

**HANCOCK COUNTY HEALTH SYSTEM**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2014 AND 2013**

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b><u>Board of Trustees</u></b>		
Mary Kopacek	Chairperson	December 31, 2016
Rob Willms	Vice-Chairperson/Treasurer	December 31, 2016
Bill Paulus	Secretary	December 31, 2018
Dorothy Denny	Member	December 31, 2014
DeAnna Kelly	Member	December 31, 2014
Ron Eden	Member	December 31, 2016
Ellen Tusha	Member	December 31, 2018

\* \* \* \* \*

<b><u>Health System Officials</u></b>		
Vance Jackson	Chief Executive Officer	
Laura Zwiefel	Chief Nursing Officer/Clinical Services	
Julie Damm	Chief Financial Officer	

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Hancock County Health System  
Britt, Iowa

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of Hancock County Health System, which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to an express opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Hancock County Health System as of June 30, 2014 and 2013, and the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-7 and budgetary comparison information on pages 28-29 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Hancock County Health System as a whole. The supplementary information on pages 30 through 36 is presented for the purpose of additional analysis and is not a required part of the basic 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.

The table of the board of trustees and health system officials and schedule of comparative statistics has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014 on our consideration of Hancock County Health System's internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hancock County Health System's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
October 22, 2014

**HANCOCK COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014 AND 2013**

This discussion and analysis of the financial performance of Hancock County Health System provides an overall review of the Health System's financial activities and balances as of and for the years ended June 30, 2014, 2013, and 2012. The intent of this discussion is to provide further information on the Health System's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Health System's financial statements, including the notes thereto, to enhance their understanding of the Health System's financial status.

**Overview of the Financial Statements**

The financial statements are composed of the statements of net position, statements of revenues, expenses, and changes in net position, 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 Health System's finances.

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

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. These statements measure the success of the Health System's operations over the past year and can be used to determine whether the Health System has successfully recovered all of its costs through its patient and resident 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 Statements of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the net position of the Health System and Foundation and the changes in them. The Health System's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health System's net position 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 Statement of Net Position at June 30, 2014, indicates total assets of \$32,342,141, total liabilities of \$14,964,317, deferred inflows of \$1,202,583, and net position of \$16,445,241.
- The Statements of Revenues, Expenses and Changes in Net Position indicates total net patient service revenue of \$18,470,015, an increase of 18.7% over the previous fiscal year, total operating expenses of \$19,662,849, an increase of 16.9%, resulting in a loss from operations of \$361,299. Net non-operating revenues of \$1,238,104 bring the excess of revenues over expenses to \$876,805, a 111% increase from the prior year.

**HANCOCK COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014 AND 2013**

**Financial Highlights (Continued)**

- The Health System's current assets exceeded its current liabilities by \$6,778,650 at June 30, 2014, providing a 3.0 current ratio.
- The Health System recorded an excess of revenues over expenses for fiscal year ending June 30, 2014, amounting to \$669,767.
- Total patient days for the year ended June 30, 2014 amount to:
  - 837 -Acute Care (includes Hospice) (1.2% decrease from the prior year)
  - 2,138 - Swing-bed & Swing-bed Self Pay (24.5% decrease from the prior year)
  - 20,088 - Outpatient Visits (9.7% increase from the prior year)
  - 22,819 - Physician Clinic Visits (8.8% decrease from the prior year)

**Organization Highlights**

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

- New Providers added: Mark Lloyd, DO; Kendra Ulicki, ARNP, and Roger Barillas, ARNP.
- Senior Life Solutions: A \$610,000 renovation projects using internal funds started in May 2014 and was completed in August 2014. The goal of the program is to provide coping skills and strategies to individuals 65 years of age or older and adults to improve their overall health.
- Population Health department grew from one full time Health Coach to include a full time Health Navigator in February 2014 and a full time Diabetes Educate/Health Coach in June 2014.
- HCHS established contracts for a retail 340B program during fiscal year 2014 with three retail pharmacies located in Britt, Clear Lake, and Mason City.
- Received the 2013 Gold Plus Achievement award from the American Heart Association/American Stroke Association.
- Received the HealthStrong Award for excellence in efficiency reflecting top quartile performance among all acute care hospitals in the nation.
- Recognized in October 2013 at the Iowa Hospital Association's Fall Workers' Compensation Program for outstanding performance.

**Future Goals:**

- Will convert the entire organization, including hospital and clinics to the Cerner Community Works electronic health records; Multview General Ledger and Optimum Payroll in fiscal year 2015.

**HANCOCK COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014 AND 2013**

**Condensed Financial Statements**

**Table 1: Statements of Net Position**

	2014	2013	2012 As Restated
<b>Assets:</b>			
Current Assets	\$ 10,409,697	\$ 8,390,950	\$ 8,542,002
Noncurrent Cash and Investments	3,536,898	3,887,548	6,212,031
Capital Assets, Net	17,909,336	18,655,424	17,302,573
Other Assets	486,210	477,095	433,270
Total Assets	<u>\$ 32,342,141</u>	<u>\$ 31,411,017</u>	<u>\$ 32,489,876</u>
<b>Liabilities:</b>			
Total Current Liabilities	\$ 2,221,426	\$ 1,978,819	\$ 2,984,054
Long-Term Debt (Less Current Maturities)	12,472,891	12,733,042	13,366,963
Total Liabilities	<u>14,694,317</u>	<u>14,711,861</u>	<u>16,351,017</u>
Deferred Inflows of Resources	<u>1,202,583</u>	<u>1,168,136</u>	<u>1,059,820</u>
<b>Net Position:</b>			
Invested in Capital Assets Net of Related Debt	4,720,071	5,288,460	3,237,855
Restricted:			
Under Bond Agreement	1,328,408	1,356,473	3,150,246
Plant Replacement and Expansion Funds	-	18,669	588,641
Unrestricted	10,396,762	8,867,418	8,102,297
Total Net Position	<u>16,445,241</u>	<u>15,531,020</u>	<u>15,079,039</u>
Total Liabilities and Net Position	<u>\$ 32,342,141</u>	<u>\$ 31,411,017</u>	<u>\$ 32,489,876</u>

