

HANCOCK COUNTY MEMORIAL HOSPITAL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2012 AND 2011

**HANCOCK COUNTY MEMORIAL HOSPITAL
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

BOARD OF TRUSTEES AND HEALTH SYSTEM OFFICIALS	1
INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
BALANCE SHEETS	9
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	11
STATEMENTS OF CASH FLOWS	12
NOTES TO FINANCIAL STATEMENTS	14
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS – BUDGET AND ACTUAL (ACCRUAL BASIS)	31
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING	32
OTHER SUPPLEMENTARY INFORMATION	
SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUES	33
SCHEDULES OF OTHER OPERATING REVENUES	35
SCHEDULES OF OPERATING EXPENSES	36
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)	38
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES	39
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)	40
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	41
SCHEDULE OF FINDINGS AND RESPONSES	43

**HANCOCK COUNTY MEMORIAL HOSPITAL
BOARD OF TRUSTEES AND HEALTH SYSTEM OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Mary Kopacek	Chairperson	December 31, 2016
Rob Willms	Vice-Chairperson/Treasurer	December 31, 2016
Bill Paulus	Secretary	December 31, 2012
Dorothy Denny	Member	December 31, 2014
DeAnna Kelly	Member	December 31, 2014
Ron Eden	Member	December 31, 2016
Ellen Tusha	Member	December 31, 2012

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Hospital Officials

Vance Jackson	Administrator
Laura Zwiefel	Chief Nursing Officer/Clinical Services
Julie Damm	Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the accompanying balance sheet of Hancock County Memorial Hospital as of June 30, 2012 and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Hancock County Memorial Hospital as of June 30, 2011, were audited by other auditors whose report dated October 19, 2011, expressed an unqualified opinion on those statements

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hancock County Memorial Hospital as of June 30, 2012, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 6, 2012 on our consideration of Hancock County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Trustees
Hancock County Memorial Hospital

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 33 through 41 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the Budgetary Comparison Information on page 32 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 statement 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 regarding 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.



CliftonLarsonAllen LLP

Austin, Minnesota
November 6, 2012

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

This discussion and analysis of the financial performance of Hancock County Memorial Hospital provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2012, 2011, and 2010. The intent of this discussion is to provide further information on the Hospital's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto to enhance their understanding of the Hospital's financial status.

Overview of the Financial Statements

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The Hospital's financial statements offer short and long term information about its activities. The balance sheets include all of the Hospital's assets and liabilities, as well as the Hancock County Memorial Hospital Foundation's net assets, and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net assets. These statements measure the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the Hospital and Foundation and the changes in them. The Hospital's net assets - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2012, indicates total assets of \$32,753,650, total liabilities of \$17,410,837, and net assets of \$15,342,813.
- The Statements of Revenues, Expenses and Changes in Net Assets indicates total net patient service revenue of \$13,714,955, an increase of 3.8% over the previous fiscal year, total operating expenses of \$14,321,882, an increase of 5.9%, resulting in a gain from operations of \$186,538. Net non-operating revenues of \$1,168,695 bring the excess of revenues over expenses to \$1,355,233, a 30.6% increase from the prior year.

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

Financial Highlights (Continued)

- The Hospital's current assets exceeded its current liabilities by \$5,661,214 at June 30, 2012, providing a 2.9 current ratio.
- The Hospital recorded an excess of revenues over expenses for fiscal year ending June 30, 2012, amounting to \$1,355,233.
- Gross outpatient charges increased 13.8% during fiscal year 2012.
- Total operating expenses increased 5.9% from the previous fiscal year.
- Total patient days for the year ended June 30, 2012 amount to:
 - 1,009-Acute Care (includes Hospice) (3.0% decrease from the prior year)
 - 2,245- Swing-bed & Swing-bed Self Pay (6.1% decrease from the prior year)
 - 18,092 - Outpatient Visits (0.3% decrease from the prior year)
 - 22,449 - Physician Clinic Visits (7.3% increase from the prior year)

Organization Highlights

The organization continued to make many positive changes over this last fiscal year, including:

- Completed first phase of \$12.6 million Private Room/OP Expansion project, using Recovery Zone Economic Development Bonds
- Received Gold Performance Achievement Award – Get With The Guidelines®–Heart Failure from the American Heart Association
- Recertified NICHE Status (Nurses Improving Care for Healthsystem Elders)
- Expanded Ultrasound services to 5 half days/week
- Expanded use of LEAN methodology
- Received grant to help support purchase of nurse call system, patient controlled analgesic pumps and bariatric scale.
- Recruited Dr. Brady and Dr. Ponnada to Britt Medical and Gamer Medical Clinics.
- Implemented CareAdmin for bedside barcode scanning of medication.
- Held Foundation Golf tournament with proceeds targeted for Private Room/OP Expansion project.
- Broke ground on \$847,000 Gamer Medical Clinic renovation project.
- Met Electronic Health Record (EHR) Meaningful Use requirements and attested to the 90 day organization readiness.
- Served as Network Project Lead for final 3rd year of HRSA Pre-Diabetes Network Grant.

Future Goals

- The organization's name will be changed to Hancock County Health System as of July 1, 2012.
- Plan to offer screening endoscopies at Gamer Medical Clinic

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

Condensed Financial Statements

Table 1: Assets, Liabilities, and Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current Assets	\$ 8,645,268	\$ 7,715,752	\$ 4,581,094
Noncurrent Cash and Investments	6,212,031	13,878,177	4,177,268
Capital Assets, Net	17,302,573	9,488,056	8,034,159
Other Assets	<u>593,778</u>	<u>642,895</u>	<u>393,637</u>
Total Assets	<u>\$ 32,753,650</u>	<u>\$ 31,724,880</u>	<u>\$ 17,186,158</u>
Liabilities:			
Total Current Liabilities	\$ 2,984,054	\$ 2,796,910	\$ 1,422,542
Long-Term Debt (Less Current Maturities)	13,366,963	13,968,499	1,993,872
Deferred Revenue from Succeeding Year			
Property Tax Receivable	<u>1,059,820</u>	<u>1,025,199</u>	<u>964,352</u>
Total Liabilities	<u>17,410,837</u>	<u>17,790,608</u>	<u>4,380,766</u>
Net Assets:			
Invested in Capital Assets Net of Related Debt	2,467,739	4,081,500	5,636,963
Restricted:			
Under Bond Agreement	3,150,246	1,693,290	411,620
Foundation Fund	50	12,109	12,109
Plant Replacement and Expansion Funds	18,669	25,555	28,436
Unrestricted	<u>9,706,109</u>	<u>8,121,818</u>	<u>6,716,264</u>
Total Net Assets	<u>15,342,813</u>	<u>13,934,272</u>	<u>12,805,392</u>
Total Liabilities and Net Assets	<u>\$ 32,753,650</u>	<u>\$ 31,724,880</u>	<u>\$ 17,186,158</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

