

HANCOCK COUNTY HEALTH SYSTEM

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2015 AND 2014

**HANCOCK COUNTY HEALTH SYSTEM
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2015 AND 2014**

BOARD OF TRUSTEES AND HEALTH SYSTEM OFFICIALS	
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	9
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	11
STATEMENTS OF CASH FLOWS	12
NOTES TO FINANCIAL STATEMENTS	14
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – BUDGET AND ACTUAL (ACCRUAL BASIS)	36
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING	37
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (UNAUDITED)	38
SCHEDULE OF HOSPITAL CONTRIBUTIONS (UNAUDITED)	39
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY	40
OTHER SUPPLEMENTARY INFORMATION	
SCHEDULES OF PATIENT REVENUE	42
SCHEDULES OF OTHER OPERATING REVENUES	44
SCHEDULES OF OPERATING EXPENSES	45
SCHEDULES OF PATIENT RECEIVABLES, ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)	47
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES	48
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)	49
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 <i>GOVERNMENT AUDITING STANDARDS</i>	50
SCHEDULE OF FINDINGS AND RESPONSES	52

**HANCOCK COUNTY HEALTH SYSTEM
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, 2018
Dorothy Denny	Member	December 31, 2020
DeAnna Kelly	Member	December 31, 2020
Ron Eden	Member	December 31, 2016
Ellen Tusha	Member	December 31, 2018

* * * * *

<u>Health System Officials</u>		
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 (the Health System), which comprise the statements of net position as of June 30, 2015 and 2014, 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 audits 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 financial position of Hancock County Health System as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Emphasis of Matter

During fiscal year ended June 30, 2015, Hancock County Health System adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB No. 68. As a result of the implementation of these standards Hancock County Health System, reported a restatement for the change in accounting principle (see Note 19). Our auditors’ opinion was not modified with respect to the restatement.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 4-8, budgetary comparison information on pages 35-36 and pension liability information on pages 37-40 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 41 through 47 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 audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Board of Trustees
Hancock County Health System

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2016 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
January 12, 2016

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**HANCOCK COUNTY HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

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, 2015, 2014, and 2013. 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, deferred outflows, liabilities and deferred inflows, 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, deferred outflows of resources, liabilities and deferred inflows of resources - 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, 2015, indicates total assets of \$36,349,930, total deferred outflows of \$1,910,594, total liabilities of \$20,731,612, deferred inflows of \$3,309,985, and net position of \$14,218,927.

**HANCOCK COUNTY HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Financial Highlights (Continued)

- The Statements of Revenues, Expenses and Changes in Net Position indicates total net patient service revenue of \$19,808,266, an increase of 7.2% over the previous fiscal year, total operating expenses of \$20,071,984, an increase of 2.1%, resulting in a gain from operations of \$826,204. Net non-operating revenues of \$1,260,660 bring the excess of revenues over expenses to \$2,086,864, a 138% increase from the prior year.
- The Health System's current assets exceeded its current liabilities by \$9,864,988 at June 30, 2015, providing a 3.6 current ratio.
- The Health System recorded an excess of revenues over expenses for fiscal year ended June 30, 2015, amounting to \$2,086,864.
- Total patient days for the year ended June 30, 2015 amount to:
 - 959 - Acute Care (includes Hospice) (14.58% increase from the prior year)
 - 2,311 - Swing-bed & Swing-bed Self Pay (8.09% increase from the prior year)
 - 21,628 - Outpatient Visits (7.67% increase from the prior year)
 - 24,604 - Physician Clinic Visits (7.82% increase from the prior year)

Organization Highlights

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

- New Provider added: Lacy Halsrud, ARNP-FNP, MSN, BSN
- Preparation for the implementation of Cerner Community Works electronic health record August 2015
- Installed a new General Ledger and Payroll software
- Implemented Clinic Centralized Scheduling
- Rolled out Huddle Boards to align with HCHS' True North metrics
- Senior Life Solutions started September 2014 and expanded to 2nd track in March 2015

Future Goals:

- Will partner with Rural Physicians Group July 2015 to bring Hospitalist physician services to HCHS' delivery team. This partnership will allow us to be able to handle higher acuity patients with 24/7 Internal Medicine physicians.

**HANCOCK COUNTY HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Condensed Financial Statements

Table 1: Statements of Net Position

	2015	2014 (Not Restated)	2013 (Not Restated)
Assets:			
Current Assets	\$ 13,694,849	\$ 10,409,697	\$ 8,390,950
Noncurrent Cash and Investments	3,041,966	3,536,898	3,887,593
Capital Assets, Net	19,168,167	17,909,336	18,655,424
Other Assets	444,948	486,210	477,095
Total Assets	<u>36,349,930</u>	<u>32,342,141</u>	<u>31,411,062</u>
Deferred Outflows of Resources:			
Pension Related Deferred Outflows	1,910,594	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 38,260,524</u>	<u>\$ 32,342,141</u>	<u>\$ 31,411,062</u>
Liabilities:			
Total Current Liabilities	\$ 3,829,861	\$ 2,221,426	\$ 1,978,864
Long-Term Debt (Less Current Maturities)	12,970,048	12,472,891	12,733,042
Net Pension Liability	3,931,703	-	-
Total Liabilities	<u>20,731,612</u>	<u>14,694,317</u>	<u>14,711,906</u>
Deferred Inflows of Resources:			
Succeeding Year Property Tax Receivable	1,231,248	1,202,583	1,168,136
Pension Related Deferred Inflows	2,078,737	-	-
Total Deferred Inflows of Resources	<u>3,309,985</u>	<u>1,202,583</u>	<u>1,168,136</u>
Net Position:			
Invested in Capital Assets Net of Related Debt	5,073,342	4,720,071	5,288,460
Restricted:			
Under Bond Agreement	1,327,586	1,328,408	1,356,518
Plant Replacement and Expansion Funds	-	-	18,669
Expendable Foundation Fund	686,807	662,954	641,698
Unrestricted	7,131,192	9,733,808	8,225,675
Total Net Position	<u>14,218,927</u>	<u>16,445,241</u>	<u>15,531,020</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 38,260,524</u>	<u>\$ 32,342,141</u>	<u>\$ 31,411,062</u>

