

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

**Basic Financial Statements and  
Supplementary Information  
June 30, 2015 and 2014**

**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, 2015

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Trustees:</b>		
David Anderson	Chairman	December 2020
David Cox	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 2020
<b>Hospital Officials:</b>		
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, 2015 and 2014, 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 respective financial position of the Hospital as of June 30, 2015 and 2014, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 17 to the financial statements, in 2015 the Hospital adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. 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, budgetary comparison information, the schedule of the Hospital's proportionate share of the net pension liability and the schedule of Hospital contributions on pages 4 through 7 and 30 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other supplementary statements (Exhibits 1 – 6) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The other 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 other supplementary information (Exhibits 1 – 8) is fairly stated, in all material respects, in relation to the 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 23, 2015 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*SEIM JOHNSON, LLP*

Omaha, Nebraska,  
September 23, 2015.

# Story County Hospital and Long-Term Care Facility

## Management's Discussion and Analysis June 30, 2015 and 2014

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### 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, 2015 and 2014. It should be read in conjunction with the accompanying financial statements which begin on page 8.

### Financial Highlights

- The Hospital reported an operating loss of \$757,338 in 2015 and an operating loss of \$565,319 in 2014. The increase in operating loss is partially due to increased salaries and wages as full-time equivalents increased from 192.60 in 2014 to 207.65 in 2015 as well as increased professional fees and purchased services for accounts receivable collection efforts.
- Cash and cash equivalents, investments, and assets limited as to use or restricted increased between 2015 and 2014 by \$703,172 as a result of grants and contributions as well as improved collections of patient accounts receivable accounts.
- The Hospital's net position decreased \$5,164,083 from June 30, 2014 to June 30, 2015, primarily due to the implementation of GASB 68 and the restatement of the 2015 beginning balance for net pension liability of \$6,361,396.

### Using This Annual Report

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

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

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, deferred inflows and outflows, and liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

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

#### ***Statement of Cash Flows***

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

# Story County Hospital and Long-Term Care Facility

## Management's Discussion and Analysis June 30, 2015 and 2014

### The Hospital's Net Position

The Hospital's net position is the difference between its assets, deferred inflows and outflows, and liabilities reported in the statement of net position. The Hospital's net position decreased by \$5,164,083 or 72% in 2015 compared to 2014 and increased by \$1,168,200 or 20% in 2014 compared to 2013 as shown in Table 1.

*Table 1: Statements of Net Position*

	2015	(not restated) 2014	(not restated) 2013	2015-2014 Change	Percent Change
<b>Assets:</b>					
Total current assets	\$ 9,611,820	9,815,483	8,972,381	(203,663)	-2%
Capital assets, net	13,843,457	13,842,694	14,003,906	763	0%
Assets limited as to use or restricted	4,409,641	3,531,095	2,807,107	878,546	25%
Other non-current assets	191,722	400	332	191,322	47831%
Total assets	<u>28,056,640</u>	<u>27,189,672</u>	<u>25,783,726</u>	<u>866,968</u>	<u>3%</u>
<b>Deferred Outflows of Resources,</b>					
Pension related deferred outflows	1,497,556	--	--	1,497,556	100%
Total assets and deferred outflows	<u>\$ 29,554,196</u>	<u>27,189,672</u>	<u>25,783,726</u>	<u>2,364,524</u>	<u>9%</u>
<b>Liabilities:</b>					
Long-term debt	\$ 14,789,393	15,264,786	15,719,591	(475,393)	-3%
Estimated third-party payor settlements	485,316	363,053	206,655	122,263	34%
Net pension liability	5,287,131	--	--	5,287,131	100%
Other current and non-current liabilities	2,595,782	2,229,108	1,712,464	366,674	16%
Total liabilities	<u>23,157,622</u>	<u>17,856,947</u>	<u>17,638,710</u>	<u>5,300,675</u>	<u>30%</u>
<b>Deferred Inflows of Resources:</b>					
Unavailable property tax revenue	2,272,453	2,181,618	2,162,109	90,835	4%
Pension related deferred inflows	2,137,097	--	--	2,137,097	100%
Deferred inflows of resources	<u>4,409,550</u>	<u>2,181,618</u>	<u>2,162,109</u>	<u>2,227,932</u>	<u>102%</u>
<b>Net Position:</b>					
Net investment in capital assets	1,095,619	619,463	325,870	476,156	77%
Restricted - expendable	1,666,356	1,567,404	1,609,632	98,952	6%
Unrestricted	(774,951)	4,964,240	4,047,405	(5,739,191)	-116%
Total net position	<u>1,987,024</u>	<u>7,151,107</u>	<u>5,982,907</u>	<u>(5,164,083)</u>	<u>-72%</u>
Total liabilities, deferred inflows and net position	<u>\$ 29,554,196</u>	<u>27,189,672</u>	<u>25,783,726</u>	<u>2,364,524</u>	<u>9%</u>

Year ended June 30, 2015: In fiscal year 2015, the total assets and deferred outflows increased by 2,364,524 or 9%. This was primarily caused by the recording of pension related deferred outflows and a limited change in capital assets, net, as purchases (mainly construction in progress) offset the fiscal year depreciation expense of \$1,472,234. In fiscal year 2015, the total liabilities increased by \$5,300,675 or 30% mainly due to the recording of the Hospital's net pension liability.

Year ended June 30, 2014: In fiscal year 2014, the total assets and deferred outflows increased by \$1,405,946 or 5%. This was primarily caused by an increase in net patient accounts receivable of \$1,553,114 due to a system conversion that took place during 2014. In fiscal year 2014, the total liabilities increased by \$218,237 or 1% mainly due to an increase in estimated third-party payor settlements.