**HANCOCK COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014 AND 2013**

**Condensed Financial Statements (Continued)**

**Table 2: Statement of Revenues, Expenses and Changes in Net Position**

	2014	2013	2012 As Restated
Net Patient Service Revenue	\$ 18,470,015	\$ 15,563,905	\$ 13,714,955
Other Operating Revenue	831,535	502,349	793,465
Total Revenue	<u>19,301,550</u>	<u>16,066,254</u>	<u>14,508,420</u>
Operating Expenses			
Salaries and Wages	7,164,508	6,099,329	5,540,889
Employee Benefits	1,819,217	1,588,898	1,345,282
Utilities	7,723,568	7,189,130	6,306,812
Depreciation	1,872,678	1,616,097	1,018,395
Interest and Amortization	1,082,878	325,525	62,324
Total Operating Expenses	<u>19,662,849</u>	<u>16,818,979</u>	<u>14,273,702</u>
Operating Income	(361,299)	(752,725)	234,718
Non-Operating Revenues (Expenses)			
Tax Apportionments	1,171,240	1,061,795	1,026,879
Interest Income	30,707	33,452	46,041
Rental Income	55,808	46,604	57,155
Contributions	14,789	54,563	28,252
Gain (Loss) on Sale of Property and Equipment	(34,440)	(27,987)	1,445
Miscellaneous Income (Expense)	-	-	8,923
Non-Operating Revenues (Expenses)	<u>1,238,104</u>	<u>1,168,427</u>	<u>1,168,695</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	876,805	415,702	1,403,413
Capital Grants and Contributions	<u>37,416</u>	<u>36,279</u>	<u>53,308</u>
Increase in Net Position	914,221	451,981	1,456,721
Net Position, Beginning of Year	<u>15,531,020</u>	<u>15,079,039</u>	<u>13,622,318</u>
Net Position, End of Year	<u><u>\$ 16,445,241</u></u>	<u><u>\$ 15,531,020</u></u>	<u><u>\$ 15,079,039</u></u>

**Capital Assets**

During the 2013 fiscal year, Hancock County Health System (HCHS) completed a \$12.6 million renovation. The Project consisted 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 includes new physical therapy, cardiac rehab and administrative areas. The second floor of the addition includes a new inpatient unit. The third floor is being shelled for future expansion potential. Renovation and remodeling of administrative areas and the existing inpatient unit will be completed. The Project provides HCHS with all private inpatient rooms. The HCHS Garner Clinic location has also been remodeled as part of the project.

Current construction in progress costs consist a Senior Life Solutions Project along with hardware and software costs resulting from the parking lot improvements and Cerner upgrade.

**HANCOCK COUNTY HEALTH SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014 AND 2013**

**Long-Term Debt**

Hancock County Health System had \$716,374 and \$12,472,891 in short-term and long-term debt, respectively, for the year ended June 30, 2014, and \$633,922 and \$12,733,042 in short-term and long-term debt, respectively, for the year ended June 30, 2013. 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 recently completed building and remodeling project. Additional debt was incurred during 2014 due to a lease agreement entered into.

**Economic and Other Factors and Next Year's Budget**

The Health System's Board and management considered many factors when preparing the fiscal year 2015 budget. Of primary consideration in the 2015 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
- Managed Care 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
- Pay-for-performance and quality indicators
- Technology advances
- Medical Staff issues
- Lower return on investments
- Cerner Community Works Electronic Health Records (Hospital and Clinics)

**Summary**

The Health System's Board of Trustees and Administrative Team continue to be extremely proud of the excellent patient care, dedication, commitment and support each of our 184 employees provides to every person they serve. We would also like to thank each member of the Health System's Medical Staff for their dedication and support provided.

**Contacting the Health System's Finance Department**

The Health System's financial statements are designed to present users with a general overview of the Health System's finances and to demonstrate the Health System'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 Health System  
Attn: CEO  
532 1st ST NW  
Britt, IA 50423

**HANCOCK COUNTY HEALTH SYSTEM  
STATEMENTS OF NET POSITION  
JUNE 30, 2014 AND 2013**

	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 6,043,316	\$ 4,423,318
Patient Receivables, Less Allowance for Uncollectible Accounts of \$444,772 in 2014 and \$424,625 in 2013	2,654,188	1,884,677
Other Receivables	196,701	100,523
Estimated Third-Party Payor Settlements	-	482,903
Tax Receivable, Succeeding Year Property Tax	1,202,583	1,168,136
Inventories	176,547	237,188
Prepaid Expenses	136,362	94,205
Total Current Assets	10,409,697	8,390,950
 <b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally Designated for Capital Improvements	1,545,536	1,870,708
Restricted Under Bond Agreement	1,328,408	1,356,473
Restricted Foundation Fund	662,954	641,698
Restricted Plant Replacement and Expansion Funds	-	18,669
Total Noncurrent Cash and Investments	3,536,898	3,887,548
 <b>CAPITAL ASSETS, NET</b>	 17,909,336	 18,655,424
 <b>OTHER ASSETS</b>		
Real Estate Held for Investment	281,284	281,284
Physician Recruitment and Tuition Fees, Net	204,926	195,811
Total Other Assets	486,210	477,095
Total Assets	\$ 32,342,141	\$ 31,411,017

See accompanying Notes to Financial Statements.