**HANCOCK COUNTY HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Condensed Financial Statements (Continued)

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

	2015	2014 (Not Restated)	2013 (Not Restated)
Net Patient Service Revenue	\$ 19,808,266	\$ 18,470,015	\$ 15,563,905
Other Operating Revenue	1,089,922	831,535	502,349
Total Revenue	<u>20,898,188</u>	<u>19,301,550</u>	<u>16,066,254</u>
Operating Expenses:			
Salaries and Wages	6,947,467	7,164,508	6,099,329
Employee Benefits	1,540,808	1,819,217	1,588,898
Utilities	8,632,884	7,723,568	7,189,130
Depreciation	1,852,658	1,872,678	1,616,097
Interest and Amortization	1,098,167	1,082,878	325,525
Total Operating Expenses	<u>20,071,984</u>	<u>19,662,849</u>	<u>16,818,979</u>
Operating Income (Loss)	826,204	(361,299)	(752,725)
Non-Operating Revenues (Expenses):			
Tax Apportionments	1,213,063	1,171,240	1,061,795
Interest Income	43,127	30,707	33,452
Rental Income	40,956	55,808	46,604
Contributions	1,983	14,789	54,563
Loss on Sale of Property and Equipment	(56,138)	(34,440)	(27,987)
Miscellaneous Income (Expense)	17,669	-	-
Non-Operating Revenues (Expenses)	<u>1,260,660</u>	<u>1,238,104</u>	<u>1,168,427</u>
Excess of Revenues over Expenses before Capital Grants and Contributions	2,086,864	876,805	415,702
Capital Grants and Contributions	<u>13,822</u>	<u>37,416</u>	<u>36,279</u>
Increase in Net Position	2,100,686	914,221	451,981
Net Position, Beginning of Year as Restated	<u>12,118,241</u>	<u>15,531,020</u>	<u>15,079,039</u>
Net Position, End of Year	<u>\$ 14,218,927</u>	<u>\$ 16,445,241</u>	<u>\$ 15,531,020</u>

Capital Assets

Current construction in progress is due to implementing electronic health records. The project is scheduled to be completed in fiscal year 2016.

**HANCOCK COUNTY HEALTH SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2015 AND 2014**

Long-Term Debt

Hancock County Health System had \$1,124,777 and \$12,970,048 in short-term and long-term debt, respectively, for the year ended June 30, 2015, and \$716,374 and \$12,472,891 in short-term and long-term debt, respectively, for the year ended June 30, 2014. 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. In 2014, additional debt was incurred due to a lease agreement entered into. Additionally in 2015, debt was incurred to help finance the Electronic Health Records project.

Economic and Other Factors and Next Year's Budget

The Health System's Board and management considered many factors when preparing the fiscal year 2016 budget. Of primary consideration in the 2016 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, 2015 AND 2014**

	2015	2014 (Not Restated)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 9,264,693	\$ 6,043,316
Patient Receivables, Less Allowance for Uncollectible		
Accounts of \$500,371 in 2015 and \$444,772 in 2014	2,648,397	2,654,188
Other Receivables	135,176	196,701
Tax Receivable, Succeeding Year Property Tax	1,231,248	1,202,583
Inventories	280,490	176,547
Prepaid Expenses	134,845	136,362
Total Current Assets	13,694,849	10,409,697
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Improvements	1,027,573	1,545,536
Restricted Under Bond Agreement	1,327,586	1,328,408
Restricted Foundation Fund	686,807	662,954
Total Noncurrent Cash and Investments	3,041,966	3,536,898
CAPITAL ASSETS, NET	19,168,167	17,909,336
OTHER ASSETS		
Real Estate Held for Investment	281,284	281,284
Physician Recruitment and Tuition Fees, Net	163,664	204,926
Total Other Assets	444,948	486,210
Total Assets	36,349,930	32,342,141
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related Deferred Outflows	1,910,594	-
Total Assets and Deferred Outflows of Resources	\$ 38,260,524	\$ 32,342,141

See accompanying Notes to Financial Statements.

