 663,639 | 698,056 | -- | 1,361,695 | 1,050,045 | 785,868 | 76,532 | 1,912,445 |
| Pharmacy | 1,071,810 | 689,908 | -- | 1,761,718 | 1,021,388 | 615,727 | 297,917 | 1,935,032 |
| Orthopedic | 47,200 | 210,705 | -- | 257,905 | 58,924 | 206,046 | -- | 264,970 |
| Ambulance | -- | 1,024,848 | -- | 1,024,848 | -- | 990,872 | -- | 990,872 |
| Clinics | -- | 3,204,821 | -- | 3,204,821 | -- | 3,134,000 | -- | 3,134,000 |
| Miscellaneous | -- | 121,717 | -- | 121,717 | -- | 169,981 | -- | 169,981 |
| | <u>3,358,822</u> | <u>19,404,271</u> | <u>--</u> | <u>22,763,093</u> | <u>3,826,486</u> | <u>17,391,192</u> | <u>374,733</u> | <u>21,592,411</u> |
| GROSS PATIENT SERVICE REVENUE | \$ <u>5,161,013</u> | <u>19,724,188</u> | <u>3,685,796</u> | <u>28,570,997</u> | <u>5,646,682</u> | <u>17,738,818</u> | <u>3,386,324</u> | <u>26,771,824</u> |
| LESS CONTRACTUAL ADJUSTMENTS AND CHARITY CARE | | | | (8,523,947) | | | | (7,655,740) |
| NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT | | | | 20,047,050 | | | | 19,116,084 |
| PROVISION FOR BAD DEBT | | | | (1,114,554) | | | | (1,214,916) |
| NET PATIENT SERVICE REVENUE | | | | \$ <u>18,932,496</u> | | | | \$ <u>17,901,168</u> |

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|----------------|
| Electronic health record incentive payments | \$ 369,300 | 218,600 |
| Pharmacy revenue – 340B program | 545,553 | 628,039 |
| Meals sold | 49,481 | 45,009 |
| Wellness programs | 38,406 | 35,689 |
| Other | <u>153,122</u> | <u>31,063</u> |
| | <u>\$ 1,155,862</u> | <u>958,400</u> |