	<u>2014</u>	<u>2013</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 716,374	\$ 633,922
Accounts Payable:		
Trade	305,564	285,308
Due To Affiliated Organization	253,145	328,732
Accrued Expenses:		
Salaries, Wages and Vacation	544,800	534,089
Interest	77,448	78,033
Payroll Taxes and Other	131,949	118,735
Estimated Third-Party Payor Settlements	192,146	-
Total Current Liabilities	<u>2,221,426</u>	<u>1,978,819</u>
<b>LONG-TERM DEBT, Less Current Maturities</b>	<u>12,472,891</u>	<u>12,733,042</u>
Total Liabilities	14,694,317	14,711,861
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Succeeding Year Property Tax Receivable	1,202,583	1,168,136
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET POSITION</b>		
Net Investment in Capital Assets	4,720,071	5,288,460
Restricted:		
Expendable Under Bond Agreement	1,328,408	1,356,473
Expendable Plant Replacement and Expansion Funds	-	18,669
Unrestricted	<u>10,396,762</u>	<u>8,867,418</u>
Total Net Position	<u>16,445,241</u>	<u>15,531,020</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 32,342,141</u>	<u>\$ 31,411,017</u>

**HANCOCK COUNTY HEALTH SYSTEM  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>OPERATING REVENUES</b>		
Net Patient Service Revenues (Net of Provision for Bad Debts of \$1,121,525 in 2014 and \$1,107,137 in 2013)	\$ 18,470,015	\$ 15,563,905
Other Revenue	831,535	502,349
Total Revenues	19,301,550	16,066,254
<b>EXPENSES</b>		
Salaries and Wages	7,164,508	6,099,329
Employee Benefits	1,819,217	1,588,898
Supplies and Other	7,723,568	7,189,130
Depreciation	1,872,678	1,616,097
Interest and Amortization	1,082,878	325,525
Total Expenses	19,662,849	16,818,979
<b>OPERATING LOSS</b>	(361,299)	(752,725)
<b>NONOPERATING GAINS (LOSSES)</b>		
County Tax Revenue	1,171,240	1,061,795
Investment Income	30,707	33,452
Rental Income	55,808	46,604
Contribution Revenue, Net of Fundraising Expenses	14,789	54,563
Gain (Loss) on Disposal of Capital Assets	(34,440)	(27,987)
Non-Operating Gains, Net	1,238,104	1,168,427
<b>EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	876,805	415,702
Capital Grants and Contributions	37,416	36,279
<b>INCREASE IN NET POSITION</b>	914,221	451,981
Net Position, Beginning of Year	15,531,020	15,079,039
<b>NET POSITION, END OF YEAR</b>	\$ 16,445,241	\$ 15,531,020

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY HEALTH SYSTEM  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts of Patient Service Revenue	\$ 18,375,553	\$ 14,389,204
Payments of Salaries and Wages	(8,990,836)	(7,441,423)
Payments of Supplies and Other Expenses	(7,816,501)	(7,290,602)
Other Receipts and Payments, Net	700,910	350,161
Net Cash Provided by Operating Activities	2,269,126	7,340
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Non-Capital Contributions Received, Net of Related Fundraising	14,789	54,563
County Tax Revenue Received	1,171,240	1,061,795
Rental Income	55,808	46,604
Net Cash Provided by Non-Capital Financing Activities	1,241,837	1,162,962
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of Property and Equipment	(647,643)	(3,131,638)
Principal Payments on Long-Term Debt	(704,859)	(697,754)
Interest Payments on Long-Term Debt	(957,236)	(960,938)
Capital Contributions and Grants	37,416	36,279
Net Cash Used by Capital and Related Financing Activities	(2,272,322)	(4,754,051)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in Noncurrent Cash and Investments	350,650	2,356,983
Interest Earned on Investments	30,707	33,452
Net Cash Provided by Investing Activities	381,357	2,390,435
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,619,998	(1,193,314)
Cash and Cash Equivalents - Beginning	4,423,318	5,616,632
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	\$ 6,043,316	\$ 4,423,318

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY HEALTH SYSTEM  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (361,299)	\$ (752,725)
Adjustments to Reconcile Operating Loss to Net Cash		
Provided by Operating Activities:		
Depreciation	1,872,678	1,616,097
Amortization	125,642	60,704
Interest Expense Considered Capital and Related Financing Activity	957,236	264,821
Provision for Bad Debts	1,121,525	1,107,137
Changes in Assets and Liabilities:		
Patient Receivables	(1,891,036)	(1,462,599)
Other Receivables	(130,625)	(152,188)
Inventories	60,641	(88,105)
Prepaid Expenses	(42,157)	4,878
Other Assets	(134,757)	(44,807)
Accounts Payable - Trade and Related Party	(41,558)	138,488
Accrued Expenses	23,340	26,562
Deferred Revenue	34,447	108,316
Estimated Third-Party Payor Settlements	675,049	(819,239)
Net Cash Provided by Operating Activities	\$ 2,269,126	\$ 7,340
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE INFORMATION</b>		
Capital assets acquired under capital lease obligations	\$ 527,160	\$ -

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Hancock County Health System (Health System) is the county hospital of Hancock County, located in the City of Britt, Iowa. It is organized under Chapter 347 of the Code of Iowa. The Health System provides health care services under the name of Hancock County Health System in accordance with a Master Affiliation Agreement – see Note 15. Services are provided primarily to residents of Hancock County and the surrounding counties in north central Iowa.

**Reporting Entity**

For financial reporting purposes, Hancock County Health System has included all funds, organizations, agencies, boards, commissions, and authorities. The Health System 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 Health System are such that exclusion would cause the Health System'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 Health System 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 Health System. Hancock County Health System Foundation meets these criteria and is included in the Health System's financial statements. Hancock County Health System has no other component units which meet the GASB criteria.

**Basis of Presentation**

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

*Net investment in capital assets* 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 Position*

*Nonexpendable* – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Health System.

*Expendable* – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 Health System's financial statements are prepared in conformity 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 Health System 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.

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

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, residents, 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 and residents 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, 2014 and 2013, the allowance for uncollectible accounts was approximately \$444,800 and \$424,600, respectively.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Other Receivables**

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

**Inventory**

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

**Capital Assets**

Capital asset acquisitions of \$5,000 or greater are capitalized and are recorded at cost. Capital assets donated for Health System's operations are recorded as additions to net position 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 set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; and assets which are restricted by bond agreements. Noncurrent cash and investments that are available for obligations classified as current liabilities are reported in current assets.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Noncurrent Cash and Investments (Continued)**

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Health System for its stated purposes. Resources set aside for board designated purposes are not considered to be restricted. Contributions are reported in nonoperating revenue. Grants restricted for specific operating purposes are reported as other operating revenues.