LIABILITIES AND NET POSITION	<u>2015</u>	<u>2014</u> (Not Restated)
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 1,124,777	\$ 716,374
Accounts Payable:		
Trade	846,118	305,564
Due To Affiliated Organization	469,961	253,145
Accrued Expenses:		
Salaries, Wages and Vacation	666,948	544,800
Interest	75,481	77,448
Payroll Taxes and Other	108,239	131,949
Estimated Third-Party Payor Settlements	538,337	192,146
Total Current Liabilities	<u>3,829,861</u>	<u>2,221,426</u>
NET PENSION LIABILITY	3,931,703	-
LONG-TERM DEBT, Less Current Maturities	<u>12,970,048</u>	<u>12,472,891</u>
Total Liabilities	20,731,612	14,694,317
DEFERRED INFLOWS OF RESOURCES		
Succeeding Year Property Tax Receivable	1,231,248	1,202,583
Pension Related Deferred Inflows	<u>2,078,737</u>	<u>-</u>
Total Deferred Inflows of Resources	3,309,985	1,202,583
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	5,073,342	4,720,071
Restricted:		
Expendable Under Bond Agreement	1,327,586	1,328,408
Expendable Foundation Fund	686,807	662,954
Unrestricted	<u>7,131,192</u>	<u>9,733,808</u>
Total Net Position	<u>14,218,927</u>	<u>16,445,241</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 38,260,524</u>	<u>\$ 32,342,141</u>

**HANCOCK COUNTY HEALTH SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u> (Not Restated)
OPERATING REVENUES		
Net Patient Service Revenues (Net of Provision for Bad Debts of \$1,115,873 in 2015 and \$1,121,525 in 2014)	\$ 19,808,266	\$ 18,470,015
Other Revenue	<u>1,089,922</u>	<u>831,535</u>
Total Revenues	<u>20,898,188</u>	<u>19,301,550</u>
EXPENSES		
Salaries and Wages	6,947,467	7,164,508
Employee Benefits	1,540,808	1,819,217
Supplies and Other	8,632,884	7,723,568
Depreciation	1,852,658	1,872,678
Interest and Amortization	<u>1,098,167</u>	<u>1,082,878</u>
Total Expenses	<u>20,071,984</u>	<u>19,662,849</u>
OPERATING INCOME (LOSS)	826,204	(361,299)
NONOPERATING GAINS (LOSSES)		
County Tax Revenue	1,213,063	1,171,240
Investment Income	43,127	30,707
Rental Income	40,956	55,808
Contribution Revenue, Net of Fundraising Expenses	1,983	14,789
Loss on Disposal of Capital Assets	(56,138)	(34,440)
Miscellaneous Income	<u>17,669</u>	<u>-</u>
Non-Operating Gains, Net	<u>1,260,660</u>	<u>1,238,104</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	2,086,864	876,805
Capital Grants and Contributions	<u>13,822</u>	<u>37,416</u>
INCREASE IN NET POSITION	2,100,686	914,221
Net Position, Beginning of Year, as Restated	<u>12,118,241</u>	<u>15,531,020</u>
NET POSITION, END OF YEAR	<u>\$ 14,218,927</u>	<u>\$ 16,445,241</u>

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY HEALTH SYSTEM
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014 (Not Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of Patient Service Revenue	\$ 20,160,248	\$ 18,375,553
Payments of Salaries and Wages	(7,702,240)	(8,990,836)
Payments of Supplies and Other Expenses	(8,749,571)	(7,816,501)
Other Receipts and Payments, Net	895,628	700,910
Net Cash Provided by Operating Activities	4,604,065	2,269,126
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Non-Capital Contributions Received, Net of Related Fundraising	1,983	14,789
County Tax Revenue Received	1,213,063	1,171,240
Other Income	17,669	-
Rental Income	40,956	55,808
Net Cash Provided by Non-Capital Financing Activities	1,273,671	1,241,837
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Property and Equipment	(3,167,627)	(647,643)
Proceeds from Issuance of Long-Term Debt	2,000,000	-
Principal Payments on Long-Term Debt	(1,094,440)	(704,859)
Interest Payments on Long-Term Debt	(946,173)	(957,236)
Capital Contributions and Grants	13,822	37,416
Net Cash Used by Capital and Related Financing Activities	(3,194,418)	(2,272,322)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in Noncurrent Cash and Investments	494,932	350,650
Interest Earned on Investments	43,127	30,707
Net Cash Provided by Investing Activities	538,059	381,357
INCREASE IN CASH AND CASH EQUIVALENTS	3,221,377	1,619,998
Cash and Cash Equivalents - Beginning	6,043,316	4,423,318
CASH AND CASH EQUIVALENTS - ENDING	\$ 9,264,693	\$ 6,043,316

See accompanying Notes to Financial Statements.

**HANCOCK COUNTY HEALTH SYSTEM
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014 (Not Restated)
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 826,204	\$ (361,299)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,852,658	1,872,678
Amortization	151,994	125,642
Interest Expense Considered Capital and Related Financing Activity	946,173	957,236
Provision for Bad Debts	1,115,873	1,121,525
Changes in Assets and Liabilities:		
Patient Receivables	(1,110,082)	(1,891,036)
Other Receivables	32,860	(130,625)
Inventories	(103,943)	60,641
Prepaid Expenses	1,517	(42,157)
Other Assets	(110,732)	(134,757)
Accounts Payable - Trade and Related Party	757,370	(41,558)
Accrued Expenses	96,471	23,340
Deferred Revenue	28,665	34,447
Estimated Third-Party Payor Settlements	346,191	675,049
Pension Liability	(227,154)	-
	\$ 4,604,065	\$ 2,269,126
SUPPLEMENTAL CASH FLOW DISCLOSURE INFORMATION		
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, 2015 AND 2014**

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 14. Services are provided primarily to residents of Hancock County and the surrounding counties in north central Iowa.