Condensed Financial Statements (Continued)

Table 2: Statement of Revenues, Expenses & Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net Patient Service Revenue	\$ 13,714,955	\$ 13,215,605	\$ 11,715,320
Other Operating Revenue	793,465	214,753	204,040
Total Revenue	<u>14,508,420</u>	<u>13,430,358</u>	<u>11,919,360</u>
Operating Expenses			
Salaries and Wages	5,181,989	4,812,774	4,226,986
Employee Benefits	1,345,282	1,188,027	1,067,126
Utilities	6,665,712	6,435,267	5,818,041
Depreciation	1,018,395	980,302	960,322
Interest and Amortization	110,504	113,473	143,969
Total Operating Expenses	<u>14,321,882</u>	<u>13,529,843</u>	<u>12,216,444</u>
Operating Income	186,538	(99,485)	(297,084)
Non-Operating Revenues (Expenses)			
Tax Apportionments	1,026,879	966,380	894,943
Interest Income	46,041	51,338	62,195
Rental Income	57,155	49,642	38,774
Contributions	28,252	51,318	32,808
Gain (Loss) on Sale of Property and Equipment	1,445	(2,704)	-
Miscellaneous Income (Expense)	8,923	21,093	(4,681)
Non-Operating Revenues (Expenses)	<u>1,168,695</u>	<u>1,137,067</u>	<u>1,024,039</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	1,355,233	1,037,582	726,955
Capital Grants and Contributions	<u>53,308</u>	<u>91,298</u>	<u>46,379</u>
Increase in Net Assets	1,408,541	1,128,880	773,334
Net Assets, Beginning of Year	<u>13,934,272</u>	<u>12,805,392</u>	<u>12,032,058</u>
Net Assets, End of Year	<u>\$ 15,342,813</u>	<u>\$ 13,934,272</u>	<u>\$ 12,805,392</u>

Capital Assets

Hancock County Memorial Hospital (HCMH) is undergoing a \$12.6 million renovation. The Project consists of acquisition, construction, equipping and furnishing of a new 31,075 square foot, three-story addition to the current hospital. The first floor of the addition will include new physical therapy, cardiac rehab and administrative areas. The second floor of the addition will include a new inpatient unit. The third floor is being shelled for future expansion potential. Following the new facilities construction, renovation and remodeling of administrative areas and the existing inpatient unit will be completed. The Project will provide HCMH with all private inpatient rooms. The final phase consists of renovation and remodeling of the atrium, existing administrative areas as well as upgrades of radiology, cafeteria and restrooms. The HCMH Garner Clinic location is also being remodeled as part of the project.

In addition to facilities expansion and renovation, the project includes approximately \$1.4 million of new equipment, including new inpatient beds and related equipment and furnishings for the inpatient units, new physical therapy equipment and cardiac rehab equipment.

**HANCOCK COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012 AND 2011**

Capital Assets (Continued)

The new addition was completed April 2012, with renovation of existing areas to be completed by December 2012. The HCMH Garner Clinic renovation is expected to be completed December 2012 as well.

Long-Term Debt

At year-end, Hancock County Memorial Hospital had \$14,064,718 in short term and long-term debt. The debt was incurred to renovate the 1st floor in 1997, the GMC clinic in 2000, the 2nd floor in 2003, the Digital Mammography unit in 2010, and the current building and remodeling project scheduled for completion in 2013.

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management consider many factors when preparing the fiscal year 2013 budget. Of primary consideration in the 2013 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered:

- Medicare and Medicaid reimbursement rates
- Wellmark and third-party payor contracts
- Swing Bed Initiative with Mercy Medical Center – North Iowa
- Increase in Bad Debt and Patient Financial Assistance due to uninsured and underinsured patients
- Salary and benefit costs
- Quality indicators
- Technology advances
- Medical Staff issues
- Lower return on investments
- Healthland Centrig Financial Software migration
- Clinic Electronic Health Record

Summary

The Hospital's Board of Trustees continues to be extremely proud of the excellent patient care, dedication, commitment and support each of our 150 employees provides to every person they serve. We would also like to thank each member of the Hospital's Medical Staff for their dedication and support provided.

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Hancock County Memorial Hospital
Attn: CEO
532 1st ST NW
Britt, IA 50423

**HANCOCK COUNTY MEMORIAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 5,616,632	\$ 4,066,389
Current Portion of Noncurrent Cash and Investments	32,500	30,000
Patient Receivables, Less Allowance for Uncollectible		
Accounts of \$358,245 in 2012 and \$331,000 in 2011	1,529,215	2,200,305
Other Receivables	55,669	57,201
Notes Receivable	103,266	78,831
Tax Receivable, Succeeding Year Property Tax	1,059,820	1,025,199
Inventories	149,083	145,439
Prepaid Expenses	99,083	112,388
Total Current Assets	8,645,268	7,715,752
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvements	2,505,644	2,626,057
Restricted Under Bond Agreement	3,150,246	10,680,740
Restricted Foundation Fund	569,972	575,825
Restricted Plant Replacement and Expansion Funds	18,669	25,555
Restricted for Current Liabilities	(32,500)	(30,000)
Net Assets Whose Use is Limited	6,212,031	13,878,177
CAPITAL ASSETS, NET	17,302,573	9,488,056
OTHER ASSETS		
Real Estate Held for Investment	281,284	281,284
Bond Issuance Costs, Net	263,774	311,954
Joint Venture Investments	-	39,657
Physician Recruitment Fees, Net	48,720	10,000
	593,778	642,895
Total Assets	\$ 32,753,650	\$ 31,724,880

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 697,755	\$ 425,507
Accounts Payable:		
Trade	302,033	226,953
Construction	770,116	449,025
Due To Affiliated Organization	173,519	209,749
Accrued Expenses:		
Salaries, Wages and Vacation	523,549	445,769
Interest	78,351	78,763
Payroll Taxes and Other	102,395	124,144
Estimated Third-Party Payor Settlements	336,336	837,000
Total Current Liabilities	2,984,054	2,796,910
LONG-TERM DEBT, Less Current Maturities	13,366,963	13,968,499
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	1,059,820	1,025,199
Total Liabilities	17,410,837	17,790,608
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	2,467,739	4,081,500
Restricted:		
Expendable Under Bond Agreement	3,150,246	1,693,290
Expendable Foundation Fund	50	12,109
Expendable Plant Replacement and Expansion Funds	18,669	25,555
Unrestricted	9,706,109	8,121,818
Total Net Assets	15,342,813	13,934,272
Total Liabilities and Net Assets	\$ 32,753,650	\$ 31,724,880