**Compensated Absences**

Health System employees accumulate a limited amount of earned but unused paid time-off for subsequent use or for payment upon termination, death, or retirement. The cost of projected paid time-off payouts is recorded as a current liability on the statement of net position, based on pay rates that are in effect at June 30, 2014 and 2013.

**Deferred Inflows of Resources**

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 inflows of resources 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 inflows of resources consists of succeeding year property tax receivable.

**Operating Revenues and Expenses**

The Health System's statement of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Health System's principal activity. Nonexchange revenues, including interest income, 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 and Resident Service Revenue**

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments.

Patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, 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.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

**Advertising Costs**

Costs incurred for producing and distributing advertising are expensed as incurred. The Health System incurred \$96,495 and \$76,987 for advertising costs for the years ended June 30, 2014 and 2013, respectively.

**Charity Care**

To fulfill its mission of community service, the Health System provides care to patients and residents 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 and residents is automatically recorded in the accounting system at the established rates, but the Health System 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.

**Electronic Health Record Incentive Payments**

The Health System did not received funds under the Electronic Health Records (EHR) Incentive Program during 2014 or 2013. The Health System recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured the Health System 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.

**Change in Accounting Standards**

The Hospital adopted GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which renames the residual amounts from "net assets" to "net position". The financial statements include the Statement of Net Position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Change in Accounting Standards (Continued)**

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes GASB 20. GASB 20 gave governments the choice to elect to follow only GASB's authoritative literature, or to follow FASB and AICPA pronouncements that did not conflict with GASB pronouncements. Upon adoption of GASB 62, all governmental accounting guidance is codified into the GASB literature.

**Reclassifications**

Certain items in the 2013 financial statements have been reclassified for consistency with the 2014 financial statements. The results of these reclassifications did not result in changes to the Hospital's net position or increase in net position as previously reported.

**NOTE 2 DESIGNATED POSITION**

Of the \$10,396,762 and \$8,867,418 of unrestricted net position at June 30, 2014 and 2013, respectively, the board of trustees has designated \$1,545,536 and \$1,870,708, 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 Health System 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 approximately \$163,021 and \$141,451 for the years ended June 30, 2014 and 2013, respectively. The estimated costs of the charges foregone, based upon the Health System's overall cost-to-charge ratio calculation, for the years ended June 30, 2014 and 2013, were approximately \$98,600 and \$87,400, respectively.

In addition, the Health System 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 Health System 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 HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 4 NET PATIENT SERVICE REVENUE**

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

**Medicare:** The Health System is licensed as a Critical Access Hospital (CAH). The Health System is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Health System and are subject to audits thereof by the Medicare fiscal intermediary. The Health System's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2012.

**Medicaid:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Health System is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health System and audits thereof by the Medicaid fiscal intermediary. The Health System's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2011.

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

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.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Gross Patient and Resident Service Revenue	\$ 31,965,733	\$ 26,599,685
Revenue Adjustments:		
Medicare	(6,446,512)	(5,238,469)
Medicaid	(1,189,663)	(942,666)
Other	(4,738,018)	(3,747,508)
Provision for Bad Debt	<u>(1,121,525)</u>	<u>(1,107,137)</u>
Total Contractual Adjustments and Bad Debts	<u>(13,495,718)</u>	<u>(11,035,780)</u>
Net Patient and Resident Service Revenue	<u>\$ 18,470,015</u>	<u>\$ 15,563,905</u>

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 5 ESTIMATED AMOUNTS DUE FROM AND DUE TO CONTRACTING AGENCIES**

Hancock County Health System has entered into reimbursement agreements with the Social Security Administration and Hospital Service, Inc. of Iowa for services rendered to Medicare, Medicaid and Wellmark patients. The reimbursements are based on the costs of caring for these patients as determined by cost findings prepared annually. However, reimbursements cannot exceed the charges for the patient service. Medicare and Medicaid allow any excess of cost over charges to be carried forward and recovered in the subsequent two years. Recovery is limited to the extent the cost finding for either year shows an excess of charges over costs.

Under the reimbursement agreements, interim payments at prevailing rates have been made to the Hospital during the year. The annual cost findings indicated the Health Center owed the agencies approximately \$399,000 at June 30, 2014. At June 30, 2013, the agencies owed the hospital approximately \$483,000.

**NOTE 6 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 in June of 2012. This amount is recognized as other operating revenue in the statements of revenues, expenses, and changes in net position. 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.

Subsequent to year end the Health Center entered into a contract for the purchase of a new electronic health record system. The system is expected to cost approximately \$1.5 million and will be financed through a Municipal Tax Exempt Loan. It is scheduled to be implemented during calendar 2015.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 7 PATIENT RECEIVABLES**

Patient Receivables reports as current assets by the Health System at June 30, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Receivable from Patients and Their Insurance Carriers	\$ 2,185,934	\$ 1,783,910
Receivable from Medicare	748,651	497,724
Receivable from Medicaid	<u>164,375</u>	<u>27,668</u>
Total Patient Receivables	3,098,960	2,309,302
Less: Allowance for Doubtful Accounts	<u>(444,772)</u>	<u>(424,625)</u>
Patient Receivables, Net	<u><u>\$ 2,654,188</u></u>	<u><u>\$ 1,884,677</u></u>

**NOTE 8 CASH AND DEPOSITS**

The Health System's deposits in banks at June 30, 2014 and 2013 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Health System 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, 2014 and 2013, the Health System's carrying amounts of cash and deposits are as follows:

	<u>2014</u>	<u>2013</u>
Checking and Savings Accounts	\$ 6,250,015	\$ 4,787,772
Certificates of Deposit	1,775,616	1,896,919
Money Market Accounts	<u>1,554,583</u>	<u>1,626,175</u>
	<u><u>\$ 9,580,214</u></u>	<u><u>\$ 8,310,866</u></u>
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 6,043,316	\$ 4,423,318
Assets Limited as to Use or Restricted	<u>3,536,898</u>	<u>3,887,548</u>
	<u><u>\$ 9,580,214</u></u>	<u><u>\$ 8,310,866</u></u>

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 8 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 Health System are:

The Health System 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 9 BENEFICIAL INTEREST IN NET ASSETS OF COMMUNITY FOUNDATION**

Hancock County Health System Foundation is a beneficiary of a Community Foundation maintained by an independent trustee. The assets maintained by the Community Foundation are to be held for the purpose of earning investment income for distribution to the Health System. Hancock County Health System 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 have been invested directly by Hancock County Health System and can be withdrawn by the Foundation at any time. The funds 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 and are reflected in noncurrent cash and investments as restricted foundation funds in the statements of net position. These funds amounted to \$0 and \$8,306 at June 30, 2014 and 2013, respectively.