# Story County Hospital and Long-Term Care Facility

## Management's Discussion and Analysis June 30, 2015 and 2014

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

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$5,485,812 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

The following shows the changes in net position of the Hospital:

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

	<u>2015</u>	<u>(not restated) 2014</u>	<u>(not restated) 2013</u>	<u>2015-2014 Change</u>	<u>Percent Change</u>
<b>Operating revenue:</b>					
Net patient service revenue	\$ 22,410,800	20,152,735	19,116,084	2,258,065	11%
Provision for bad debt	(948,318)	(1,103,906)	(1,214,916)	155,588	-14%
Other operating revenue	905,417	1,039,900	958,400	(134,483)	-13%
Total operating revenue	<u>22,367,899</u>	<u>20,088,729</u>	<u>18,859,568</u>	<u>2,279,170</u>	11%
<b>Operating expenses:</b>					
Salaries and employee benefits	13,306,066	12,144,449	11,083,723	1,161,617	10%
Purchased services and other	8,346,937	7,142,619	6,948,873	1,204,318	17%
Depreciation	1,472,234	1,366,980	1,389,145	105,254	8%
Total expenses	<u>23,125,237</u>	<u>20,654,048</u>	<u>19,421,741</u>	<u>2,471,189</u>	12%
Operating loss	<u>(757,338)</u>	<u>(565,319)</u>	<u>(562,173)</u>	<u>(192,019)</u>	34%
<b>Nonoperating Revenue:</b>					
Interest expense	(613,712)	(631,415)	(767,626)	17,703	-3%
Property taxes	2,210,165	2,152,780	2,015,524	57,385	3%
Investment income	28,373	63,300	51,699	(34,927)	-55%
Other nonoperating revenue	(64,114)	148,654	62,307	(212,768)	-143%
Total nonoperating revenue, net	<u>1,560,712</u>	<u>1,733,319</u>	<u>1,361,904</u>	<u>(172,607)</u>	-10%
<b>Excess of revenue over expenses</b>	<u>803,374</u>	<u>1,168,000</u>	<u>799,731</u>	<u>(364,626)</u>	-31%
Capital grants and contributions	<u>393,939</u>	<u>200</u>	<u>250</u>	<u>393,739</u>	196870%
Increase in net position	1,197,313	1,168,200	799,981	29,113	2%
Net position, beginning of year, as restated	<u>789,711</u>	<u>5,982,907</u>	<u>5,182,926</u>	<u>(5,193,196)</u>	-87%
Net position, end of year	<u>\$ 1,987,024</u>	<u>7,151,107</u>	<u>5,982,907</u>	<u>(5,164,083)</u>	-72%

### Operating Loss

The first component of the overall change in the Hospital's net position is its operating loss, generally the difference between net patient service revenue and other operating revenue and the expenses incurred to perform those services. In 2015 the Hospital reported an operating loss of \$757,338 and in 2014 and 2013 the Hospital reported operating losses of \$565,319 and \$562,173, respectively. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

## Story County Hospital and Long-Term Care Facility

### Management's Discussion and Analysis June 30, 2015 and 2014

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The primary components impacting operating loss are as follows:

- Fiscal year 2015 saw an operating income increase of \$2,279,170 or 11% as outpatient volumes increased and impacted third party payor contractual relationships. Operating expenses increased \$2,471,189 or 12% mostly due to increased salaries and employee benefits of \$1,161,617 or 10% as full-time equivalents increased from 192.60 in 2014 to 207.65 in 2015.
- Fiscal year 2014 saw an operating income increase of \$1,229,161 or 6% as outpatient volumes increased and impacted third party payor contractual relationships. Operating expenses increased \$1,232,307 or 6% mostly due to increased salaries and employee benefits of \$1,060,726 or 10% as full-time equivalents increased from 182.95 in 2013 to 192.60 in 2014.

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

#### **Nonoperating Revenue, net**

Net nonoperating revenue consists primarily of property taxes levied by the Hospital and interest income. Nonoperating revenue in 2015 decreased by \$172,607, or 10%, as compared to 2014 due to an increase in Foundation fundraising costs. Nonoperating revenue for 2014 increased by \$371,415 or 27% compared to 2013 due to decreases in interest expense and increases in property tax revenue and grants and contributions.

#### **Cash Flows**

Cash flows provided by operating activities were \$927,417 in 2015 compared to cash flows used by operating activities of \$189,406 in 2014. The change between years was a direct result of the increase in patient accounts receivable from 2013 to 2014 and the decrease of patient accounts receivable from 2014 to 2015.

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

##### Capital Assets

At the end of 2015 and 2014, the Hospital had \$13,843,457 and \$13,842,694, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. In 2015, the Hospital purchased new equipment costing approximately \$1,485,000. See Note 7 to the financial statements for a description of significant construction in progress costs. In 2014, the Hospital purchased new equipment costing approximately \$1,200,000.

##### Debt

At June 30, 2015 and 2014, the Hospital had \$14,789,393 and \$15,264,786, respectively, in debt outstanding. There was no new debt issued in 2015 or 2014.