See accompanying independent auditor's report

**Departmental Expenses
For the Years Ended June 30, 2014 and 2013**

| | 2014 | | | | 2013 Restated | | | |
|-------------------------------------|---------------------|--|------------------|-------------------|--------------------|--|------------------|-------------------|
| | Salaries and Wages | Professional Fees / Purchased Services | Other | Total | Salaries and Wages | Professional Fees / Purchased Services | Other | Total |
| NURSING SERVICES: | | | | | | | | |
| Nursing administration | \$ 92,050 | 39 | 2,570 | 94,659 | 91,445 | -- | 1,825 | 93,270 |
| Adults and pediatrics | 1,184,037 | 4,263 | 189,186 | 1,377,486 | 1,053,351 | 19,625 | 233,066 | 1,306,042 |
| Operating room | 387,780 | 248,062 | 242,977 | 878,819 | 380,548 | 182,060 | 232,259 | 794,867 |
| Emergency service | 971,950 | 289,423 | 78,075 | 1,339,448 | 631,898 | 502,657 | 44,693 | 1,179,248 |
| | <u>2,635,817</u> | <u>541,787</u> | <u>512,808</u> | <u>3,690,412</u> | <u>2,157,242</u> | <u>704,342</u> | <u>511,843</u> | <u>3,373,427</u> |
| OTHER PROFESSIONAL SERVICES: | | | | | | | | |
| Laboratory | 270,386 | 92,744 | 136,838 | 499,968 | 276,597 | 114,932 | 193,672 | 585,201 |
| Central supply | 84,183 | 10,690 | 551,346 | 646,219 | 84,653 | 16,627 | 688,545 | 789,825 |
| Social service | 46,998 | 480 | 155 | 47,633 | 202,538 | 113 | 569 | 203,220 |
| Electrocardiology | 62,467 | 28,582 | 6,101 | 97,150 | 122,033 | 40,271 | 8,366 | 170,670 |
| Radiology | 228,380 | 238,870 | 222,795 | 690,045 | 217,893 | 263,365 | 223,172 | 704,430 |
| Pharmacy | 58,630 | 192,001 | 546,570 | 797,201 | 57,816 | 187,373 | 595,593 | 840,782 |
| Anesthesiology | 152,197 | 32,284 | 7,119 | 191,600 | 157,155 | -- | 7,709 | 164,864 |
| Physical therapy | -- | 613,717 | 13,457 | 627,174 | -- | 520,975 | 9,025 | 530,000 |
| Speech therapy | -- | 29,111 | -- | 29,111 | -- | 14,080 | -- | 14,080 |
| Occupational therapy | -- | 147,748 | 5 | 147,753 | -- | 143,693 | 256 | 143,949 |
| Medical records | 226,369 | 6,869 | 39,504 | 272,742 | 229,056 | 4,488 | 39,270 | 272,814 |
| Zearing clinic | 314,886 | 18,748 | 44,391 | 378,025 | 212,441 | 27,800 | 38,635 | 278,876 |
| Nevada clinic | 1,491,416 | 36,830 | 103,567 | 1,631,813 | 1,400,664 | 26,563 | 107,103 | 1,534,330 |
| Maxwell clinic | 170,550 | 12,228 | 33,011 | 215,789 | 156,335 | 11,701 | 27,650 | 195,686 |
| Slater clinic | 125,722 | 11,667 | 23,280 | 160,669 | 119,054 | 9,751 | 23,255 | 152,060 |
| Ambulance | 101,886 | 1,915 | 58,236 | 162,037 | 97,497 | 2,030 | 44,727 | 144,254 |
| Wellness center | 74,999 | 72 | 6,003 | 81,074 | 69,543 | 105 | 5,988 | 75,636 |
| Acupuncture | 79,768 | 3,956 | 15,218 | 98,942 | 74,527 | 3,874 | 11,957 | 90,358 |
| Long-term care | 1,687,691 | 116,475 | 89,509 | 1,893,675 | 1,530,343 | 96,730 | 82,661 | 1,709,734 |
| Orthopedic | -- | 157,703 | -- | 157,703 | -- | 180,080 | -- | 180,080 |
| | <u>5,176,528</u> | <u>1,752,690</u> | <u>1,897,105</u> | <u>8,826,323</u> | <u>5,008,145</u> | <u>1,664,551</u> | <u>2,108,153</u> | <u>8,780,849</u> |
| GENERAL SERVICES: | | | | | | | | |
| Plant operation and maintenance | 182,999 | 80,716 | 471,664 | 735,379 | 157,347 | 44,841 | 370,752 | 572,940 |
| Dietary | 419,037 | 49,341 | 315,140 | 783,518 | 441,601 | 4,346 | 283,169 | 729,116 |
| Housekeeping | 268,095 | 4,987 | 54,574 | 327,656 | 231,087 | 10,247 | 39,485 | 280,819 |
| Laundry | 52,190 | 502 | 41,390 | 94,082 | 46,566 | 25 | 17,008 | 63,599 |
| | <u>922,321</u> | <u>135,546</u> | <u>882,768</u> | <u>1,940,635</u> | <u>876,601</u> | <u>59,459</u> | <u>710,414</u> | <u>1,646,474</u> |
| ADMINISTRATIVE SERVICES | | | | | | | | |
| | <u>805,841</u> | <u>954,175</u> | <u>348,628</u> | <u>2,108,644</u> | <u>749,827</u> | <u>805,845</u> | <u>265,302</u> | <u>1,820,974</u> |
| NONDEPARTMENTAL: | | | | | | | | |
| Employee benefits | 175,601 | 195 | 2,428,309 | 2,604,105 | 102,172 | 659 | 2,189,077 | 2,291,908 |
| Depreciation | -- | -- | 1,366,980 | 1,366,980 | -- | -- | 1,389,145 | 1,389,145 |
| Interest | -- | -- | 631,415 | 631,415 | -- | -- | 767,626 | 767,626 |
| Insurance | -- | -- | 116,949 | 116,949 | -- | -- | 118,964 | 118,964 |
| | <u>175,601</u> | <u>195</u> | <u>4,543,653</u> | <u>4,719,449</u> | <u>102,172</u> | <u>659</u> | <u>4,464,812</u> | <u>4,567,643</u> |
| TOTAL EXPENSES | <u>\$ 9,716,108</u> | <u>3,384,393</u> | <u>8,184,962</u> | <u>21,285,463</u> | <u>8,893,987</u> | <u>3,234,856</u> | <u>8,060,524</u> | <u>20,189,367</u> |