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
OPERATING REVENUES		
Net Patient Service Revenues (Net of Provision for Bad Debts of \$1,086,250 in 2012 and \$757,157 in 2011	\$ 13,714,955	\$ 13,215,605
Other Revenue	793,465	214,753
Total Revenues	14,508,420	13,430,358
EXPENSES		
Salaries and Wages	5,181,989	4,812,774
Employee Benefits	1,345,282	1,189,921
Supplies and Other	6,665,712	6,433,373
Depreciation	1,018,395	980,302
Interest and Amortization	110,504	113,473
Total Expenses	14,321,882	13,529,843
OPERATING INCOME (LOSS)	186,538	(99,485)
NON-OPERATING GAINS (LOSSES)		
County Tax Revenue	1,026,879	966,380
Investment Income	46,041	51,338
Rental Income	57,155	49,642
Contribution Revenue, Net of Fundraising Expenses	28,252	51,318
Gain (Loss) on Disposal of Capital Assets	1,445	(2,704)
Miscellaneous Income	8,923	21,093
Non-Operating Gains, Net	1,168,695	1,137,067
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	1,355,233	1,037,582
Capital Grants and Contributions	53,308	91,298
INCREASE IN NET ASSETS	1,408,541	1,128,880
Net Assets, Beginning of Year	13,934,272	12,805,392
NET ASSETS, END OF YEAR	\$ 15,342,813	\$ 13,934,272

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of Patient Service Revenue	\$ 13,885,381	\$ 13,455,711
Payments of Salaries and Wages	(6,453,800)	(4,731,370)
Payments of Supplies and Other Expenses	(6,599,495)	(7,454,130)
Other Receipts and Payments, Net	735,941	123,567
Net Cash Provided by Operating Activities	1,568,027	1,393,778
 CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Non-Capital Contributions Received, Net of Related Fundraising	28,252	51,318
County Tax Revenue Received	1,026,879	966,380
Other Income (Expense)	8,923	(2,148)
Rental Income	57,155	49,642
Net Cash Provided by Non-Capital Financing Activities	1,121,209	1,065,192
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(7,508,321)	(1,749,290)
Proceeds from Sale of Capital Assets	-	13,000
Principal Payments on Long-Term Debt	(425,507)	(2,183,190)
Proceeds From Issuance of Long-Term Debt	-	14,180,000
Interest Payments on Long-Term Debt	(968,160)	(479,648)
Build America Bond Credit Received	-	211,100
Payment of Debt Issuance Costs	-	(251,004)
Capital Contributions and Grants	53,308	91,298
Net Cash Provided (Used) by Capital and Related Financing Activities	(8,848,680)	9,832,266
 CASH FLOWS FROM INVESTING ACTIVITIES		
Increase (Decrease) in Noncurrent Cash and Investments	7,663,646	(9,648,409)
Interest Earned on Investments	46,041	51,338
Net Cash Provided (Used) by Investing Activities	7,709,687	(9,597,071)
 INCREASE IN CASH AND CASH EQUIVALENTS	1,550,243	2,694,165
Cash and Cash Equivalents - Beginning	4,066,389	1,372,224
 CASH AND CASH EQUIVALENTS - ENDING	\$ 5,616,632	\$ 4,066,389

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ 186,538	\$ (99,485)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:		
Depreciation	1,018,395	980,302
Amortization	68,877	31,437
Interest Expense Considered Capital and Related Financing Activity	41,627	82,036
Provision for Bad Debts	1,086,250	757,157
Changes in Assets and Liabilities:		
Patient Receivables	(415,160)	(1,110,051)
Other Receivables	(57,524)	(91,186)
Inventories	(3,644)	25,924
Prepaid Expenses	13,305	(13,987)
Other Assets	937	-
Accounts Payable - Trade and Related Party	38,850	99,455
Accrued Expenses	55,619	139,176
Deferred Revenue	34,621	-
Estimated Third-Party Payor Settlements	(500,664)	593,000
	<u>\$ 1,568,027</u>	<u>\$ 1,393,778</u>

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hancock County Memorial Hospital (Hospital) is the county hospital of Hancock County, in the City of Britt, organized under Chapter 347 of the Code of Iowa. The Hospital provides health care services under the name of Hancock County Memorial Hospital in accordance with a Master Affiliation Agreement – see Note 12. Services are provided primarily to residents of Hancock County and the surrounding area in north central Iowa.

Tax Exempt Status

Hancock County Memorial Hospital Foundation is an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501 (c)(3). The Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Reporting Entity

For financial reporting purposes, Hancock County Memorial Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. 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 (GASB) 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. Hancock County Memorial Hospital Foundation meets these criteria and is included in the Hospital's financial statements. Hancock County Memorial Hospital has no other component units which meet the GASB criteria.

Basis of Presentation

The balance sheet displays the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories/components:

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

Restricted Net Assets

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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

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

When both restricted and unrestricted net assets are available for use, generally it is the Hospital's policy to use restricted net assets first.

Measurement Focus and Basis of Accounting

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

The Hospital reports in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, as amended, the Hospital has elected not to apply provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less, excluding assets limited as to use or restricted and investments.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed. Accounts past due more than 85 days are turned over to collection agents.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Receivables (Continued)

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care (patient financial assistance) is appropriate. At June 30, 2012 and 2011, the allowance for uncollectible accounts was approximately \$358,200 and \$331,000, respectively.

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

Notes Receivable

Notes receivable represent uncollateralized amounts due from employees and a contracted professional under the Hospital's educational assistance program. Interest is not charged on amounts owed unless employment commitments are not satisfied. Amounts are forgiven by the Hospital over time as employment commitments are satisfied. If employment commitments are not satisfied, amounts will be due to the Hospital immediately.

Inventory

Inventory is valued at cost using the first-in, first-out method.

Investments

Investments are valued at purchase cost, or fair market value at the date of acquisition if donated. Investments consist of non-negotiable certificates of deposit.

Deferred Issuance Costs

Deferred financing costs are amortized over the period the obligation is outstanding using the interest method. Amortization of deferred financing costs is capitalized during the period of construction of capital assets. Accumulated amortization was \$194,207 and 143,727 at June 30, 2012 and 2011, respectively.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and are recorded at cost. Capital assets donated for Hospital operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of capital assets are as follows:

Land improvements	10-40 Years
Buildings and improvements	10-50 Years
Equipment	3-20 Years

Noncurrent Cash and Investments

Noncurrent cash and investments include assets which have been internally designated by the Hospital's Board of Trustees, assets which are restricted by debt agreements, and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may, at its discretion, subsequently use for other purposes.

Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating revenues to the extent expended within the period.

Compensated Absences

Hospital employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of projected vacation payouts is recorded as a current liability on the balance sheet, based on pay rates that are in effect at June 30, 2012 and 2011.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

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, discounted charges, and per diem payments.

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 and a provision for uncollectible accounts. 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.

Contributions and Grants

Revenues from contributions and grants (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions and grants may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$58,910 and \$52,918 for advertising costs for the years ended June 30, 2012 and 2011, respectively.