#### **Contacting Hospital Financial Management**

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

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

# Story County Hospital and Long-Term Care Facility

## Statements of Net Position June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,236,380	1,066,302
Short-term investments	451,119	795,580
Assets limited as to use or restricted, current portion	388,041	389,032
Receivables -		
Patients, net of allowance for doubtful accounts of \$1,245,173 in 2015 and \$1,378,893 in 2014, respectively	4,349,301	4,531,292
Other	199,396	299,556
Pledges, current portion	45,848	--
Succeeding year property taxes receivable	2,272,453	2,181,618
Inventories	404,461	317,094
Other current assets	264,821	235,009
Total current assets	<u>9,611,820</u>	<u>9,815,483</u>
Noncurrent assets:		
Pledges receivable, net of current portion	191,722	400
Assets limited as to use or restricted, net of current portion	4,409,641	3,531,095
Capital assets, net	13,843,457	13,842,694
Total assets	<u>28,056,640</u>	<u>27,189,672</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	1,497,556	--
Total assets and deferred outflows of resources	<u>\$ 29,554,196</u>	<u>27,189,672</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$ 495,629	480,141
Accounts payable	1,164,655	907,308
Accrued salaries, vacation and benefits payable	1,364,318	1,261,655
Estimated third-party payor settlements	485,316	363,053
Accrued interest payable	50,451	51,442
Total current liabilities	<u>3,560,369</u>	<u>3,063,599</u>
Long-term liabilities:		
Resident trust funds	16,358	8,703
Long-term debt, net of unamortized discount and current portion	14,293,764	14,784,645
Net pension liability	5,287,131	--
Total liabilities	<u>23,157,622</u>	<u>17,856,947</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable property tax revenue	2,272,453	2,181,618
Pension related deferred inflows	2,137,097	--
Total deferred inflows of resources	<u>4,409,550</u>	<u>2,181,618</u>
Commitments and contingencies		
<b>NET POSITION</b>		
Net investment in capital assets	1,095,619	619,463
Restricted - expendable	1,666,356	1,567,404
Unrestricted	(774,951)	4,964,240
Total net position	<u>1,987,024</u>	<u>7,151,107</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 29,554,196</u>	<u>27,189,672</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, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
<b>OPERATING REVENUE:</b>		
Net patient service revenue before provision for bad debt	\$ 22,410,800	20,152,735
Provision for bad debt	(948,318)	(1,103,906)
Net patient service revenue	21,462,482	19,048,829
Other operating revenue	905,417	1,039,900
Total operating revenue	<u>22,367,899</u>	<u>20,088,729</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	10,840,235	9,716,031
Employee benefits	2,465,831	2,428,418
Professional fees and purchased services	4,094,700	3,384,479
Supplies and other	4,124,689	3,641,191
Insurance	127,548	116,949
Depreciation	1,472,234	1,366,980
Total operating expenses	<u>23,125,237</u>	<u>20,654,048</u>
<b>OPERATING LOSS</b>	<u>(757,338)</u>	<u>(565,319)</u>
<b>NONOPERATING REVENUE (EXPENSES), NET:</b>		
Interest expense	(613,712)	(631,415)
Property taxes	2,210,165	2,152,780
Investment income	28,373	63,300
Noncapital grants and contributions	45,630	156,140
Fundraising	(106,695)	(20,143)
Other, net	(3,049)	12,657
Nonoperating revenue, net	<u>1,560,712</u>	<u>1,733,319</u>
<b>EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	803,374	1,168,000
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<u>393,939</u>	<u>200</u>
<b>INCREASE IN NET POSITION</b>	1,197,313	1,168,200
<b>NET POSITION, beginning of year, as restated</b>	<u>789,711</u>	<u>5,982,907</u>
<b>NET POSITION, end of year</b>	<u>\$ 1,987,024</u>	<u>7,151,107</u>

*See notes to financial statements*

## Story County Hospital and Long-Term Care Facility

### Statements of Cash Flows For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third-party payors	\$ 21,766,736	17,652,083
Cash paid for employee salaries and benefits	(13,638,127)	(12,044,634)
Cash paid to suppliers and contractors	(8,106,609)	(6,836,755)
Other receipts and payments, net	905,417	1,039,900
Net cash provided by (used in) operating activities	<u>927,417</u>	<u>(189,406)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Noncapital grants and contributions	45,630	156,140
Fundraising, net	(343,865)	(17,548)
Other, net	4,606	14,935
Property tax receipts	2,210,165	2,152,780
Net cash provided by noncapital financing activities	<u>1,916,536</u>	<u>2,306,307</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(1,472,997)	(1,205,768)
Interest payments	(614,703)	(632,754)
Capital grants and contributions	393,939	200
Principal payments on long-term debt	(475,393)	(454,805)
Net cash used in capital and related financing activities	<u>(2,169,154)</u>	<u>(2,293,127)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in investments and assets limited as to use or restricted, net	(533,094)	(739,936)
Investment income	28,373	61,537
Net cash used in investing activities	<u>(504,721)</u>	<u>(678,399)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	170,078	(854,625)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,066,302</u>	<u>1,920,927</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,236,380</u>	<u>1,066,302</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, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (757,338)	(565,319)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	1,472,234	1,366,980
Decrease in net pension liability	(1,899,920)	--
Increase in deferred outflows of resources	(671,901)	--
Increase in deferred inflows of resources	2,137,097	--
(Increase) decrease in current assets -		
Receivables -		
Patients	181,991	(1,553,144)
Other	100,160	(117,181)
Inventories	(87,367)	(39,753)
Other current assets	(29,812)	46,908
Increase in current liabilities -		
Accounts payable	257,347	415,890
Accrued salaries, vacation and benefits payable	102,663	99,815
Estimated third-party payor settlements	122,263	156,398
	<u>927,417</u>	<u>(189,406)</u>
Net cash provided by (used in) operating activities	\$ <u>927,417</u>	<u>(189,406)</u>

*See notes to financial statements*

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2015 and 2014

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### (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 healthcare 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 healthcare 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 healthcare 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 is 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. Several provisions have been implemented while other provisions are slated to take effect at specified times over approximately the next decade.

#### C. *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.

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2015 and 2014

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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.

### D. *Basis of Presentation*

The statements of net position display the Hospital's assets, deferred inflows, liabilities, and deferred outflows, with the difference reported as net position. Net position is reported in the following categories/components:

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.

### 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 inflows and outflows, and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### F. *Cash and Cash Equivalents*

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

### G. *Investments*

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of 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 2015 and 2014, there were no investment declines that were determined to be other than temporary.

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2015 and 2014

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### H. *Patient Receivables, Net*

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The Hospital also maintains a charity care policy as described in Note 1(w).

### I. *Pledges Receivable*

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as a present value of their future cash flows. The discounts on those amounts are computed using a rate of return that is commensurate with risk. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. An allowance for doubtful pledges has been provided based on management's evaluation of past collection efforts.

### J. *Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property 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.

However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property taxes receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

### K. *Inventories*

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

### L. *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.

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2015 and 2014

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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.

### M. *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.

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.

### N. *Deferred Outflows of Resources*

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

### O. *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, 2015 and 2014 was \$500,193 and \$464,712, respectively.

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2015 and 2014

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*P. Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*Q. Deferred Inflows of Resources*

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statement of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

*R. 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.

*S. 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.

*T. 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.

*U. 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.

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2015 and 2014

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V. *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).

W. *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 \$82,112 and \$405,114, for 2015 and 2014, respectively.

X. *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.

Y. *Reclassifications*

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 reporting format.

Z. *Subsequent Events*

The Hospital considered events occurring through September 23, 2015 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

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

The Hospital's deposits in banks at June 30, 2015 and 2014 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.