Hancock County Memorial Hospital Foundation was formed for the benefit of the Health System and is organized as a Iowa non-profit corporation and is exempt from the federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

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, deferred outflows of resources, liabilities and deferred inflows of resources, 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.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has 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.

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, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets, deferred outflows of resources, liabilities and deferred inflows of resources 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.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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, 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, 2015 and 2014, the allowance for uncollectible accounts was approximately \$500,400 and \$444,800, 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.

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.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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; restricted foundation funds, which can be used at the discretion of the foundation, 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.

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, 2015 and 2014.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions

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

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 and pension related deferred inflows.

Deferred Outflows of Resources

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

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.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient and Resident Service Revenue (Continued)

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.

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 \$91,486 and \$96,495 for advertising costs for the years ended June 30, 2015 and 2014, 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.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Reclassifications

Certain items in the 2014 financial statements have been reclassified for consistency with the 2015 financial statements. The results of these reclassifications did not result in changes to the Health System's net position or increase in net position as previously reported.

NOTE 2 DESIGNATED POSITION

Of the \$7,131,192 and \$9,733,808 of unrestricted net position at June 30, 2015 and 2014, respectively, the board of trustees has designated \$1,027,573 and \$1,545,536, 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 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 \$139,460 and \$163,021 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014 were approximately \$77,009 and \$98,600, 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, 2015 AND 2014**

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, 2013.

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, 2012.

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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Gross Patient and Resident Service Revenue	\$ 36,597,307	\$ 31,965,733
Revenue Adjustments:		
Medicare	(8,446,850)	(6,446,512)
Medicaid	(1,748,378)	(1,189,663)
Other	(5,477,940)	(4,738,018)
Provision for Bad Debt	<u>(1,115,873)</u>	<u>(1,121,525)</u>
Total Contractual Adjustments and Bad Debts	<u>(16,789,041)</u>	<u>(13,495,718)</u>
Net Patient and Resident Service Revenue	<u>\$ 19,808,266</u>	<u>\$ 18,470,015</u>

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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.

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 has received incentive payments in prior years. The Health System completed additional expenditures for EHR and will submit costs for reimbursement subsequent to year-end. The final amount of payments will be determined based on information from the Healy System's Medicare cost reports. Events could occur that would cause the final payment to differ materially upon final settlement.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 7 PATIENT RECEIVABLES

Patient receivables reports as current assets by the Health System at June 30, 2015 and 2014 consisted of the following:

	2015	2014
Receivable from Patients and Their Insurance Carriers	\$ 1,753,411	\$ 2,185,934
Receivable from Medicare	1,104,918	748,651
Receivable from Medicaid	290,439	164,375
Total Patient Receivables	3,148,768	3,098,960
Less: Allowance for Doubtful Accounts	(500,371)	(444,772)
Patient Receivables, Net	\$ 2,648,397	\$ 2,654,188

NOTE 8 CASH AND DEPOSITS

The Health System's deposits in banks at June 30, 2015 and 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The 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, 2015 and 2014, the Health System's carrying amounts of cash and deposits are as follows:

	2015	2014
Checking and Savings Accounts	\$ 9,481,106	\$ 6,250,015
Certificates of Deposit	1,258,782	1,775,616
Money Market Accounts	1,566,771	1,554,583
Total	\$ 12,306,659	\$ 9,580,214
Included in the Following Balance Sheet Captions:		
Cash and Cash Equivalents	\$ 9,264,693	\$ 6,043,316
Noncurrent Cash and Investments	3,041,966	3,536,898
Total	\$ 12,306,659	\$ 9,580,214

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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 CAPITAL ASSETS

Summaries of capital assets at June 30, 2015 and 2014 are as follows:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>(Retirements)</u>	<u>Transfers</u>	<u>June 30, 2015</u>
Capital Assets Not Being Depreciated					
Land	\$ 84,762	\$ -	\$ -	\$ -	\$ 84,762
Construction in Progress	382,871	2,951,484	(56,341)	(869,189)	2,408,825
Total Capital Assets not being depreciated	467,633	2,951,484	(56,341)	(869,189)	2,493,587
Capital Assets Being Depreciated					
Land Improvements	385,107	-	-	88,842	473,949
Building	11,690,996	37,869	-	290,182	12,019,047
Fixed Equipment	9,996,639	-	-	346,636	10,343,275
Major Movable Equipment	7,665,515	178,477	(50,903)	143,529	7,936,618
Total Capital Assets being depreciated	29,738,257	216,346	(50,903)	869,189	30,772,889
Accumulated Depreciation:					
Land Improvements	364,538	6,908	-	-	371,446
Building	4,521,131	521,212	-	-	5,042,343
Fixed Equipment	2,650,057	598,030	-	-	3,248,087
Major Movable Equipment	4,760,828	726,508	(50,903)	-	5,436,433
Total Accumulated Depreciation	12,296,554	1,852,658	(50,903)	-	14,098,309
Total Capital Assets Being Depreciated, Net	17,441,703	(1,636,312)	-	869,189	16,674,580
Total Capital Assets, Net	<u>\$ 17,909,336</u>	<u>\$ 1,315,172</u>	<u>\$ (56,341)</u>	<u>\$ -</u>	<u>\$ 19,168,167</u>

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 9 CAPITAL ASSETS (CONTINUED)