Charity Care

To fulfill its mission of community service, 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 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, depending on the timing of the charity determination.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Electronic Health Record Incentive Payments

As discussed in Note 5, the Hospital received funds under the Electronic Health Records (EHR) Incentive Program during 2012. The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured the Hospital will meet all meaningful use objectives and any other specific grant requirements that are applicable, e.g., electronic transmission of quality measures to CMS in the second and subsequent payment years.

Investment Income

Interest on cash and deposits is included in non-operating revenues and expenses.

County Tax Revenue

Taxes are included in non-operating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Subsequent Events

The Hospital has evaluated subsequent events through November 6, 2012, the date which the financial statements were available to be issued.

NOTE 2 DESIGNATED NET ASSETS

Of the \$9,781,109 and \$8,121,818 of unrestricted net assets at June 30, 2012 and 2011, respectively, the board of trustees has designated \$2,505,644 and \$2,626,057, respectively, for the acquisition of capital assets. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

NOTE 3 CHARITY CARE AND COMMUNITY BENEFITS

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$108,581 and \$181,039 for the years ended June 30, 2012 and 2011, respectively. The estimated costs of the charges foregone, based upon the Hospital's overall cost-to-charge ratio calculation, for the years ended June 30, 2012 and 2011, were approximately \$96,300 and \$110,000, respectively.

In addition, the Hospital provides services to other medically indigent patients under certain government reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and for some services the payments are less than the cost of rendering the services provided.

The Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 4 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 follows:

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services at 101% of cost with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2010.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2009.

Other Payors: The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 55% and 5%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2012, and 53% and 4%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2011. The net patient service revenue for the years ended June 30, 2012 and 2011 increased approximately \$9,325 and \$23,000, respectively, due to prior year retroactive adjustments in excess of amounts previously estimated and removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Laws and regulations governing the Medicare, Medicaid, and other 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.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 4 NET PATIENT AND RESIDENT SERVICE REVENUE

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Gross Patient Service Revenue	\$ 24,051,954	\$ 21,730,426
Contractual Adjustments:		
Medicare	(5,135,493)	(4,480,577)
Medicaid	(692,413)	(535,594)
Other	(3,422,843)	(2,741,492)
Provision for Bad Debt	<u>(1,086,250)</u>	<u>(757,158)</u>
Total Contractual Adjustments and Bad Debts	<u>(10,336,999)</u>	<u>(8,514,821)</u>
Net Patient Service Revenue	<u>\$ 13,714,955</u>	<u>\$ 13,215,605</u>

NOTE 5 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Health Center continuing to meet the escalating meaningful use criteria. For the first payment year, the Health Center must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Health Center must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four year period. For hospitals that do not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by $\frac{1}{4}$, $\frac{1}{2}$, and $\frac{3}{4}$.

The Health System demonstrated meaningful use to the 90-day period ended August 31, 2011 and received notice of the first tentative incentive payment of \$59,639 during the year ended June 2012. This amount is recognized as other operating revenue in the statements of revenues, expenses, and changes in net assets. The final amount of this payment will be determined based on information from the Health Centers' Medicare cost report. Events could occur that would cause the final payment to differ materially upon final settlement.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 6 PATIENT RECEIVABLES

Patient Receivables reports as current assets by the Hospital at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,362,068	\$ 1,805,182
Receivable from Medicare	497,724	682,188
Receivable from Medicaid	27,668	43,935
Total Patient Receivables	<u>1,887,460</u>	<u>2,531,305</u>
Less: Allowance for Doubtful Accounts	<u>(358,245)</u>	<u>(331,000)</u>
Patient Receivables, Net	<u>\$ 1,529,215</u>	<u>\$ 2,200,305</u>

NOTE 7 CASH AND DEPOSITS

The Hospital's deposits in banks at June 30, 2012 and 2011 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.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note and are recorded at cost.

At June 30, 2012 and 2011, the Hospital's carrying amounts of cash and deposits are as follows:

	<u>2012</u>	<u>2011</u>
Checking and Savings Accounts	\$ 5,616,632	\$ 2,945,173
Certificates of Deposit	2,692,937	3,932,234
Money Market Accounts	3,551,594	11,097,159
	<u>\$ 11,861,163</u>	<u>\$ 17,974,566</u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 5,616,632	\$ 2,945,173
Restricted Under Bond Agreement - Current	32,500	30,000
Assets Limited as to Use or Restricted	6,212,031	14,999,393
	<u>\$ 11,861,163</u>	<u>\$ 17,974,566</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 7 CASH AND DEPOSITS (CONTINUED)

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Hospital are:

The Hospital attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

NOTE 8 BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATION

Hancock County Memorial Hospital Foundation is a beneficiary of a Community Foundation maintained by an independent trustee. The assets maintained by the Community Foundation are to be held in perpetuity. Hancock County Memorial Hospital Foundation expects to receive annual distributions of its share of the Community Foundation's income. These distributions are recorded in the financial statements as investment income. The funds which have been invested directly by Hancock County Memorial Hospital are recorded as a beneficial interest in net assets of the Community Foundation at the fair market value of its interest in the Community Foundation. These funds amounted to \$75,688 and \$76,882 at June 30, 2012 and 2011, respectively.

NOTE 9 CAPITAL ASSETS

Summaries of capital assets at June 30, 2012 and 2011 are as follows:

	June 30, 2011	Additions	(Retirements)	Transfers	June 30, 2012
Capital Assets Not Being Depreciated					
Land	\$ 84,762	\$ -	\$ -	\$ -	\$ 84,762
Construction in Progress	2,453,096	8,045,872	(100)	(9,209,786)	1,289,082
Total Capital Assets not being depreciated	<u>2,537,858</u>	<u>8,045,872</u>	<u>(100)</u>	<u>(9,209,786)</u>	<u>1,373,844</u>
Capital Assets Being Depreciated					
Land Improvements	393,151	-	-	738	393,889
Building	6,687,808	212,977	-	3,242,437	10,143,222
Fixed Equipment	3,438,175	311,313	-	4,732,586	8,482,074
Major Movable Equipment	5,033,493	262,750	(183,158)	1,234,025	6,347,110
Total Capital Assets being depreciated	<u>15,552,627</u>	<u>787,040</u>	<u>(183,158)</u>	<u>9,209,786</u>	<u>25,366,295</u>
Less Accumulated Depreciation:					
Land Improvements	342,281	11,195	-	-	353,476
Building	3,332,214	276,634	-	-	3,608,848
Fixed Equipment	1,341,463	254,459	-	-	1,595,922
Major Movable Equipment	3,586,471	476,107	(183,258)	-	3,879,320
Total Accumulated Depreciation	<u>8,602,429</u>	<u>1,018,395</u>	<u>(183,258)</u>	<u>-</u>	<u>9,437,566</u>
Total Capital Assets Being Depreciated, Net	<u>6,950,198</u>	<u>(231,355)</u>	<u>100</u>	<u>9,209,786</u>	<u>15,928,729</u>
Total Capital Assets, Net	<u>\$ 9,488,056</u>	<u>\$ 7,814,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,302,573</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 9 CAPITAL ASSETS (CONTINUED)