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2014 and 2013**

ANALYSIS OF AGING:

| Days Since Discharge | 2014 | | 2013 | |
|---------------------------------------|---------------------|------------------|------------------|------------------|
| | Amount | Percent of Total | Amount | Percent of Total |
| 0 - 30 | \$ 2,631,703 | 31 % | 2,248,469 | 45 % |
| 31 - 60 | 1,262,532 | 15 | 809,910 | 17 |
| 61 - 90 | 1,182,108 | 14 | 585,094 | 12 |
| 91 - 120 | 1,241,965 | 15 | 282,253 | 6 |
| 121 and over | 2,113,146 | 25 | 977,595 | 20 |
| | <u>8,431,454</u> | 100 % | <u>4,903,321</u> | 100 % |
| Less: | | | | |
| Allowance for uncollectable accounts | (1,378,893) | | (988,843) | |
| Allowance for contractual adjustments | <u>(2,521,269)</u> | | <u>(936,330)</u> | |
| | <u>\$ 4,531,292</u> | | <u>2,978,148</u> | |

| | 2014 | 2013 |
|---|---------------------|------------------|
| ALLOWANCE FOR UNCOLLECTABLE ACCOUNTS: | | |
| Balance, beginning of year | \$ 988,843 | 818,338 |
| Provision of uncollectible accounts | 1,114,554 | 1,214,916 |
| Recoveries of accounts previously written off | (114,598) | (177,051) |
| Accounts written off | <u>(609,906)</u> | <u>(867,360)</u> |
| Balance, end of year | <u>\$ 1,378,893</u> | <u>988,843</u> |

See accompanying independent auditor's report

Inventory/Prepaid Expenses
June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|-----------------------|-------------------|----------------|
| INVENTORY: | | |
| Pharmacy | \$ 134,885 | 126,117 |
| Central store | 60,434 | 43,681 |
| Laboratory | 33,785 | 11,036 |
| Operating room | 38,505 | 46,752 |
| Dietary | 17,594 | 18,439 |
| Radiology | 4,409 | 11,484 |
| Emergency room | 11,499 | 5,185 |
| Other | 15,983 | 14,647 |
| | <u>\$ 317,094</u> | <u>277,341</u> |
| | | |
| | <u>2014</u> | <u>2013</u> |
| PREPAID EXPENSES: | | |
| Insurance | \$ 67,497 | 49,924 |
| Maintenance contracts | 167,512 | 231,993 |
| | <u>\$ 235,009</u> | <u>281,917</u> |

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2014 and 2013**

| | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| Patient days: | | |
| Adult and pediatric - | | |
| Medicare | 338 | 395 |
| All other | 203 | 350 |
| Swing-bed - | | |
| Skilled | 1,658 | 1,719 |
| Intermediate | 620 | 400 |
| Long-term care | <u>20,999</u> | <u>18,634</u> |
| Total | <u><u>23,818</u></u> | <u><u>21,498</u></u> |
| Patient discharges: | | |
| Hospital adult and pediatric - | | |
| Medicare | 98 | 124 |
| All other | <u>78</u> | <u>99</u> |
| Total | <u><u>176</u></u> | <u><u>223</u></u> |
| Average length of stay (based on discharge days): | | |
| Hospital adult and pediatric - | | |
| Medicare | 3.45 days | 3.18 days |
| All other | 2.60 days | 3.54 days |
| Surgical procedures | 691 | 577 |
| Emergency room visits | 3,574 | 3,451 |
| Number of employees - full-time equivalents | 192.60 | 182.95 |

See accompanying independent auditor's report

**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, 2014, 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 19, 2014.

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 questioned costs as item II-A-14 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*. However we noted certain immaterial instances of noncompliance or other matters that are described in Part III of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2014 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 questioned costs. 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 19, 2014.

Story County Hospital and Long-Term Care Facility

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

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-14

| | |
|------------------------|--|
| <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-14

Certified Budget: Hospital disbursements during the year ended June 30, 2014 did exceed amounts budgeted.

| | |
|------------------------|--|
| <i>Recommendation:</i> | Management should periodically review its budget estimates to actual activity and make appropriate revisions when necessary. |
| <i>Response:</i> | Actual disbursements exceeded the reported budget for fiscal year ending June 30, 2014 by \$34,247. Management has identified the reporting difference and will make appropriate adjustments to the reported budget for fiscal year ending June 30, 2015 if necessary. |
| <i>Conclusion:</i> | Response accepted. |

Story County Hospital and Long-Term Care Facility

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

III-B-14

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.

III-C-14

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

III-D-14

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-E-14

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

III-F-14

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-G-14

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

**Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2014**

| <u>Finding</u> | <u>Finding title</u> | <u>Status</u> | <u>If not corrected, corrective action plan or other explanation</u> |
|-----------------------|---|----------------------|---|
| II-A-13 | Hospital internal controls over financial reporting | Not corrected. | Management performed an estimate for its third-party payor settlements but did not fully record the results of its estimate. Similar finding reported at II-A-14. |

Story County Hospital and Long-Term Care Facility

**Audit Staff
For the Year Ended June 30, 2014**

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