	June 30, 2013	Additions	(Retirements)	Transfers	June 30, 2014
Capital Assets Not Being Depreciated					
Land	84,762	\$ -	\$ -	\$ -	84,762
Construction in Progress	157,850	314,944	-	(89,923)	382,871
Total Capital Assets not being depreciated	242,612	314,944	-	(89,923)	467,633
Capital Assets Being Depreciated					
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	29,150,017	859,608	(361,291)	89,923	29,738,257
Accumulated Depreciation:					
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	10,737,205	1,872,678	(313,329)	-	12,296,554
Total Capital Assets Being Depreciated, Net	18,412,812	(1,013,070)	(47,962)	89,923	17,441,703
Total Capital Assets, Net	<u>\$ 18,655,424</u>	<u>\$ (698,126)</u>	<u>\$ (47,962)</u>	<u>\$ -</u>	<u>\$ 17,909,336</u>

The majority of construction in progress at June 30, 2015, represents costs incurred for an information system and electronic health records conversion. The construction project was funded through a new Municipal Tax Exempt Loan as discussed in Note 12. Project is expected to be completed in the early part of fiscal year 2016. Estimated construction costs to complete the project are minimal.

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, 2015 and 2014, the estimated market value was in excess of the carrying value.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 11 LONG-TERM DEBT

A schedule of changes in long-term debt at June 30, 2015 and 2014 is as follows:

	Balance July 1, 2014	Additions	(Payments)	Balance June 30, 2015	Amounts Due Within One Year
Capital Lease Obligations	\$ 509,265	\$ -	\$ (111,374)	\$ 397,891	\$ 116,050
Hospital Revenue Refunding Bonds, Series 2010A	50,000	-	(50,000)	-	-
Hospital Revenue Bonds, Series 2010B	12,630,000	-	(555,000)	12,075,000	620,000
Clear Lake Bank & Trust Company, Promissory Note	-	2,000,000	(378,066)	1,621,934	388,727
Total Long-Term Debt	<u>\$ 13,189,265</u>	<u>\$ 2,000,000</u>	<u>\$ (1,094,440)</u>	<u>\$ 14,094,825</u>	<u>\$ 1,124,777</u>

	July 1, July 1, 2013	Additions	(Payments)	Balance June 30, 2014	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>

Health System Revenue Refunding Bonds, Series 2010A, required 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 the final maturity occurred in 2015. The bonds were 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.

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 \$387,103 and \$381,663 for the years ended June 30, 2015 and 2014, respectively.

During fiscal year 2015 Hancock County Health System entered into an agreement with Clear Lake Bank and Trust Company for \$2,000,000 to help finance the information system and electronic health records conversion. Principal and interest payments, at a fixed rate of 2.75%, are due monthly effective July 20, 2014 with final payment occurring June 30, 2019. The debt is secured by the property of Hancock County Health System.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 11 LONG-TERM DEBT (CONTINUED)

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 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.

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

Year Ending June 30,	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2016	\$ 1,008,727	\$ 929,370	\$ 116,050	\$ 19,470
2017	1,034,691	905,770	103,708	14,795
2018	1,065,963	876,320	101,023	10,074
2019	1,097,553	842,348	77,110	5,737
2020	700,000	804,685	-	527
2021 - 2025	3,930,000	3,305,630	-	-
2026-2030	4,860,000	2,057,760	-	-
Total	<u>\$ 13,696,934</u>	<u>\$ 9,721,883</u>	<u>\$ 397,891</u>	<u>\$ 50,603</u>

NOTE 12 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, 2015 and 2014 for all operating leases was \$116,374 and \$124,428, respectively. The capitalized leased assets consist of:

	2015	2014
Major Movable Equipment	\$ 637,160	\$ 637,160
Less Accumulated Amortization (Included as Depreciation on the accompanying Financial Statements)	(264,853)	(153,479)
Total	<u>\$ 372,307</u>	<u>\$ 483,681</u>

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 13 PENSION AND RETIREMENT BENEFITS

Plan Description

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.

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

Pension Benefits

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

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

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is .25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is .50% for each month that the member receives benefits before age 65.

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

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 13 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Disability and Death Benefits

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

Contributions

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

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the Health System contributed 8.93% for a total rate of 14.88%.

The Health System's contributions to IPERS for the year ended June 30, 2015 were \$633,857.

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

At June 30, 2015, the Health System reported a liability of \$3,931,703 for its proportionate share of the net pension liability. The Health System net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Health System's proportion of the net pension liability was based on the Health System's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Health System's collective proportion was .097149% which was an increase of .010496% from its proportion measured as of June 30, 2013.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 13 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

For the year ended June 30, 2015, the Health System recognized pension expense of \$406,703. At June 30, 2015, the Health System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 622,045	\$ -
Changes of Assumptions	173,515	-
Net difference between projected and actual earnings on pension plan investments	-	2,078,737
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	481,177	-
Health System contributions subsequent to the measurement date	633,857	-
	\$ 1,910,594	\$ 2,078,737

\$633,857 reported as deferred outflows of resources related to pensions resulting from the Health System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ (211,909)
2017	(211,909)
2018	(211,909)
2019	(211,909)
2020	45,626
Total	\$ (802,010)

There were no non-employer contributing entities at IPERS.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 13 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Actuarial Assumptions

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

Rate of inflation (effective June 30, 2014)	3.00% annum
Rates of salary increase (effective June 30, 2010)	4.00% to 17.00%, average including inflation rates vary by membership group
Long-term investment rate of return (effective June 30, 1996)	7.50%, compound annually, net of investment expense, including inflation

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

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

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 13 PENSION AND RETIREMENT BENEFITS (CONTINUED)

Discount Rate

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

Sensitivity of the Health System's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Health System's Proportionate Share of the Net Pension Liability	\$ 7,428,817	\$ 3,931,703	\$ 979,752

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2015, the Health System reported payables to the defined benefit pension plan of \$59,588 for legally required employer contributions and employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 14 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 \$1,543,897 and \$2,388,688 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014 were \$783,261 and \$764,763, respectively.