	June 30, 2010	Additions	(Retirements)	Transfers	June 30, 2011
Capital Assets Not Being Depreciated					
Land	\$ 72,512	\$ 12,250	\$ -	\$ -	\$ 84,762
Construction in Progress	238,632	2,222,663	(2,880)	(5,319)	2,453,096
Total Capital Assets not being depreciated	<u>311,144</u>	<u>2,234,913</u>	<u>(2,880)</u>	<u>(5,319)</u>	<u>2,537,858</u>
Capital Assets Being Depreciated					
Land Improvements	393,151	-	-	-	393,151
Building	6,663,924	23,884	-	-	6,687,808
Fixed Equipment	3,438,175	-	-	-	3,438,175
Major Movable Equipment	4,944,210	193,985	(110,021)	5,319	5,033,493
Total Capital Assets being depreciated	<u>15,439,460</u>	<u>217,869</u>	<u>(110,021)</u>	<u>5,319</u>	<u>15,552,627</u>
Less Accumulated Depreciation:					
Land Improvements	325,771	16,510	-	-	342,281
Building	3,084,139	248,075	-	-	3,332,214
Fixed Equipment	1,137,175	204,288	-	-	1,341,463
Major Movable Equipment	3,169,360	511,429	(94,318)	-	3,586,471
Total Accumulated Depreciation	<u>7,716,445</u>	<u>980,302</u>	<u>(94,318)</u>	<u>-</u>	<u>8,602,429</u>
Total Capital Assets Being Depreciated, Net	<u>7,723,015</u>	<u>(762,433)</u>	<u>(15,703)</u>	<u>5,319</u>	<u>6,950,198</u>
Total Capital Assets, Net	<u>\$ 8,034,159</u>	<u>\$ 1,472,480</u>	<u>\$ (18,583)</u>	<u>\$ -</u>	<u>\$ 9,488,056</u>

The majority of construction in progress at June 30, 2012, represents costs incurred for the first phase of the Private Room/Outpatient Services Expansion Project and the GMC Clinic renovation. Total expected remaining cost of the Private Room/Outpatient Services Expansion Project is approximately \$1,000,000. The project was financed with the Series 2010B revenue bonds (Recovery Zone Economic Development Bonds) and internal funds. Completion of the Private Room/Outpatient Services Expansion Project is expected in December 2012. Total expected remaining cost of the GMC Clinic renovation project is approximately \$500,000. The project was financed with the Series 2010B revenue bonds (Recovery Zone Economic Development Bonds) and internal Funds. Completion of the GMC Clinic renovation project is expected in December 2012.

NOTE 10 REAL ESTATE HELD FOR INVESTMENT

The real estate held for investment consists of 151 acres of farmland in Hancock County. The asset value of \$281,284 represents the original purchase price. At June 30, 2012 and 2011, the estimated market value was in excess of the carrying value.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 11 JOINT VENTURE

The joint venture represents a 25% investment in Mobile Radiology, LC, a mobile radiology unit limited liability corporation. On June 30, 2011, Mobile Radiology, LC ceased operations. This investment is accounted for using the equity method of accounting. The investment in the joint venture has been increased by the Hospital's share of the venture net income, which was \$0 and \$23,241 in 2012 and 2011, respectively. During the year ended June 30, 2011, the Hospital did not receive equity distributions. The Hospital recorded a receivable for the final equity distribution for \$18,570 that was declared but not paid during the year ended June 30, 2012. The final distribution was declared during fiscal year 2012. The financial statements of the joint venture are available upon request from Mobile Radiology, LC.

NOTE 12 LONG-TERM DEBT

A schedule of changes in long-term debt at June 30, 2012 and 2011 is as follows:

	Balance July 1, 2011	Additions	(Payments)	Balance June 30, 2012	Amounts Due Within One Year
Hospital General Obligation County Bonds	\$ 125,000	\$ -	\$ (60,000)	\$ 65,000	\$ 65,000
Capitalized Lease Obligations - Note 10	89,006	110,000	(49,288)	149,718	52,755
Hospital Revenue Refunding Bonds, Series 2010A	1,550,000	-	(330,000)	1,220,000	580,000
Hospital Revenue Bonds, Series 2010B	12,630,000	-	-	12,630,000	-
Total Long-Term Debt	<u>\$ 14,394,006</u>	<u>\$ 110,000</u>	<u>\$ (439,288)</u>	14,064,718	<u>\$ 697,755</u>
Less Current Maturities				(697,755)	
Long-Term Debt, Less Current Maturities				<u>\$ 13,366,963</u>	

	July 1, July 1, 2010	Additions	(Payments)	Balance June 30, 2011	Amounts Due Within One Year
Hospital Revenue Note, Series A	\$ 335,000	\$ -	\$ (335,000)	\$ -	\$ -
Hospital General Obligation County Bonds	185,000	-	(60,000)	125,000	60,000
USDA - RECD Hospital General Obligation Bonds	476,335	-	(476,335)	-	-
USDA - Hospital Revenue Note #1	304,186	-	(304,186)	-	-
USDA - Hospital Revenue Note #2	446,028	-	(446,028)	-	-
Farmers Trust & Savings Bank	240,099	-	(240,099)	-	-
2010 Digital Mammography Loan First State Bank	271,844	-	(271,844)	-	-
Capitalized Lease Obligations - Note 10	138,704	-	(49,698)	89,006	35,507
Hospital Revenue Refunding Bonds, Series 2010A	-	1,550,000	-	1,550,000	330,000
Hospital Revenue Bonds, Series 2010B	-	12,630,000	-	12,630,000	-
Total Long-Term Debt	<u>\$ 2,397,196</u>	<u>\$ 14,180,000</u>	<u>\$ (2,183,190)</u>	14,394,006	<u>\$ 425,507</u>
Less Current Maturities				(425,507)	
Long-Term Debt, Less Current Maturities				<u>\$ 13,968,499</u>	

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 12 LONG-TERM DEBT (CONTINUED)

Hospital general obligation county bonds require semi-annual payments of principal and interest on June 1 and December 1, with interest at the rate of 4.00% to 5.50%. Principal and interest payments are due through December 2012. The bonds are collateralized by the Hospitals assets.

Hospital Revenue Refunding Bonds, Series 2010A, require annual payments of principal and semi-annual payments of interest, with interest rates varying from 1.55% to 2.80%. One bond will mature each year, with maturity of the final bond in 2015. The bonds are collateralized by a pledge of the Hospital's net revenues.

Hospital Revenue Bonds, Series 2010B, (Recovery Zone Economic Development Bonds) require annual payments of principal and semi-annual payments of interest, with interest rates varying from 4.00% to 8.05%. One bond will mature each year, with maturity of the final bond in 2026. The bonds are collateralized by a pledge of the Hospital's net revenues.