**NOTE 10 CAPITAL ASSETS**

Summaries of capital assets at June 30, 2014 and 2013 are as follows:

	June 30, 2013	Additions	(Retirements)	Transfers	June 30, 2014
<b>Capital Assets Not Being Depreciated</b>					
Land	\$ 84,762	\$ -	\$ -	\$ -	\$ 84,762
Construction in Progress	157,850	314,944	-	(89,923)	382,871
Total Capital Assets not being depreciated	<u>242,612</u>	<u>314,944</u>	<u>-</u>	<u>(89,923)</u>	<u>467,633</u>
<b>Capital Assets Being Depreciated</b>					
Land Improvements	385,107	-	-	-	385,107
Building	11,544,503	144,771	-	1,722	11,690,996
Fixed Equipment	10,008,285	-	(11,646)	-	9,996,639
Major Movable Equipment	7,212,122	714,837	(349,645)	88,201	7,665,515
Total Capital Assets being depreciated	<u>29,150,017</u>	<u>859,608</u>	<u>(361,291)</u>	<u>89,923</u>	<u>29,738,257</u>
<b>Accumulated Depreciation:</b>					
Land Improvements	355,616	8,922	-	-	364,538
Building	4,015,495	505,636	-	-	4,521,131
Fixed Equipment	2,062,072	599,632	(11,647)	-	2,650,057
Major Movable Equipment	4,304,022	758,488	(301,682)	-	4,760,828
Total Accumulated Depreciation	<u>10,737,205</u>	<u>1,872,678</u>	<u>(313,329)</u>	<u>-</u>	<u>12,296,554</u>
Total Capital Assets Being Depreciated, Net	<u>18,412,812</u>	<u>(1,013,070)</u>	<u>(47,962)</u>	<u>89,923</u>	<u>17,441,703</u>
Total Capital Assets, Net	<u>\$ 18,655,424</u>	<u>\$ (698,126)</u>	<u>\$ (47,962)</u>	<u>\$ -</u>	<u>\$ 17,909,336</u>

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 10 CAPITAL ASSETS (CONTINUED)**

	June 30, 2012	Additions	(Retirements)	Transfers	June 30, 2013
<b>Capital Assets Not Being Depreciated</b>					
Land	\$ 84,762	\$ -	\$ -	\$ -	\$ 84,762
Construction in Progress	1,289,082	2,616,297	5,462,257	(9,209,786)	157,850
Total Capital Assets not being depreciated	<u>1,373,844</u>	<u>2,616,297</u>	<u>5,462,257</u>	<u>(9,209,786)</u>	<u>242,612</u>
<b>Capital Assets Being Depreciated</b>					
Land Improvements	393,889	-	(9,520)	738	385,107
Building	10,143,222	-	(1,841,156)	3,242,437	11,544,503
Fixed Equipment	8,482,074	8,323	(3,214,698)	4,732,586	10,008,285
Major Movable Equipment	6,347,110	381,015	(750,028)	1,234,025	7,212,122
Total Capital Assets being depreciated	<u>25,366,295</u>	<u>389,338</u>	<u>(5,815,402)</u>	<u>9,209,786</u>	<u>29,150,017</u>
<b>Accumulated Depreciation:</b>					
Land Improvements	353,476	10,922	(8,782)	-	355,616
Building	3,608,848	440,759	(34,112)	-	4,015,495
Fixed Equipment	1,595,922	540,866	(74,716)	-	2,062,072
Major Movable Equipment	3,879,320	623,550	(198,848)	-	4,304,022
Total Accumulated Depreciation	<u>9,437,566</u>	<u>1,616,097</u>	<u>(316,458)</u>	<u>-</u>	<u>10,737,205</u>
Total Capital Assets Being Depreciated, Net	<u>15,928,729</u>	<u>(1,226,759)</u>	<u>(5,498,944)</u>	<u>9,209,786</u>	<u>18,412,812</u>
Total Capital Assets, Net	<u>\$ 17,302,573</u>	<u>\$ 1,389,538</u>	<u>\$ (36,687)</u>	<u>\$ -</u>	<u>\$ 18,655,424</u>

The majority of construction in progress at June 30, 2014, represents costs incurred for Senior Life Solutions Project. Projected costs for the project are \$610,000, with an estimated completion date of September of 2014. The remaining construction costs incurred are for an information system and electronic health records conversion. The cost of this project is expected to be approximately \$1.5 million and will be financed through a Municipal Tax Exempt Loan and will qualify for the Medicare and Medicaid EHR Meaningful Use Incentive Program. It is scheduled to be implemented during calendar 2015.

**NOTE 11 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, 2014 and 2013, the estimated market value was in excess of the carrying value.