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ <u>3,077,534</u>	<u>2,438,190</u>
By Donor:		
Cash and cash equivalents	322,303	95,823
Corporate stock	<u>116,464</u>	<u>107,370</u>
	<u>438,767</u>	<u>203,193</u>
By Debt Agreements – Reserve Accounts:		
Cash and cash equivalents	18,500	18,500
Certificates of deposit	1,163,428	1,157,447
Government money market funds	<u>99,453</u>	<u>102,797</u>
	<u>1,281,381</u>	<u>1,278,744</u>
Total assets limited as to use or restricted	4,797,682	3,920,127
Less amounts required to meet current obligations	<u>388,041</u>	<u>389,032</u>
Long-term portion	<u>\$ 4,409,641</u>	<u>3,531,095</u>

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Investments:		
Operating reserves:		
Cash and cash equivalents	\$ 677	612
Certificates of deposit	<u>450,442</u>	<u>794,968</u>
Total investments	<u>\$ 451,119</u>	<u>795,580</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 13,231	58,677
Change in unrealized gain, net	<u>15,142</u>	<u>4,623</u>
Total investment return	<u>\$ 28,373</u>	<u>63,300</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 Administrative Contractor through June 30, 2014.

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, incur a two percent reduction in Medicare payment.

**Medicaid.** Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. 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.

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 6,834,255	5,161,013
Outpatient	18,961,926	16,506,212
Long-term care	3,746,430	3,685,796
Clinics	<u>3,746,806</u>	<u>3,334,310</u>
Total gross patient service revenue	<u>33,289,417</u>	<u>28,687,331</u>
Deductions from patient service revenue:		
Medicare	3,528,570	3,119,034
Medicaid	2,577,103	1,642,728
Other payors	4,690,832	3,367,720
Charity care	<u>82,112</u>	<u>405,114</u>
Total deductions from patient service revenue	<u>10,878,617</u>	<u>8,534,596</u>
Net patient service revenue before provision for bad debt	<u>\$ 22,410,800</u>	<u>20,152,735</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 35% and 20%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2015 compared to 32% for Medicare and 21% for Medicaid in 2014. 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. In 2015, net patient service revenue increased approximately \$325,000 due to removal of allowances previously estimated that are no longer necessary and as a result of final settlements of years that are no longer subject to audits, reviews, and investigations.

#### (4) Other Operating Revenue

Other operating revenue for the years ended June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Electronic health record incentive payments		
Centers for Medicare and Medicaid Services	\$ --	260,000
Iowa Department of Health and Human	--	109,300
Pharmacy revenue – 340B program	717,620	454,553
Meals sold	85,203	49,481
Wellness programs	49,700	38,406
Other	<u>52,894</u>	<u>128,160</u>
	<u>\$ 905,417</u>	<u>1,039,900</u>

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2015 and 2014

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 2015 and 2014, 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, 2015 and 2014 the Hospital has elected to defer approximately \$140,000 and \$320,000, respectively, related to future Medicare reimbursement. 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, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Patient receivables	\$ 7,444,866	8,431,454
Less estimated third-party contractual adjustments	(1,850,392)	(2,521,269)
Less allowance for doubtful accounts	<u>(1,245,173)</u>	<u>(1,378,893)</u>
	<u>\$ 4,349,301</u>	<u>4,531,292</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>2015</u>	<u>2014</u>
Medicare	19%	25%
Medicaid	24	23
Other third-party payors	33	42
Private pay	<u>24</u>	<u>10</u>
	<u>100%</u>	<u>100%</u>

#### (6) Pledges Receivables

Pledges receivables as of June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Pledges receivables	\$ 270,320	400
Less pledge discounts (6.0%)	(19,230)	--
Less allowance for uncollectible pledges	<u>(13,520)</u>	<u>--</u>
	<u>\$ 237,570</u>	<u>400</u>

Pledges receivable as of June 30, 2015 are due as follows:

<u>Year Ended June 30,</u>	<u>Total</u>
2016	\$ 59,390
2017	55,490
2018	54,230
2019	50,860
2020	<u>50,350</u>
	<u>\$ 270,320</u>

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2015 and 2014

#### (7) Capital Assets

Capital assets activity for the years ended June 30, 2015 and 2014 were as follows:

	June 30, 2014	Additions	Transfers and Disposals	June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 321,622	--	--	321,622
Construction in progress	82,116	1,047,550	(300,250)	829,416
Total capital assets, not being depreciated	<u>403,738</u>	<u>1,047,550</u>	<u>(300,250)</u>	<u>1,151,038</u>
Capital assets, being depreciated:				
Land improvements	1,265,043	28,691	--	1,293,734
Building and leasehold improvements	16,630,460	51,066	16,410	16,697,936
Fixed equipment	2,686,954	8,455	(29,213)	2,666,196
Major movable equipment	5,282,631	347,603	239,834	5,870,068
Total capital assets, being depreciated	<u>25,865,088</u>	<u>435,815</u>	<u>227,031</u>	<u>26,527,934</u>
Less accumulated depreciation:				
Land improvements	607,212	75,029	--	682,241
Building and leasehold improvements	6,795,239	687,183	--	7,482,422
Fixed equipment	1,769,380	121,777	(29,213)	1,861,944
Major movable equipment	3,254,301	588,245	(33,638)	3,808,908
Total accumulated depreciation	<u>12,426,132</u>	<u>1,472,234</u>	<u>(62,851)</u>	<u>13,835,515</u>
Total capital assets, being depreciated, net	<u>13,438,956</u>	<u>(1,036,419)</u>	<u>289,882</u>	<u>12,692,419</u>
Total capital assets, net	<u>\$ 13,842,694</u>	<u>11,131</u>	<u>(10,368)</u>	<u>13,843,457</u>
	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>

Depreciation expense for the years ending June 30, 2015 and 2014 amounted to \$1,472,234 and \$1,366,980, respectively. Construction work in progress includes costs associated with the Hospital's planned outpatient clinic construction project. See Note 8 for further details.

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2015 and 2014

#### (8) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2015 and 2014 consisted of the following:

	<u>June 30,</u> <u>2014</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2015</u>	<u>Due Within</u> <u>One Year</u>
Zearing Note (A)	\$ 32,867	--	(13,600)	19,267	13,600
Series 2008A (B)	8,085,000	--	--	8,085,000	--
USDA Rural Development (C)	128,077	--	(12,877)	115,200	13,417
Series 2008B (D)	6,365,000	--	(340,000)	6,025,000	350,000
State Bank & Trust (E)	690,205	--	(113,672)	576,533	118,612
	<u>15,301,149</u>	<u>--</u>	<u>(480,149)</u>	<u>14,821,000</u>	<u>495,629</u>
Less unamortized discount	<u>(36,363)</u>			<u>(31,607)</u>	
	<u>\$ 15,264,786</u>			<u>14,789,393</u>	
	<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>	

- (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, 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 4.00% 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.