In relation to the Hospital Revenue Bonds, Series 2010B, the Hospital has qualified for the Build America Bonds credit. These bonds are eligible for the rebate for the entire term of the bonds. The rebate credit equals 45% of the interest paid on the bonds.

Capitalized lease obligations consist of two lease agreements. The first agreement requires monthly payments of principal and interest, with interest at the rate of 3.25%. Principal and interest payments are due through October 2016. The second agreement requires monthly payments of principal and interest, with interest at the rate of 5.45%. Principal and interest payments are due through February 2014.

The bonds are payable solely and only from revenues and receipts of the Hospital and do not constitute an indebtedness of the County.

Under the terms of the revenue bonds official statement, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use or restricted. The revenue bonds official statement also requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

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

Years Ending June 30:	Long-Term Debt		Total
	Principal	Interest	
2013	\$ 645,000	\$ 955,753	\$ 1,600,753
2014	590,000	943,235	1,533,235
2015	605,000	929,370	1,534,370
2016	620,000	905,770	1,525,770
2017	635,000	876,320	1,511,320
2018-2022	3,510,000	3,792,675	7,302,675
2023-2027	3,335,000	2,767,747	6,102,747
2028-2030	3,975,000	450,000	4,425,000
	<u>\$ 13,915,000</u>	<u>\$ 11,620,870</u>	<u>\$ 25,535,870</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 12 LONG-TERM DEBT (CONTINUED)

There were no interest costs, nor investment income on borrowed funds during the year ended June 30, 2012. A summary of interest cost, Build America Bonds Credit, and investment income on borrowed funds during the year ended June 30, 2012 is as follows:

	<u>2012</u>	<u>2011</u>
Interest Cost:		
Capitalized as Part of Construction Project	\$ 927,970	\$ 469,141
Recognized as Interest Expense	<u>41,627</u>	<u>82,036</u>
Total	<u>\$ 969,597</u>	<u>\$ 551,177</u>
Build America Bond Credit:		
Capitalized as Part of Construction Project (Reduction of Cost)	\$ -	\$ 176,314
Recognized as Nonoperating Revenue	<u>593,887</u>	<u>-</u>
Total	<u>\$ 593,887</u>	<u>\$ 176,314</u>
Investment Income:		
Capitalized as Part of Construction Project (Reduction of Cost)	<u>\$ 28,306</u>	<u>\$ 4,914</u>

NOTE 13 LEASES

The Hospital leases certain equipment and building space under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2012 and 2011 for all operating leases was \$139,824 and \$134,683, respectively. The capitalized leased assets consist of:

	<u>2012</u>	<u>2011</u>
Major Movable Equipment	\$ 257,000	\$ 239,528
Less Accumulated Amortization (Included as Depreciation on the Accompanying Financial Statements)	<u>(107,282)</u>	<u>(131,881)</u>
	<u>\$ 149,718</u>	<u>\$ 107,647</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 13 LEASES (CONTINUED)

Minimum future lease payments for non-cancelable capital and operating leases are as follows:

Year Ending June 30,	Capital Leases	Operating Leases
2013	\$ 57,734	\$ 78,956
2014	46,517	68,000
2015	24,084	68,000
2016	24,084	68,000
2017	8,028	68,000
2018-2021	-	161,250
Total Minimum Lease Payments	160,447	\$ 512,206
Less Interest	(10,729)	
Present Value of Minimum Lease Payments - Note 9	\$ 149,718	

NOTE 14 PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 5.38% and 4.50% of their annual covered salary, and the Hospital is required to contribute 8.07% and 6.95% of annual covered payroll for the years ended June 30, 2012 and 2011, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$414,576, \$332,463, and \$275,777, respectively, equal to the required contributions for each year.

NOTE 15 RELATED ORGANIZATIONS

Master Affiliation Agreement

The Hospital entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Hancock County and the North Central Iowa region under the name of Hancock County Memorial Hospital. As a part of the Master Affiliation Agreement, the Hospital entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services and other services. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$2,487,137 and \$2,157,869 for the years ended June 30, 2012 and 2011, respectively.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 15 RELATED ORGANIZATIONS (CONTINUED)

Master Affiliation Agreement (Continued)

According to the Hospital's Master Affiliation Agreement with Mercy Medical Center – North Iowa, operating losses or operating gains that are less than \$300,000 are allocated entirely to the Hospital. Operating losses or operating gains equal to or in excess of \$300,000 are shared equally between the Hospital and Mercy Medical Center – North Iowa. There was no payment due to either party under the terms of the agreement for the year ended June 30, 2010. During the year ended June 30, 2011, this provision in the Master Affiliation Agreement was removed, and no amount is due either party at June 30, 2012.

Management Services Agreement

The Hospital entered into a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides administrative staff, management consultation, and other services to the Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Hospital. Expenses for the administrative and management services received for the years ended June 30, 2012 and 2011 were \$660,793 and \$669,145, respectively.

Due to Affiliated Organization

As of June 30, 2012 and 2011, Hancock County Memorial Hospital's records reflect a due to Mercy Medical Center – North Iowa of \$173,519 and \$226,953, respectively, for the various services and distributions related to these agreements.

NOTE 16 COMMITMENTS AND CONTINGENCIES

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Litigations, Claims, and Other Disputes

The Hospital is subject to the usual contingencies in the normal course of operations and relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will be resolved without material adverse effects to the Hospital's financial position or results of operations.

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 17 DEFERRED COMPENSATION AGREEMENTS

The Hospital has entered into deferred compensation agreements with certain employees, which provide that a portion of their compensation will be deferred, to be paid upon retirement or at specific dates. The Hospital does not make any contributions under the agreements. The agreements indicate the amounts due the employees will be the amounts deferred plus or minus earnings or losses realized on the investments of the funds at the time payment is to be made.

On August 20, 1996, the provision of the Internal Revenue Code Section 457 was amended to enable plans to hold all assets and income of the plan in a trust for the exclusive benefit of participants and their beneficiaries. These assets were previously required to be held as property of the Hospital. The Governmental Accounting Standards Board (GASB) issued Statement 32 in October 1997. GASB 32 is effective for the year ended June 30, 1999, or on the date (if earlier) that the plan changes its trust provisions. The Hospital plan has been amended to hold the plan assets in trust for the plan participants and their beneficiaries.

The agreements are funded with insurance contracts, stated at the greater of cost or cash value. The fair market value of the plan was \$548,077 and \$513,241 at June 30, 2012 and 2011, respectively.