Due to Affiliated Organization

As of June 30, 2015 and 2014, Hancock County Health System's records reflect a due to Mercy Medical Center – North Iowa of \$469,961 and \$253,145, respectively, for the various services and distributions related to these agreements.

NOTE 15 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.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 15 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

NOTE 16 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 \$894,954 and \$816,662 at June 30, 2015 and 2014, respectively.

NOTE 17 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.

**HANCOCK COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 18 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, 2015 and 2014 was as follows:

	2015	2014
Medicare	42 %	41 %
Medicaid	9	6
Commercial Insurance and Other Third-Party Payors	31	36
Self-Pay	19	17
Total	100 %	100 %

NOTE 19 CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2015, Governmental Accounting Standards Board Statement, No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*, was implemented by the Health System. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Net Position
Net Position June 30, 2014 as Previously Reported	\$ 16,445,241
Net Pension Liability at June 30, 2014	(4,906,299)
Deferred Outflows of Resources Related to Contributions Made After June 30, 2013 Measurement Date	579,299
Net Position July 1, 2014, as Restated	\$ 12,118,241

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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, 2015**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original Budget	Final to Actual Cash Basis Variance
Estimated Amount to be Raised by Taxation	\$ 1,213,063	\$ -	\$ 1,213,063	\$ 1,180,541	\$ 32,522
Estimated Other Revenues/Receipts	<u>20,959,607</u> 22,172,670	<u>2,708,758</u> 2,708,758	<u>23,668,365</u> 24,881,428	<u>24,021,028</u> 25,201,569	<u>(352,663)</u> (320,141)
Expenses/Disbursements Net	<u>20,071,984</u> 2,100,686	<u>1,588,067</u> 1,120,691	<u>21,660,051</u> 3,221,377	<u>23,139,475</u> 2,062,094	<u>1,479,424</u> 1,159,283
Balance Beginning of Year, as Restated	<u>12,118,241</u>	<u>(6,074,925)</u>	<u>6,043,316</u>	<u>18,031,877</u>	<u>(11,988,561)</u>
Balance End of Year	<u><u>\$ 14,218,927</u></u>	<u><u>\$ (4,954,234)</u></u>	<u><u>\$ 9,264,693</u></u>	<u><u>\$ 20,093,971</u></u>	<u><u>\$ (10,829,278)</u></u>

**HANCOCK COUNTY HEALTH SYSTEM
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2015**

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, 2015.

For the year ended June 30, 2015, the Health System's expenditures did not exceed the amount budgeted.

**HANCOCK COUNTY HEALTH SYSTEM
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (UNAUDITED)
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

Hospital's Proportion of the Net Pension Liability	0.097149%
Hospital's Proportionate Share of the Net Pension Liability	\$ 3,931,703
Hospital's Covered-Employee Payroll	\$ 6,887,207
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	57.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.61%

**HANCOCK COUNTY HEALTH SYSTEM
SCHEDULE OF HOSPITAL CONTRIBUTIONS
YEAR ENDED JUNE 30, 2015**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Contribution	\$ 633,857	\$ 506,358	\$ 478,364
Contributions in Relation to the Statutorily Required Contribution	<u>633,857</u>	<u>506,358</u>	<u>478,364</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital Covered-Employee Payroll	7,164,508	6,887,207	5,858,187
Contributions as a Percentage of Covered-Employee Payroll (Regular)	8.93%	8.93%	8.68%

Note: GASB 68 requires ten years of information to be presented in this table. However, until a full ten years is compiled, the Hospital will present information for those years for which information is available.

**HANCOCK COUNTY HEALTH SYSTEM
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

NOTE 1 PENSION LIABILITY

Changes of benefit terms

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

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

Changes of Assumptions

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

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

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

Adjusted retiree mortality assumptions.

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

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

**HANCOCK COUNTY HEALTH SYSTEM
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

NOTE 1 PENSION LIABILITY (CONTINUED)