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, 2015, the Hospital was in compliance with the required covenants.

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2015 and 2014

A summary of the Hospital's future principal and interest payments as of June 30, 2015 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 495,629	592,404	1,088,033
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	495,633	505,154	1,000,787
2021 – 2025	2,431,939	2,197,336	4,629,275
2026 – 2030	2,335,000	1,535,790	3,870,790
2031 – 2035	--	1,227,540	1,227,540
2036 – 2038	7,485,014	736,524	8,221,538
	<u>\$ 14,821,000</u>	<u>8,447,337</u>	<u>23,268,337</u>

During 2015, the Hospital was approved for up to \$22,300,000 in long-term financing through the United States Department of Agriculture (USDA). The estimated \$15,000,000 construction project includes a 35,500 square feet replacement medical clinic to consolidate Hospital and clinic services at the main south campus and remodeling of approximately 1,600 existing square feet in the Hospital building. The project will be funded with an estimated \$2,000,000 capital campaign along with the remainder of the USDA financing proceeds after repaying existing Series 2008A bonds. Construction is scheduled to begin in October 2015 and completed in December 2016. Short-term interim financing will be obtained during the construction period.

#### (9) Net Position Balances

Restricted net positions are restricted for the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
By donors for capital assets	\$ 384,975	288,660
By debt agreement -		
Debt service reserve fund	1,163,428	1,157,447
Interest reserve fund	48,175	52,371
Construction reserve fund	22,033	22,031
Principal reserve fund	47,745	46,895
	\$ 1,666,356	1,567,404

#### (10) Designated Net Position

Of the (\$774,951) and \$4,964,240 of unrestricted net position reported in 2015 and 2014, respectively \$3,077,534 and \$2,438,190 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.

#### (11) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$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.

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2015 and 2014

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Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

### (12) Pension Plan

#### Plan Description

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 membership is mandatory for employees of the Hospital, except for those covered by another retirement system. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

#### Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

#### Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2015 and 2014

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### Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2015 and 2014, pursuant to the required rate, regular members contributed 5.95 percent of pay and the Hospital contributed 8.93 percent for a total rate of 14.88 percent.

The Hospital's contributions to IPERS for the years ended June 30, 2015 and 2014 were \$922,056 and \$825,655, respectively.

### Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Hospital reported a liability of \$5,287,131 for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's proportion was .1313231 percent, which was an increase of .0062005 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Hospital recognized pension expense of \$487,332. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 58,362	7,467
Changes of assumptions	236,991	178
Net difference between projected and actual earnings on pension plan investments	--	2,129,452
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	280,147	--
Hospital contributions subsequent to the measurement date	<u>922,056</u>	<u>--</u>
Total	<u>\$ 1,497,556</u>	<u>2,137,097</u>

Deferred outflows of resources related to pensions included \$922,056 resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

## Story County Hospital and Long-Term Care Facility

### Notes to Financial Statements June 30, 2015 and 2014

<u>Year Ended June 30,</u>	
2016	\$ (397,348)
2017	(397,348)
2018	(397,348)
2019	(397,348)
2020	<u>27,795</u>
	<u>\$ (1,561,597)</u>

There were no non-employer contributing entities at IPERS.

#### Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.0 percent
Salary increases (effective June 30, 2014)	4.0 to 17.0 percent, average, including inflation. Rates vary by membership group
Investment rate of return (effective June 30, 1996)	7.5 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2015 and 2014

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### Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	\$ 10,393,965	5,287,131	977,153

### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

### Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$78,681 for legally required employer contributions and \$52,424 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

## (13) Commitments and Contingencies

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

Operating Leases – The Hospital leases certain equipment under operating leases expiring at various dates through 2019. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2015, that have initial lease terms in excess of one year:

2016	\$ 232,506
2017	198,281
2018	145,846
2019	<u>14,296</u>
	<u>\$ 590,929</u>

## (14) Deferred Compensation Plan

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

# Story County Hospital and Long-Term Care Facility

## Notes to Financial Statements June 30, 2015 and 2014

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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 \$976,423 and \$1,007,088 as of June 30, 2015 and 2014, respectively.

### (15) 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 \$440,000 and \$432,000 for the years ended June 30, 2015 and 2014, respectively.

### (16) Deficit Balance

The Hospital had a deficit unrestricted balance of \$774,951 at June 30, 2015 primarily due to the net pension liability.

### (17) Change in Accounting Principle

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$ 7,151,107
Net pension liability at June 30, 2014	(7,187,051)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	<u>825,655</u>
Net position July 1, 2014, as restated	<u>\$ 789,711</u>

## Story County Hospital and Long-Term Care Facility

### Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) Required Supplementary Information June 30, 2015

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, 2015, the Hospital's expenditures did exceed the amounts budgeted.

	<b>Hospital Only (Excludes Foundation)</b>				<b>Variance Favorable (Unfavorable)</b>
	<b>Actual Accrual Basis</b>	<b>Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>	
Amount raised by taxation	\$ 2,210,165	--	2,210,165	2,172,166	37,999
Add: Other revenues / receipts	22,713,526	306,603	23,020,129	22,743,486	276,643
Less: Expenses / disbursements	<u>23,738,949</u>	<u>1,328,022</u>	<u>25,066,971</u>	<u>22,772,664</u>	<u>(2,294,307)</u>
Net	1,184,742	(1,021,419)	163,323	2,142,988	<u>(958,246)</u>
Balance beginning of year	<u>117,007</u>	<u>915,109</u>	<u>1,032,116</u>	<u>6,443,036</u>	
Balance end of year	<u>\$ 1,301,749</u>	<u>(106,310)</u>	<u>1,195,439</u>	<u>8,586,024</u>	

*See accompanying independent auditor's report*

# Story County Hospital and Long-Term Care Facility

## Schedule of the Hospital's Proportionate Share of the Net Pension Liability Required Supplementary Information June 30, 2015

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Iowa Public Employee's Retirement System  
Last Fiscal Year\*  
(In Thousands)

	<u>2015</u>
Hospital's proportion of net pension liability	0.1313231%
Hospital's proportionate share of the net pension liability	\$ 5,287
Hospital's covered-employee payroll	\$ 9,250
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	57.16%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amounts presented for each fiscal year were determined as of June 30

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available.