**NOTE 12 LONG-TERM DEBT**

A schedule of changes in long-term debt at June 30, 2014 and 2013 is as follows:

	Balance July 1, 2013	Additions	(Payments)	Balance June 30, 2014	Amounts Due Within One Year
Capital Lease Obligations	\$ 96,964	\$ 527,160	\$ (114,859)	\$ 509,265	\$ 111,374
Hospital Revenue Refunding Bonds, Series 2010A	640,000	-	(590,000)	50,000	50,000
Hospital Revenue Bonds, Series 2010B	12,630,000	-	-	12,630,000	555,000
Total Long-Term Debt	<u>\$ 13,366,964</u>	<u>\$ 527,160</u>	<u>\$ (704,859)</u>	<u>\$ 13,189,265</u>	<u>\$ 716,374</u>

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 12 LONG-TERM DEBT (CONTINUED)**

	July 1, July 1, 2012	Additions	(Payments)	Balance June 30, 2013	Due Within One Year
Hospital General Obligation County Bonds	\$ 65,000	\$ -	\$ (65,000)	\$ -	\$ -
Capital Lease Obligations	149,718	-	(52,754)	96,964	43,922
Hospital Revenue Refunding Bonds, Series 2010A	1,220,000	-	(580,000)	640,000	590,000
Hospital Revenue Bonds, Series 2010B	<u>12,630,000</u>	<u>-</u>	<u>-</u>	<u>12,630,000</u>	<u>-</u>
Total Long-Term Debt	<u>\$ 14,064,718</u>	<u>\$ -</u>	<u>\$ (697,754)</u>	<u>\$ 13,366,964</u>	<u>\$ 633,922</u>

Health System 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 Health System's net revenues.

Health System 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 Health System's net revenues.

During the year ended June 30, 2013, interest expense of \$695,799 related to the Revenue Bonds were capitalized as part of a construction project.

In relation to the Health System Revenue Bonds, Series 2010B, the Health System 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. Build America Bonds Credits are reflected as other operating revenue in the statements of revenues, expenses and changes in net position of \$381,663 and 399,441 for the years ended June 30, 2014 and 2013, respectively.

Capitalized lease obligations consist of three 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. Ownership was transferred to Hancock County Health System during 2014. The third agreement was entered into at the beginning of fiscal year 2014 and requires monthly payments of principal and interest, with interest at the rate of 4.34%. Principal and interest payments are due through September 2018.

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

Under the terms of the revenue bonds official statement, the Health System 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 Health System satisfy certain measures of financial performance as long as the bonds are outstanding.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 12 LONG-TERM DEBT (CONTINUED)**

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

Years Ending June 30:	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2015	\$ 605,000	\$ 929,370	\$ 111,374	\$ 19,470
2016	620,000	905,770	116,050	14,795
2017	635,000	876,320	103,708	10,074
2018	655,000	842,348	101,023	5,737
2019	675,000	804,685	77,110	527
2020-2024	3,780,000	3,305,630	-	-
2025-2030	5,710,000	2,057,760	-	-
	<u>\$ 12,680,000</u>	<u>\$ 9,721,883</u>	<u>\$ 509,265</u>	<u>\$ 50,603</u>

A summary of interest cost, Build America Bonds Credit, and investment income on borrowed funds during the year ended June 30, 2014 is as follows:

**NOTE 13 LEASES**

The Health System leases certain equipment and building space under non-cancelable 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, 2014 and 2013 for all operating leases was \$121,428 and \$124,587, respectively. The capitalized leased assets consist of:

	2014	2013
Major Movable Equipment	\$ 637,160	\$ 257,000
Less Accumulated Amortization (Included as Depreciation on the Accompanying Financial Statements)	(153,479)	(167,133)
	<u>\$ 483,681</u>	<u>\$ 89,867</u>

**NOTE 14 PENSION AND RETIREMENT BENEFITS**

The Health System 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 5.95% of their annual covered salary, and the Health System is required to contribute 8.93% of annual covered payroll for the years ended June 30, 2014 and 2013, respectively. Contribution requirements are established by state statute. The Health System's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$506,358, \$478,364, and \$414,576, respectively, equal to the required contributions for each year.

**HANCOCK COUNTY HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 15 RELATED ORGANIZATIONS**

**Master Affiliation Agreement**

The Health System 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 Health System. As a part of the Master Affiliation Agreement, the Health System 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 \$2,388,688 and \$2,532,855 for the years ended June 30, 2014 and 2013, respectively.

The Health System 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 Health System. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Health System. Expenses for the administrative and management services received for the years ended June 30, 2014 and 2013 were \$764,763 and \$689,283, respectively.

**Due to Affiliated Organization**

As of June 30, 2014 and 2013, Hancock County Health System's records reflect a due to Mercy Medical Center – North Iowa of \$253,145 and \$328,732, respectively, for the various services and distributions related to these agreements.

**NOTE 16 COMMITMENTS AND CONTINGENCIES**

**Malpractice Insurance**

The Health System 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 Health System 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 Health System'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 HEALTH SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 17 DEFERRED COMPENSATION AGREEMENTS**

The Health System 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 Health System 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 Health System. Under Governmental Accounting Standards plan assets are held in a trust for 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 \$816,662 and \$675,870 at June 30, 2014 and 2013, respectively.

**NOTE 18 RISK MANAGEMENT**

Hancock County Health System 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 Health System 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 Health System 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, 2014 and 2013 was as follows:

	<u>2014</u>	<u>2013</u>
Medicare	41%	41%
Medicaid	6%	8%
Commercial Insurance and Other Third-Party Payors	36%	26%
Self-Pay	17%	25%
	<u>100%</u>	<u>100%</u>

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**HANCOCK COUNTY HEALTH SYSTEM  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND  
 CHANGES IN NET POSITION – BUDGET AND ACTUAL (ACCRUAL BASIS)  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2014**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 1,171,240	\$ -	\$ 1,171,240	\$ 1,146,708	\$ 24,532
Estimated Other Revenues/Receipts	<u>19,405,830</u>	<u>160,003</u>	<u>19,565,833</u>	<u>24,936,644</u>	<u>(5,370,811)</u>
	20,577,070	160,003	20,737,073	26,083,352	(5,346,279)
Expenses/Disbursements Net	<u>19,662,849</u>	<u>(545,774)</u>	<u>19,117,075</u>	<u>23,151,079</u>	<u>4,034,004</u>
	914,221	705,777	1,619,998	2,932,273	(1,312,275)
Balance Beginning of Year	<u>15,531,020</u>	<u>(11,107,702)</u>	<u>4,423,318</u>	<u>16,715,914</u>	<u>(12,292,596)</u>
Balance End of Year	<u><u>\$ 16,445,241</u></u>	<u><u>\$ (10,401,925)</u></u>	<u><u>\$ 6,043,316</u></u>	<u><u>\$ 19,648,187</u></u>	<u><u>\$ (13,604,871)</u></u>

**HANCOCK COUNTY HEALTH SYSTEM**  
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2014**

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards for governments with significant budgetary perspective differences resulting from the Health System preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health System on the cash 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 Health System did not amend its original budget during the year ended June 30, 2014.