NOTE 18 RISK MANAGEMENT

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

NOTE 19 CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2012 and 2011 was as follows:

	2012	2011
Medicare	33%	39%
Medicaid	2%	5%
Commercial Insurance and Other Third-Party Payors	38%	36%
Self-Pay	27%	20%
	100%	100%

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REQUIRED SUPPLEMENTARY INFORMATION

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**HANCOCK COUNTY MEMORIAL HOSPITAL
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS – BUDGET AND ACTUAL
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2012**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 1,026,879	\$ -	\$ 1,026,879	\$ 1,025,199	\$ 1,680
Estimated Other Revenues/Receipts	<u>14,703,544</u>	<u>7,775,103</u>	<u>22,478,647</u>	<u>16,191,101</u>	<u>6,287,546</u>
	15,730,423	7,775,103	23,505,526	17,216,300	6,289,226
Expenses/Disbursements	<u>14,321,882</u>	<u>7,633,401</u>	<u>21,955,283</u>	<u>15,632,279</u>	<u>(6,323,004)</u>
Net	1,408,541	141,702	1,550,243	1,584,021	(33,778)
Transfers	-	-	-	-	-
Balance Beginning of Year	<u>13,934,272</u>	<u>(9,867,883)</u>	<u>4,066,389</u>	<u>11,009,351</u>	<u>(6,942,962)</u>
Balance End of Year	<u><u>\$ 15,342,813</u></u>	<u><u>\$ (9,726,181)</u></u>	<u><u>\$ 5,616,632</u></u>	<u><u>\$ 12,593,372</u></u>	<u><u>\$ (6,976,740)</u></u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences.

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. The budget was not amended during the year ended June 30, 2012.

For the year ended June 30, 2012, the Hospital's expenditures did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2012 AND 2011**

	TOTAL	
	2012	2011
PATIENT CARE SERVICES		
Medical and Surgical	\$ 2,346,641	\$ 2,254,407
OTHER PROFESSIONAL SERVICES		
Operating Room	1,360,054	1,251,414
Recovery Room	361,532	310,414
Radiology	3,608,022	3,081,984
Nuclear Medicine	182,829	124,563
Laboratory	5,534,803	4,844,263
Blood	84,770	80,903
Respiratory Therapy	554,751	392,534
Physical Therapy	727,514	697,563
Occupational Therapy	208,168	230,236
Speech Therapy	97,597	66,701
Electrocardiology	320,998	293,038
Medical and Surgical Supplies	217,993	219,368
Pharmacy	1,677,263	2,019,572
Cardiac Rehabilitation	182,115	132,992
Diabetic Education	38,332	40,527
Massage Therapy	-	5,301
Nail Care	18,268	16,235
Britt Clinic	1,628,830	1,445,353
Garner Clinic	2,311,422	2,113,467
Wesley Clinic	314,067	229,332
Kanawha Clinic	175,313	126,633
Emergency Services	1,870,321	1,661,642
Specialty Surgeon	122,060	78,880
Garner Rec Clinic - Physical Therapy	216,872	194,143
Total	<u>24,160,535</u>	<u>21,911,465</u>
Charity Care	(108,581)	(181,039)
Patient Service Revenues	<u>24,051,954</u>	<u>21,730,426</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(5,135,493)	(4,480,577)
Medicaid	(692,413)	(535,594)
Other	(3,422,843)	(2,741,492)
Provision for Bad Debts	(1,086,250)	(757,158)
Total Deductions	<u>(10,336,999)</u>	<u>(8,514,821)</u>
Net Patient Service Revenues	<u>\$ 13,714,955</u>	<u>\$ 13,215,605</u>

INPATIENT		OUTPATIENT	
2012	2011	2012	2011
\$ 2,084,218	\$ 2,035,671	\$ 262,423	\$ 218,736
77,199	76,574	1,282,855	1,174,840
12,695	12,327	348,837	298,087
238,847	194,912	3,369,175	2,887,072
-	-	182,829	124,563
673,439	686,632	4,861,364	4,157,631
41,191	28,285	43,579	52,618
355,782	335,660	198,969	56,874
304,266	254,150	423,248	443,413
196,150	214,936	12,018	15,300
82,906	59,140	14,691	7,561
27,278	24,607	293,720	268,431
67,358	62,757	150,635	156,611
956,411	1,180,836	720,852	838,736
-	-	182,115	132,992
-	-	38,332	40,527
-	-	-	5,301
-	-	18,268	16,235
-	-	1,628,830	1,445,353
-	-	2,311,422	2,113,467
-	-	314,067	229,332
-	-	175,313	126,633
26,206	36,055	1,844,115	1,625,587
13,142	1,886	108,918	76,994
-	-	216,872	194,143
<u>\$ 5,157,088</u>	<u>\$ 5,204,428</u>	<u>\$ 19,003,447</u>	<u>\$ 16,707,037</u>

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**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
OTHER REVENUES		
Meal Sold	\$ 59,617	\$ 75,773
Grant Revenues	49,123	75,637
Dietary Assessment and Consulting	23,690	18,517
Medical Records Transcripts	3,162	2,103
Build America Bonds Rebate Grant Revenue	593,887	-
Miscellaneous	<u>63,986</u>	<u>42,723</u>
 Total Other Revenues	 <u>\$ 793,465</u>	 <u>\$ 214,753</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011**

	TOTAL	
	2012	2011
Employee Benefits	\$ 1,345,282	\$ 1,189,921
Administrative and General	2,035,379	1,865,913
Operation of Plant	464,677	436,261
Laundry and Linen	32,417	30,675
Housekeeping	127,464	121,303
Dietary	278,424	294,069
Nursing Administration	57,137	52,397
Central Supply	118,175	132,389
Pharmacy	405,519	473,258
Medical Records	242,637	222,058
Social Service	9,554	10,117
Adults and Pediatrics	1,105,521	1,116,407
Operating and Recovery Rooms	238,626	242,704
Anesthesiology	131,322	125,805
Radiology	685,734	632,964
Nuclear Medicine	57,353	40,619
Laboratory	580,578	562,408
Blood	28,316	31,682
Respiratory Therapy	35,022	19,113
Physical Therapy	221,368	190,451
Occupational Therapy	82,216	90,236
Speech Pathology	46,714	33,357
Electrocardiology	18,699	19,316
Cardiac Rehabilitation	47,996	42,510
Medical Supplies	504,939	337,182
Massage Therapy	(20)	7,402
Nail Care	41,733	30,501
Britt Clinic	1,177,897	1,127,901
Garner Clinic	1,408,544	1,345,140
Wesley Clinic	243,727	212,616
Kanawha Clinic	173,100	156,038
Emergency Services	1,090,923	1,099,302
Ambulance	8,280	12,469
Specialty Surgeon	39,902	27,598
Garner Rec Clinic - Physical Therapy	107,828	103,986
Depreciation and Amortization	1,087,272	1,011,739
Interest Expense	41,627	82,036
TOTAL	\$ 14,321,882	\$ 13,529,843