*See accompanying independent auditor's report*

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

**Schedule of Hospital Contributions  
Required Supplementary Information  
June 30, 2015**

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Iowa Public Employee's Retirement System  
Last 10 Fiscal Years  
(In Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contribution	\$ 922	826	742	688	572	497	441	394	347	329
Contributions in relation to the statutorily required contribution	<u>(922)</u>	<u>(826)</u>	<u>(742)</u>	<u>(688)</u>	<u>(572)</u>	<u>(497)</u>	<u>(441)</u>	<u>(394)</u>	<u>(347)</u>	<u>(329)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>--</u>								
Hospital's covered-employee payroll	\$ 10,325	9,250	8,558	8,525	8,230	7,474	6,945	6,512	6,035	5,722
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

*See accompanying independent auditor's report*

## Story County Hospital and Long-Term Care Facility

### Notes to Required Supplementary Information – Pension Liability June 30, 2015

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#### Notes to Required Supplementary Information – Pension Liability

##### Changes of benefit terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

##### Changes of assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements. Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

**Combining Statement of Net Position  
June 30, 2015**

	<b>Story County Hospital</b>	<b>County Hospital Foundation</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,195,439	40,941	1,236,380
Short-term investments	322,970	128,149	451,119
Assets limited as to use or restricted, current portion	388,041	--	388,041
Receivables -			
Patients, net of allowance for doubtful accounts of \$1,245,173 in 2015	4,349,301	--	4,349,301
Other	199,022	374	199,396
Pledges, current portion	--	45,848	45,848
Succeeding year property taxes receivable	2,272,453	--	2,272,453
Inventories	404,461	--	404,461
Other current assets	264,821	--	264,821
Total current assets	9,396,508	215,312	9,611,820
Noncurrent assets:			
Pledges receivable, net of current portion	--	191,722	191,722
Assets limited as to use or restricted, net of current position	4,028,570	381,071	4,409,641
Capital assets, net	13,843,457	--	13,843,457
Total assets	27,268,535	788,105	28,056,640
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension related deferred outflows	1,497,556	--	1,497,556
Total assets and deferred outflows of resources	\$ 28,766,091	788,105	29,554,196
<b>LIABILITIES</b>			
Current liabilities:			
Current portion of long-term debt	\$ 495,629	--	495,629
Accounts payable	1,061,825	102,830	1,164,655
Accrued salaries, vacation and benefits payable	1,364,318	--	1,364,318
Estimated third-party payor settlements	485,316	--	485,316
Accrued interest payable	50,451	--	50,451
Total current liabilities	3,457,539	102,830	3,560,369
Long-term liabilities:			
Resident trust funds	16,358	--	16,358
Long-term debt, net of unamortized discount and current portion	14,293,764	--	14,293,764
Net pension liability	5,287,131	--	5,287,131
Total liabilities	23,054,792	102,830	23,157,622
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable property tax revenue	2,272,453	--	2,272,453
Pension related deferred inflows	2,137,097	--	2,137,097
Total deferred inflows of resources	4,409,550	--	4,409,550
Commitments and contingencies			
<b>NET POSITION</b>			
Net investment in capital assets	1,095,619	--	1,095,619
Restricted - expendable	1,281,381	384,975	1,666,356
Unrestricted	(1,075,251)	300,300	(774,951)
Total net position	1,301,749	685,275	1,987,024
Total liabilities, deferred inflows of resources, and net position	\$ 28,766,091	788,105	29,554,196

*See accompanying independent auditor's report*

**Combining Statement of Revenue, Expenses and Changes in Net Position  
For the Year Ended June 30, 2015**

	<u>Story County Hospital</u>	<u>Story County Hospital Foundation</u>	<u>Total</u>
<b>OPERATING REVENUE:</b>			
Net patient service revenue			
before provision for bad debt	\$ 22,410,800	--	22,410,800
Provision for bad debt	(948,318)	--	(948,318)
Net patient service revenue	21,462,482	--	21,462,482
Other	905,417	--	905,417
Total operating revenue	<u>22,367,899</u>	<u>--</u>	<u>22,367,899</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	10,840,235	--	10,840,235
Employee benefits	2,465,831	--	2,465,831
Professional fees and purchased services	4,094,700	--	4,094,700
Supplies and other	4,124,689	--	4,124,689
Insurance	127,548	--	127,548
Depreciation	1,472,234	--	1,472,234
Total operating expenses	<u>23,125,237</u>	<u>--</u>	<u>23,125,237</u>
<b>OPERATING LOSS</b>	<u>(757,338)</u>	<u>--</u>	<u>(757,338)</u>
<b>NONOPERATING REVENUE (EXPENSES), NET:</b>			
Interest expense	(613,712)	--	(613,712)
Property taxes	2,210,165	--	2,210,165
Investment income	12,947	15,426	28,373
Noncapital grants and contributions	38,105	7,525	45,630
Fundraising	--	(106,695)	(106,695)
Other, net	(3,049)	--	(3,049)
Nonoperating revenue, net	<u>1,644,456</u>	<u>(83,744)</u>	<u>1,560,712</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENSES</b>	887,118	(83,744)	803,374
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<u>700</u>	<u>393,239</u>	<u>393,939</u>
<b>TRANSFERS (TO) FROM AFFILIATES</b>	<u>296,924</u>	<u>(296,924)</u>	<u>--</u>
<b>INCREASE IN NET POSITION</b>	1,184,742	12,571	1,197,313
<b>NET POSITION, beginning of year, as restated</b>	<u>117,007</u>	<u>672,704</u>	<u>789,711</u>
<b>NET POSITION, end of year</b>	<u>\$ 1,301,749</u>	<u>685,275</u>	<u>1,987,024</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, 2015 and 2014