For the year ended June 30, 2014, the Health System's expenditures did not exceed the amount budgeted.

**OTHER SUPPLEMENTARY INFORMATION**

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF PATIENT SERVICE REVENUE  
YEARS ENDED JUNE 30, 2014 AND 2013**

	TOTAL	
	2014	2013
<b>PATIENT CARE SERVICES</b>		
Medical and Surgical	\$ 2,811,766	\$ 2,228,147
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating Room	1,604,258	1,423,779
Recovery Room	456,645	387,170
Radiology	4,723,572	4,071,624
Nuclear Medicine	279,780	237,565
Laboratory	6,411,321	5,776,233
Blood	129,174	82,344
Respiratory Therapy	2,304,138	1,464,075
Physical Therapy	1,195,258	910,260
Occupational Therapy	256,088	184,826
Speech Therapy	145,828	163,843
Electrocardiology	300,457	321,695
Medical and Surgical Supplies	297,012	258,962
Pharmacy	2,026,342	1,871,832
Cardiac Rehabilitation	162,732	215,349
Diabetic Education	37,019	36,090
Nail Care	20,430	19,499
Britt Clinic	2,061,382	1,821,353
Garner Clinic	2,593,861	2,081,972
Wesley Clinic	383,870	362,046
Kanawha Clinic	193,987	162,738
Emergency Services	2,307,669	1,962,205
Specialty Surgeon	359,998	169,823
Garner Rec Clinic - Physical Therapy	253,568	239,135
Home Health	812,599	288,571
Total	32,128,754	26,741,136
Charity Care	(163,021)	(141,451)
Patient Service Revenues	31,965,733	26,599,685
<b>CONTRACTUAL ADJUSTMENTS</b>		
Medicare	(6,446,512)	(5,238,469)
Medicaid	(1,189,663)	(942,666)
Other	(4,738,018)	(3,747,508)
Provision for Bad Debts	(1,121,525)	(1,107,137)
Total Deductions	(13,495,718)	(11,035,780)
Net Patient Service Revenues	\$ 18,470,015	\$ 15,563,905

INPATIENT		OUTPATIENT	
2014	2013	2014	2013
\$ 2,309,144	\$ 1,872,249	\$ 502,622	\$ 355,898
19,873	48,034	1,584,385	1,375,745
3,486	6,202	453,159	380,968
257,120	232,853	4,466,452	3,838,771
-	-	279,780	237,565
655,118	627,374	5,756,203	5,148,859
37,987	31,068	91,187	51,276
1,190,893	783,825	1,113,245	680,250
559,884	271,969	635,374	638,291
245,823	148,287	10,265	36,539
104,503	97,563	41,325	66,280
19,190	27,221	281,267	294,474
79,913	77,106	217,099	181,856
1,054,401	949,048	971,941	922,784
-	-	162,732	215,349
-	-	37,019	36,090
-	-	20,430	19,499
-	-	2,061,382	1,821,353
-	-	2,593,861	2,081,972
-	-	383,870	362,046
-	-	193,987	162,738
40,909	40,801	2,266,760	1,921,404
4,667	1,434	355,331	168,389
-	-	253,568	239,135
-	-	812,599	288,571
<u>\$ 6,582,911</u>	<u>\$ 5,215,034</u>	<u>\$ 25,545,843</u>	<u>\$ 21,526,102</u>

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**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF OTHER OPERATING REVENUES  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>OTHER OPERATING REVENUES</b>		
Meals Sold	\$ 68,858	\$ 61,719
Grant Revenues	305	767
Dietary Assessment and Consulting	41,497	30,037
Medical Records Transcripts	2,089	4,027
Build America Bonds Rebate Grant Revenue	381,663	399,441
Retail Pharmacy	224,661	-
Miscellaneous	112,462	6,358
	<b>\$ 831,535</b>	<b>\$ 502,349</b>
Total Other Revenues	<b>\$ 831,535</b>	<b>\$ 502,349</b>

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2014 AND 2013**

	TOTAL	
	2014	2013
Employee Benefits	\$ 1,819,217	\$ 1,588,898
Administrative and General	2,248,535	2,095,064
Operation of Plant	553,608	510,343
Laundry and Linen	36,147	30,098
Housekeeping	147,213	136,092
Dietary	290,727	291,349
Nursing Administration	102,429	78,762
Central Supply	165,835	166,122
Pharmacy	662,050	361,812
Medical Records	296,617	252,751
Social Service	22,454	9,537
Adults and Pediatrics	1,700,528	1,539,220
Operating and Recovery Rooms	235,023	266,034
Anesthesiology	154,410	139,581
Radiology	696,693	741,367
Nuclear Medicine	73,245	67,528
Laboratory	605,251	598,172
Blood	40,473	31,371
Respiratory Therapy	501,872	309,916
Physical Therapy	342,195	263,341
Occupational Therapy	93,559	75,202
Speech Pathology	66,551	73,932
Electrocardiology	16,076	16,119
Cardiac Rehabilitation	45,512	46,050
Medical Supplies	186,173	153,689
Nail Care	20,498	17,456
Transportation	11,091	4,869
Britt Clinic	1,561,302	1,539,038
Garner Clinic	1,470,834	1,412,591
Wesley Clinic	285,303	280,140
Kanawha Clinic	162,733	165,181
Emergency Services	1,259,664	1,249,187
Ambulance	16,145	40,886
Specialty Surgeon	103,483	53,680
Garner Rec Clinic - Physical Therapy	126,408	116,543
Home Health	587,440	155,436
Depreciation	1,872,678	1,616,097
Interest Expense and Amortization	1,082,877	325,525
<b>TOTAL</b>	<b>\$ 19,662,849</b>	<b>\$ 16,818,979</b>