SALARIES		OTHER	
2012	2011	2012	2011
\$ -	\$ -	\$ 1,345,282	\$ 1,189,921
594,882	550,260	1,440,497	1,315,653
230,937	213,814	233,740	222,447
7,277	5,524	25,140	25,151
96,429	95,427	31,035	25,876
210,608	210,449	67,816	83,620
56,473	51,397	664	1,000
81,485	61,218	36,690	71,171
5,674	1,793	399,845	471,465
205,411	189,688	37,226	32,370
9,554	9,419	-	698
1,104,565	1,115,610	956	797
77,533	70,825	161,093	171,879
-	-	131,322	125,805
245,694	215,988	440,040	416,976
-	-	57,353	40,619
275,698	272,359	304,880	290,049
1,999	1,965	26,317	29,717
-	-	35,022	19,113
196,700	174,058	24,668	16,393
891	-	81,325	90,236
-	-	46,714	33,357
5,581	5,391	13,118	13,925
42,715	39,070	5,281	3,440
-	-	504,939	337,182
(20)	5,323	-	2,079
16,274	14,369	25,459	16,132
677,015	636,480	500,882	491,421
580,664	478,744	827,880	866,396
87,296	60,867	156,431	151,749
108,980	80,187	64,120	75,851
208,807	202,882	882,116	896,420
-	-	8,280	12,469
-	-	39,902	27,598
52,867	49,667	54,961	54,319
-	-	1,087,272	1,011,739
-	-	41,627	82,036
<u>\$ 5,181,989</u>	<u>\$ 4,812,774</u>	<u>\$ 9,139,893</u>	<u>\$ 8,717,069</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF PATIENT AND RESIDENT RECEIVABLES,
ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)
YEARS ENDED JUNE 30, 2012 AND 2011**

Analysis of Aging	2012		2011	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 Days or Less	\$ 1,809,805	60.97%	\$ 2,152,764	59.63%
31 to 60 Days	341,298	11.50%	540,057	14.96%
61 to 90 Days	205,705	6.93%	213,045	5.90%
91 Days and Over	611,427	20.60%	704,505	19.51%
	2,968,235	100.00%	3,610,371	100.00%
Less: Allowance for Doubtful Accounts	358,245		331,000	
Allowance for Contractual Adjustments	1,080,775		1,079,066	
Net	<u>\$ 1,529,215</u>		<u>\$ 2,200,305</u>	

**Analysis of Allowance for Doubtful Accounts
Years Ended June 30, 2012 and 2011**

	2012	2011
Beginning Balance	\$ 331,000	\$ 321,690
Add:		
Provision for Bad Debts	1,086,250	757,157
Recoveries Previously Written Off	102,863	95,667
	<u>1,189,113</u>	<u>852,824</u>
Less:		
Accounts Written Off	(1,161,868)	(843,514)
Ending Balance	<u>\$ 358,245</u>	<u>\$ 331,000</u>

Collection Statistics

Net Accounts Receivable - Patients	1,529,215	2,200,305
Number of Days Charges Outstanding (1)	40	61
Uncollectible Accounts (2)	1,194,831	955,154
Percentage of Uncollectible Accounts to Total Charges	4.9%	4.4%

(1) Based on Average Day Net Patient Service Revenue for April, May, and June.

(2) Includes Provision for Bad Debts, Charity Care, and Collection Fees.

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2012 AND 2011**

	2012	2011
INVENTORIES		
General	\$ 49,029	\$ 37,721
Pharmacy	32,997	40,302
Central Supply	67,057	67,416
 Total Inventories	 \$ 149,083	 \$ 145,439
 PREPAID EXPENSES		
Insurance	\$ 10,323	\$ 10,895
Service Contracts/Other	70,985	80,488
Membership Dues	17,775	21,005
 Total Prepaid Expenses	 \$ 99,083	 \$ 112,388

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Patient Days		
Acute (includes Hospice)	1,009	1,040
Swing-Bed*	2,245	2,392
Total	<u>3,254</u>	<u>3,432</u>
Admissions		
Acute (includes Hospice)	366	371
Swing-Bed*	181	194
Total	<u>547</u>	<u>565</u>
Discharges		
Acute (includes Hospice)	366	372
Swing-Bed*	179	196
Total	<u>545</u>	<u>568</u>
Average Length of Stay		
Acute (includes Hospice)	3	3
Swing-Bed*	13	12
All Patients	6	6
Beds	25	25
Percentage of Occupancy		
Acute (includes Hospice), based on 15 beds	18.4%	19.0%
Swing-bed, based on 10 beds	61.5%	65.5%
All Patients, based on 25 beds	35.7%	37.6%
Outpatient Visits	<u>18,092</u>	<u>18,142</u>
Physician Clinic Visits		
Britt	9,601	9,202
Garner	9,903	9,528
Kanawha	1,087	789
Wesley	1,858	1,395
Total	<u>22,449</u>	<u>20,914</u>

* Includes swing-bed and swing-bed self-pay patients



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

Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the accompanying balance sheet of Hancock County Memorial Hospital as of June 30, 2012, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated November 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 a 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. We consider the deficiencies described in the accompanying schedule of findings and responses listed as items 2012-1 and 2012-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Hancock County Memorial Hospital are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. 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.

Hancock County Memorial Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Hospital's responses, we did not audit Hancock County Memorial Hospital's responses, and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Hancock County Memorial Hospital and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Austin, Minnesota
November 6, 2012

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Part I: Findings Related to the Financial Statements:

Material Weaknesses:

2012-1 Segregation of Duties

Criteria – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

Cause – A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect – Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of the Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion – Response accepted.

2012-2 Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2012**

Part I: Findings Related to the Financial Statements: (Continued)

Condition – Hancock County Memorial Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Cause – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of Hospital management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally. **Response** – This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2012**

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 **Certified Budget** – Disbursements during the year ended June 30, 2012, exceeded budgeted expenditure amounts on a cash basis. However, the expenditures resulting in the excess were related to a significant construction project. In the absence of these capital expenditures, the Hospital did not exceed the amount budgeted for their ongoing operations.
- Recommendation** – It is recommended that the Hospital take into consideration their budgeted capital expenditures when preparing their budget, which is measured on the cash basis in accordance with the Code of Iowa.
- Response** – We will consider budgeted capital expenditures when preparing our annual budget.
- Conclusion** – Response accepted
- II-B-12 **Questionable Expenditures** – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-12 **Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-D-12 **Business Transactions** – We noted no material business transactions between the Hospital and Hospital officials and/or employees.
- II-E-12 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-12 **Deposits and Investments** – The Hospital did not exceed limits within its depository resolution during the year ended June 30, 2012.
- II-G-12 **Publication of Bills Allowed and Salaries** – Chapter 347.13(11) of the Code of Iowa states “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 newspapers the schedule of salaries paid by job classification and category...” The Hospital published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.
- II-H-12 **Chapter 28E Organization** – The Hospital participates in a joint venture under the provisions of Chapter 28E of the Code of Iowa for the provision of ultrasound services. The provisions of Chapter 28E require that a joint venture with gross receipts in excess of \$100,000 have a financial statement audit. An audit was not required in the current year for the joint venture.