	2015				2014 (not restated)			
	Inpatient	Outpatient	Long-term care	Total	Inpatient	Outpatient	Long-term care	Total
<b>DAILY PATIENT SERVICES:</b>								
Medical and surgical	\$ 2,283,847	423,522	--	2,707,369	1,802,191	319,917	--	2,122,108
Swing-bed	--	--	--	--	--	--	--	--
Long-term care	--	--	3,746,430	3,746,430	--	--	3,685,796	3,685,796
	<u>2,283,847</u>	<u>423,522</u>	<u>3,746,430</u>	<u>6,453,799</u>	<u>1,802,191</u>	<u>319,917</u>	<u>3,685,796</u>	<u>5,807,904</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Emergency	7,954	2,928,390	--	2,936,344	10,739	2,420,638	--	2,431,377
Operating and recovery room	820,098	4,767,331	--	5,587,429	394,404	3,318,838	--	3,713,242
Anesthesiology	49,524	786,293	--	835,817	26,695	617,192	--	643,887
Radiology	301,306	3,495,553	--	3,796,859	196,408	2,913,201	--	3,109,609
Laboratory	379,194	2,855,728	--	3,234,922	368,328	2,680,664	--	3,048,992
Physical therapy	372,945	1,235,472	--	1,608,417	374,802	1,077,127	--	1,451,929
Speech therapy	28,717	25,422	--	54,139	20,945	34,594	--	55,539
Occupational therapy	202,024	249,504	--	451,528	177,971	211,145	--	389,116
Electrocardiology	6,737	185,977	--	192,714	5,881	180,817	--	186,698
Medical and surgical supplies	188,934	51,413	--	240,347	663,639	698,056	--	1,361,695
Pharmacy	2,138,717	981,275	--	3,119,992	1,071,810	689,907	--	1,761,718
Orthopedic	54,258	216,483	--	270,741	47,200	210,705	--	257,905
Ambulance	--	1,065,713	--	1,065,713	--	1,024,848	--	1,024,848
Clinics	--	3,177,225	--	3,177,225	--	3,204,961	--	3,204,961
Miscellaneous	--	263,431	--	263,431	--	237,911	--	237,911
	<u>4,550,408</u>	<u>22,285,210</u>	<u>--</u>	<u>26,835,618</u>	<u>3,358,822</u>	<u>19,520,604</u>	<u>--</u>	<u>22,879,427</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<b>\$ <u>6,834,255</u></b>	<b><u>22,708,732</u></b>	<b><u>3,746,430</u></b>	<b><u>33,289,417</u></b>	<b><u>5,161,013</u></b>	<b><u>19,840,521</u></b>	<b><u>3,685,796</u></b>	<b><u>28,687,331</u></b>
<b>LESS CONTRACTUAL ADJUSTMENTS AND CHARITY CARE</b>				<b>(10,878,617)</b>				<b>(8,534,596)</b>
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>				<b>22,410,800</b>				<b>20,152,735</b>
<b>PROVISION FOR BAD DEBT</b>				<b>(948,318)</b>				<b>(1,103,906)</b>
<b>NET PATIENT SERVICE REVENUE</b>				<b>\$ <u>21,462,482</u></b>				<b>\$ <u>19,048,829</u></b>

See accompanying independent auditor's report

**Other Operating Revenue  
For the Years Ended June 30, 2015 and 2014**

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	<u>2015</u>	<u>2014</u>
Electronic health record incentive payments		
Centers for Medicare and Medicaid Services	\$ --	260,000
Iowa Department of Health and Human	--	109,300
Pharmacy revenue – 340B program	717,620	454,553
Meals sold	85,203	49,481
Wellness programs	49,700	38,406
Other	52,894	128,160
	<u>\$ 905,417</u>	<u>1,039,900</u>

*See accompanying independent auditor's report*

**Departmental Expenses  
For the Years Ended June 30, 2015 and 2014**

	2015				2014 (not restated)			
	Salaries and Wages	Professional Fees / Purchased Services	Other	Total	Salaries and Wages	Professional Fees / Purchased Services	Other	Total
<b>NURSING SERVICES:</b>								
Nursing administration	\$ 98,113	7,000	2,465	107,578	91,954	39	2,570	94,563
Adults and pediatrics	1,297,649	5,439	178,061	1,481,149	1,184,133	4,263	189,186	1,377,582
Operating room	400,188	394,459	318,679	1,113,326	387,780	248,062	242,977	878,819
Emergency service	1,158,524	285,382	91,465	1,535,371	971,950	289,423	78,075	1,339,448
	<u>2,954,474</u>	<u>692,280</u>	<u>590,670</u>	<u>4,237,424</u>	<u>2,635,817</u>	<u>541,787</u>	<u>512,808</u>	<u>3,690,412</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Laboratory	305,942	125,170	180,578	611,690	270,386	92,744	136,838	499,968
Central supply	136,229	3,564	274,168	413,961	84,183	10,690	551,346	646,219
Social service	50,421	480	1,494	52,395	46,998	480	155	47,633
Electrocardiology	124,775	38,680	13,287	176,742	62,467	28,582	6,101	97,150
Radiology	327,479	200,759	242,289	770,527	228,185	238,870	222,990	690,045
Pharmacy	59,762	199,193	633,653	892,608	58,630	192,001	546,570	797,201
Anesthesiology	141,856	53,751	17,511	213,118	150,570	32,284	8,746	191,600
Physical therapy	--	691,493	17,316	708,809	--	613,717	13,457	627,174
Speech therapy	--	26,740	--	26,740	--	29,111	--	29,111
Occupational therapy	--	175,537	2,005	177,542	--	147,748	5	147,753
Medical records	202,869	1,939	102,896	307,704	226,369	6,869	39,504	272,742
Zearing clinic	416,337	22,562	46,255	485,154	314,886	18,748	44,391	378,025
Nevada clinic	1,527,245	43,398	140,404	1,711,047	1,491,416	36,830	103,567	1,631,813
Maxwell clinic	186,252	9,582	30,327	226,161	170,550	12,228	33,011	215,789
Slater clinic	9,303	568	1,075	10,946	125,722	11,667	23,280	160,669
Ambulance	105,850	4,626	79,318	189,794	101,886	1,915	58,236	162,037
Wellness center	118,074	300	5,146	123,520	75,179	72	5,823	81,074
Acupuncture	79,605	3,383	18,119	101,107	79,768	3,956	15,218	98,942
Long-term care	1,854,939	156,025	120,561	2,131,525	1,687,691	116,475	89,509	1,893,675
Orthopedic	--	294,718	--	294,718	--	157,703	--	157,703
	<u>5,646,938</u>	<u>2,052,468</u>	<u>1,926,402</u>	<u>9,625,808</u>	<u>5,174,886</u>	<u>1,752,690</u>	<u>1,898,747</u>	<u>8,826,323</u>
<b>GENERAL SERVICES:</b>								
Plant operation and maintenance	179,301	42,809	517,322	739,432	182,999	80,716	469,950	733,665
Dietary	483,851	25,196	427,682	936,729	419,037	49,341	315,140	783,518
Housekeeping	358,701	20,034	72,466	451,201	268,095	4,987	54,574	327,656
Laundry	64,759	3,017	35,400	103,176	52,190	502	41,390	94,082
	<u>1,086,612</u>	<u>91,056</u>	<u>1,052,870</u>	<u>2,230,538</u>	<u>922,321</u>	<u>135,546</u>	<u>881,054</u>	<u>1,938,921</u>
	<u>910,070</u>	<u>1,258,896</u>	<u>554,747</u>	<u>2,723,713</u>	<u>807,406</u>	<u>954,370</u>	<u>348,668</u>	<u>2,110,444</u>
<b>NONDEPARTMENTAL:</b>								
Employee benefits	242,141	--	2,465,831	2,707,972	175,601	86	2,428,332	2,604,019
Depreciation	--	--	1,472,234	1,472,234	--	--	1,366,980	1,366,980
Insurance	--	--	127,548	127,548	--	--	116,949	116,949
	<u>242,141</u>	<u>--</u>	<u>4,065,613</u>	<u>4,307,754</u>	<u>175,601</u>	<u>86</u>	<u>3,912,261</u>	<u>4,087,948</u>
<b>TOTAL EXPENSES</b>	<b>\$ 10,840,235</b>	<b>4,094,700</b>	<b>8,190,302</b>	<b>23,125,237</b>	<b>9,716,031</b>	<b>3,384,479</b>	<b>7,553,538</b>	<b>20,654,048</b>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts  
June 30, 2015 and 2014**