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

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

OTHER SUPPLEMENTARY INFORMATION

**HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2015 AND 2014**

	TOTAL	
	<u>2015</u>	<u>2014</u>
PATIENT CARE SERVICES		
Medical and Surgical	\$ 3,101,797	\$ 2,811,766
OTHER PROFESSIONAL SERVICES		
Operating Room	1,870,968	1,604,258
Recovery Room	527,268	456,645
Radiology	5,526,934	4,723,572
Nuclear Medicine	383,469	279,780
Laboratory	6,612,138	6,540,495
Respiratory Therapy	2,382,375	2,304,138
Physical Therapy	1,274,279	1,195,258
Occupational Therapy	300,272	256,088
Speech Therapy	142,538	145,828
Electrocardiology	315,512	300,457
Medical and Surgical Supplies	306,675	297,012
Pharmacy	2,456,264	2,026,342
Cardiac Rehabilitation	210,669	162,732
Diabetic Education	27,260	37,019
Massage Therapy	790,125	-
Nail Care	21,535	20,430
Britt Clinic	2,507,594	2,061,382
Garner Clinic	3,030,059	2,593,861
Wesley Clinic	274,868	383,870
Kanawha Clinic	231,950	193,987
Emergency Services	2,597,744	2,307,669
Specialty Surgeon	542,234	359,998
Garner Rec Clinic - Physical Therapy	259,310	253,568
Home Health	1,042,930	812,599
Total	<u>36,736,767</u>	<u>32,128,754</u>
Charity Care	(139,460)	(163,021)
Patient Service Revenues	<u>36,597,307</u>	<u>31,965,733</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(8,446,850)	(6,446,512)
Medicaid	(1,748,378)	(1,189,663)
Other	(5,477,940)	(4,738,018)
Provision for Bad Debts	(1,115,873)	(1,121,525)
Total Deductions	<u>(16,789,041)</u>	<u>(13,495,718)</u>
Net Patient Service Revenues	<u>\$ 19,808,266</u>	<u>\$ 18,470,015</u>

INPATIENT		OUTPATIENT	
2015	2014	2015	2014
\$ 2,628,923	\$ 2,309,144	\$ 472,874	\$ 502,622
26,647	19,873	1,844,321	1,584,385
4,089	3,486	523,179	453,159
371,425	257,120	5,155,509	4,466,452
4,980	-	378,489	279,780
730,960	693,105	5,881,178	5,847,390
1,310,582	1,190,893	1,071,793	1,113,245
635,124	559,884	639,155	635,374
258,794	245,823	41,478	10,265
105,873	104,503	36,665	41,325
20,398	19,190	295,114	281,267
80,930	79,913	225,745	217,099
1,369,315	1,054,401	1,086,949	971,941
-	-	210,669	162,732
-	-	27,260	37,019
-	-	790,125	-
-	-	21,535	20,430
-	-	2,507,594	2,061,382
-	-	3,030,059	2,593,861
-	-	274,868	383,870
-	-	231,950	193,987
39,019	40,909	2,558,725	2,266,760
7,046	4,667	535,188	355,331
-	-	259,310	253,568
-	-	1,042,930	812,599
<u>\$ 7,594,105</u>	<u>\$ 6,582,911</u>	<u>\$ 29,142,662</u>	<u>\$ 25,545,843</u>

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**HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
OTHER OPERATING REVENUES		
Meals Sold	\$ 68,850	\$ 68,858
Grant Revenues	51,737	305
Dietary Assessment and Consulting	42,586	41,497
Medical Records Transcripts	2,327	2,089
Build America Bonds Rebate Grant Revenue	387,103	381,663
Retail Pharmacy	374,190	224,661
Miscellaneous	<u>163,129</u>	<u>112,462</u>
Total Other Revenues	<u>\$ 1,089,922</u>	<u>\$ 831,535</u>

**HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2015 AND 2014**

	TOTAL	
	2015	2014
Employee Benefits	\$ 1,540,808	\$ 1,819,217
Administrative and General	2,290,822	2,248,535
Operation of Plant	570,379	553,608
Laundry and Linen	36,771	36,147
Housekeeping	152,079	147,213
Dietary	296,719	290,727
Nursing Administration	127,535	102,429
Central Supply	159,147	165,835
Pharmacy	644,032	662,050
Medical Records	329,511	296,617
Social Service	47,352	22,454
Adults and Pediatrics	1,625,526	1,700,528
Operating and Recovery Rooms	351,187	235,023
Anesthesiology	159,251	154,410
Radiology	683,498	696,693
Nuclear Medicine	94,981	73,245
Laboratory	595,630	605,251
Blood	28,612	40,473
Respiratory Therapy	473,288	501,872
Physical Therapy	332,931	342,195
Occupational Therapy	123,216	93,559
Speech Pathology	67,039	66,551
Electrocardiology	17,084	16,076
Cardiac Rehabilitation	43,588	45,512
Medical Supplies	203,159	186,173
Nail Care	20,746	20,498
Transportation	-	11,091
Senior Life	93,436	-
Britt Clinic	1,454,578	1,561,302
Garner Clinic	1,626,510	1,470,834
Wesley Clinic	230,659	285,303
Kanawha Clinic	173,545	162,733
Emergency Services	1,386,272	1,259,664
Ambulance	14,502	16,145
Specialty Surgeon	154,966	103,483
Garner Rec Clinic - Physical Therapy	142,193	126,408
Home Health	829,607	587,440
Depreciation	1,852,658	1,872,678
Interest Expense and Amortization	1,098,167	1,082,877
	<u>\$ 20,071,984</u>	<u>\$ 19,662,849</u>
Total		