SALARIES		OTHER	
2014	2013	2014	2013
\$ -	\$ -	\$ 1,819,217	\$ 1,588,898
723,009	649,289	1,525,526	1,445,775
250,618	249,178	302,990	261,165
6,985	7,128	29,162	22,970
111,731	107,376	35,482	28,716
215,219	211,682	75,508	79,667
101,898	78,451	531	311
92,649	86,809	73,186	79,313
12,194	6,301	649,856	355,511
256,365	218,244	40,252	34,507
22,443	9,537	11	-
1,699,908	1,538,222	620	998
85,187	99,118	149,836	166,916
-	-	154,410	139,581
252,160	230,162	444,533	511,205
-	-	73,245	67,528
292,894	277,444	312,357	320,728
861	1,488	39,612	29,883
-	-	501,872	309,916
316,449	235,170	25,746	28,171
402	341	93,157	74,861
-	-	66,551	73,932
3,519	4,728	12,557	11,391
44,253	43,373	1,259	2,677
-	-	186,173	153,689
17,259	15,134	3,239	2,322
-	-	11,091	4,869
918,362	815,228	642,940	723,810
691,038	560,256	779,796	852,335
178,633	102,748	106,670	177,392
95,716	98,495	67,017	66,686
251,779	265,773	1,007,885	983,414
-	-	16,145	40,886
-	-	103,483	53,680
72,530	59,240	53,878	57,303
450,447	128,414	136,993	27,022
-	-	1,872,678	1,616,097
-	-	1,082,877	325,525
<u>\$ 7,164,508</u>	<u>\$ 6,099,329</u>	<u>\$ 12,498,341</u>	<u>\$ 10,719,650</u>

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF PATIENT RECEIVABLES,  
ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)  
YEARS ENDED JUNE 30, 2014 AND 2013**

<b>Analysis of Aging</b>	2014		2013	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 Days or Less	\$ 2,886,491	62%	\$ 2,272,777	63%
31 to 60 Days	734,448	16%	446,608	12%
61 to 90 Days	315,534	7%	318,150	9%
91 Days and Over	740,034	15%	581,721	16%
	4,676,507	100%	3,619,256	100%
Less: Allowance for Doubtful Accounts	444,772		424,625	
Allowance for Contractual Adjustments	1,577,547		1,309,954	
Net	\$ 2,654,188		\$ 1,884,677	

**Analysis of Allowance for Doubtful Accounts  
Years Ended June 30, 2014 and 2013**

	2014	2013
Beginning Balance	\$ 424,625	\$ 358,245
Add:		
Provision for Bad Debts	1,121,525	1,107,137
Recoveries Previously Written Off	151,664	165,599
	1,273,189	1,272,736
Less:		
Accounts Written Off	(1,253,042)	(1,206,356)
Ending Balance	\$ 444,772	\$ 424,625

**Collection Statistics**

Net Accounts Receivable - Patients	\$ 2,654,188
Number of Days Charges Outstanding	52
Uncollectible Accounts (1)	\$ 1,284,546
Percentage of Uncollectible Accounts to Total Charges	4.0%

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

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES  
JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>INVENTORIES</b>		
General	\$ 39,670	\$ 54,475
Pharmacy	63,185	111,864
Central Supply	<u>73,692</u>	<u>70,849</u>
 Total Inventories	 <u>\$ 176,547</u>	 <u>\$ 237,188</u>
 <b>PREPAID EXPENSES</b>		
Insurance	\$ 23,709	\$ 11,613
Service Contracts/Other	78,068	61,289
Membership Dues	<u>34,585</u>	<u>21,303</u>
 Total Prepaid Expenses	 <u>\$ 136,362</u>	 <u>\$ 94,205</u>

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)  
JUNE 30, 2014 AND 2013**

	2014	2013
<b>Patient Days</b>		
Acute (includes Hospice)	837	918
Swing-Bed*	2,138	1,661
Total	2,975	2,579
 <b>Admissions</b>		
Acute (includes Hospice)	276	310
Swing-Bed*	206	150
Total	482	460
 <b>Discharges</b>		
Acute (includes Hospice)	282	303
Swing-Bed*	207	153
Total	489	456
 <b>Average Length of Stay</b>		
Acute (includes Hospice)	3	3
Swing-Bed*	10	11
All Patients	6	6
 Beds	 25	 25
 <b>Percentage of Occupancy</b>		
Acute (includes Hospice), based on 15 beds	15.3%	16.8%
Swing-bed, based on 10 beds	58.6%	45.5%
All Patients, based on 25 beds	32.6%	28.3%
 Outpatient Visits	 20,088	 18,309
 <b>Physician Clinic Visits</b>		
Britt	10,875	10,143
Garner	8,903	7,735
Kanawha	1,123	975
Wesley	1,918	2,114
Total	22,819	20,967

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



**INDEPENDENT AUDITORS' 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 Health System  
Britt, Iowa

We have audited the financial statements of Hancock County Health System as of and for the year ended June 30, 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended and have issued our report thereon dated October 22, 2014. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged governance.

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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees  
Hancock County Health System

**Compliance and Other Matters**

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

Comments involving statutory and other legal matters about the Health System's operations for the year ended June 30, 2014, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health System. 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.

**Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Austin, Minnesota  
October 22, 2014

**HANCOCK COUNTY HEALTH SYSTEM  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2014**

**Part I: Findings Related to the Financial Statements:**

**NONE IDENTIFIED**

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-14     **Certified Budget** Disbursements during the year ended June 30, 2014 did not exceed the amounts budgeted in the general government and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation.
- II-B-14     **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-14     **Travel Expense** – No expenditures of Health System money for travel expenses of spouses of Health System officials and/or employees were noted.
- II-D-14     **Business Transactions** – We noted no material business transactions between the Health System and Health System officials and/or employees.
- II-E-14     **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-14     **Deposits and Investments** – The Health System did not exceed limits within its depository resolution during the year ended June 30, 2013.
- II-G-14     **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 Health System published a schedule of bills allowed and a schedule of salaries paid as required by the Code of Iowa.