ANALYSIS OF AGING:

Days Since Discharge	2015		2014	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 3,109,966	42 %	2,631,703	31 %
31 - 60	551,991	7	1,262,532	15
61 - 90	667,880	9	1,182,108	14
91 - 120	402,200	5	1,241,965	15
121 and over	2,712,829	37	2,113,146	25
	<u>7,444,866</u>	<u>100 %</u>	<u>8,431,454</u>	<u>100 %</u>
Less:				
Allowance for doubtful accounts	(1,245,173)		(1,378,893)	
Allowance for contractual adjustments	<u>(1,850,392)</u>		<u>(2,521,269)</u>	
	<u>\$ 4,349,301</u>		<u>4,531,292</u>	

	2015	2014
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 1,378,893	988,843
Provision of uncollectible accounts	948,318	1,114,554
Recoveries of accounts previously written off	(109,514)	(114,598)
Accounts written off	<u>(972,524)</u>	<u>(609,906)</u>
Balance, end of year	<u>\$ 1,245,173</u>	<u>1,378,893</u>

*See accompanying independent auditor's report*

**Inventory/Prepaid Expenses**  
**June 30, 2015 and 2014**

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	<u>2015</u>	<u>2014</u>
INVENTORY:		
Pharmacy	\$ 175,079	134,885
Central store	73,211	60,434
Laboratory	47,532	33,785
Operating room	63,790	38,505
Dietary	13,731	17,594
Radiology	8,053	4,409
Emergency room	9,204	11,499
Other	13,861	15,983
	<u>\$ 404,461</u>	<u>317,094</u>
	<u>2015</u>	<u>2014</u>
PREPAID EXPENSES:		
Insurance	\$ 63,239	67,497
Maintenance contracts	201,582	167,512
	<u>\$ 264,821</u>	<u>235,009</u>

*See accompanying independent auditor's report*

**Financial and Statistical Highlights  
For the Years Ended June 30, 2015 and 2014**

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	<u>2015</u>	<u>2014</u>
Patient days:		
Adult and pediatric -		
Medicare	459	338
All other	253	203
Swing-bed -		
Skilled	1,766	1,658
Intermediate	647	620
Long-term care	<u>20,636</u>	<u>20,999</u>
Total	<u><u>23,761</u></u>	<u><u>23,818</u></u>
Patient discharges:		
Hospital adult and pediatric -		
Medicare	119	98
All other	<u>93</u>	<u>78</u>
Total	<u><u>212</u></u>	<u><u>176</u></u>
Average length of stay (based on discharge days):		
Hospital adult and pediatric -		
Medicare	3.85 days	3.45 days
All other	2.72 days	2.60 days
Surgical procedures	692	691
Emergency room visits	4,084	3,574
Number of employees - full-time equivalents	207.65	192.60

*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, 2015, 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 23, 2015.

**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 entity'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. 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.

**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 which are described in Part III of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2015 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 responses to findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to 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 result 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 23, 2015.

## Story County Hospital and Long-Term Care Facility

### Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

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

- (a) An unmodified opinion was issued on the financial statements.
- (b) No material weaknesses or significant deficiencies in internal control over financial reporting were 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

##### ***Internal control deficiencies:***

No matters were reported.

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

No matters were reported.

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

##### III-A-15

Certified Budget: Hospital disbursements during the year ended June 30, 2015 did exceed amounts budgeted.

*Recommendation:* Management should periodically review its budget estimates to actual activity and make appropriate revisions when necessary.

*Response:* Actual disbursements exceeded the reported budget for fiscal year ending June 30, 2015 by \$2,294,307. Management has identified the reporting difference and will make appropriate adjustments to the reported budget for fiscal year ending June 30, 2015 if necessary.

*Conclusion:* Response accepted.

##### III-B-15

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-15

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

##### III-D-15

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-15

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

## Story County Hospital and Long-Term Care Facility

### Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

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#### III-F-15

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-15

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, 2015**

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<u>Finding</u>	<u>Finding title</u>	<u>Status</u>
II-A-14	Hospital internal controls over financial reporting	Corrected.

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

**Audit Staff**

**For the Year Ended June 30, 2015**

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**This audit was performed by:**

Brian D. Green, FHFMA, CPA, Partner

Jeremy J. Behrens, FHFMA, CPA, Senior Manager

Nicole R. McDonald, Manager