SALARIES		OTHER	
2015	2014	2015	2014
\$ -	\$ -	\$ 1,540,808	\$ 1,819,217
660,575	723,009	1,630,247	1,525,526
237,275	250,618	333,104	302,990
5,441	6,985	31,330	29,162
111,529	111,731	40,550	35,482
219,925	215,219	76,794	75,508
127,535	101,898	-	531
84,459	92,649	74,688	73,186
14,048	12,194	629,984	649,856
262,553	256,365	66,958	40,252
1,062	22,443	46,290	11
1,430,759	1,699,908	194,767	620
175,228	85,187	175,959	149,836
-	-	159,251	154,410
228,805	252,160	454,693	444,533
-	-	94,981	73,245
272,027	292,894	323,603	312,357
1,454	861	27,158	39,612
-	-	473,288	501,872
300,057	316,449	32,874	25,746
163	402	123,053	93,157
-	-	67,039	66,551
4,026	3,519	13,058	12,557
41,236	44,253	2,352	1,259
-	-	203,159	186,173
18,880	17,259	1,866	3,239
-	-	-	11,091
87,314	-	6,122	-
859,264	918,362	595,314	642,940
703,403	691,038	923,107	779,796
164,540	178,633	66,119	106,670
101,774	95,716	71,771	67,017
249,945	251,779	1,136,327	1,007,885
-	-	14,502	16,145
-	-	154,966	103,483
85,323	72,530	56,870	53,878
498,867	450,447	330,740	136,993
-	-	1,852,658	1,872,678
-	-	1,098,167	1,082,877
<u>\$ 6,947,467</u>	<u>\$ 7,164,508</u>	<u>\$ 13,124,517</u>	<u>\$ 12,498,341</u>

**HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF PATIENT RECEIVABLES,
ALLOWANCE FOR DOUBTFUL ACCOUNTS, AND COLLECTION STATISTICS (UNAUDITED)
YEARS ENDED JUNE 30, 2015 AND 2014**

Analysis of Aging	2015		2014	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 Days or Less	\$ 3,081,415	65 %	\$ 2,886,491	62 %
31 to 60 Days	623,077	13	734,448	16
61 to 90 Days	299,563	6	315,534	7
91 Days and Over	741,470	16	740,034	15
	4,745,525	100 %	4,676,507	100 %
Less: Allowance for Doubtful Accounts	500,371		444,772	
Allowance for Contractual Adjustments	1,596,757		1,577,547	
Net	\$ 2,648,397		\$ 2,654,188	

**Analysis of Allowance for Doubtful Accounts
Years Ended June 30, 2015 and 2014**

	2015	2014
Beginning Balance	\$ 444,772	\$ 424,625
Add:		
Provision for Bad Debts	1,115,873	1,121,525
Recoveries Previously Written Off	185,668	151,664
	1,301,541	1,273,189
Less:		
Accounts Written Off	(1,245,942)	(1,253,042)
Ending Balance	\$ 500,371	\$ 444,772

Collection Statistics

Net Accounts Receivable - Patients	\$ 2,648,397
Number of Days Charges Outstanding	49
Uncollectible Accounts (1)	\$ 1,255,333
Percentage of Uncollectible Accounts to Total Charges	3.4%

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

**HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
JUNE 30, 2015 AND 2014**

	2015	2014
INVENTORIES		
General	\$ 62,060	\$ 39,670
Pharmacy	144,994	63,185
Central Supply	73,436	73,692
Total Inventories	\$ 280,490	\$ 176,547
 PREPAID EXPENSES		
Insurance	\$ 14,372	\$ 23,709
Service Contracts/Other	80,356	78,068
Membership Dues	40,117	34,585
Total Prepaid Expenses	\$ 134,845	\$ 136,362

**HANCOCK COUNTY HEALTH SYSTEM
SCHEDULES OF COMPARATIVE STATISTICS (UNAUDITED)
JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Patient Days		
Acute (includes Hospice)	959	837
Swing-Bed*	2,311	2,138
Total	<u>3,270</u>	<u>2,975</u>
Admissions		
Acute (includes Hospice)	337	276
Swing-Bed*	249	206
Total	<u>586</u>	<u>482</u>
Discharges		
Acute (includes Hospice)	339	282
Swing-Bed*	246	207
Total	<u>585</u>	<u>489</u>
Average Length of Stay		
Acute (includes Hospice)	3	3
Swing-Bed*	9	10
All Patients	6	6
 Beds	 25	 25
Percentage of Occupancy		
Acute (includes Hospice), based on 15 beds	17.5%	15.3%
Swing-bed, based on 10 beds	63.3%	58.6%
All Patients, based on 25 beds	35.8%	32.6%
 Outpatient Visits	 <u>21,628</u>	 <u>20,088</u>
Physician Clinic Visits		
Britt	11,478	10,875
Garner	10,523	8,903
Kanawha	1,211	1,123
Wesley	1,392	1,918
Total	<u>24,604</u>	<u>22,819</u>

* 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Hancock County Health System which comprise the statement of net position as of June 30, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended and the notes to the financial statements and have issued our report thereon dated January 12, 2016.

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.

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, 2015, 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 Hancock County Health System’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Hancock County Health System’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
January 12, 2016

**HANCOCK COUNTY HEALTH SYSTEM
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2015**

Part I: Findings Related to the Financial Statements:

NONE IDENTIFIED

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-15 **Certified Budget** – Disbursements during the year ended June 30, 2015 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-5 **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-15 **Travel Expense** – No expenditures of Health System money for travel expenses of spouses of Health System officials and/or employees were noted.
- II-D-15 **Business Transactions** – We noted no material business transactions between the Health System and Health System officials and/or employees.
- II-E-15 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-15 **Deposits and Investments** – The Health System did not exceed limits within its depository resolution during the year ended June 30, 2015.
- II-G-15 **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.