

**Cook County Health and
Hospitals System of Illinois**
An Enterprise Fund of Cook County, Illinois

Financial Report
November 30, 2015

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RSM US LLP

Independent Auditor's Report

To the Board of Directors
Cook County Health and Hospitals System of Illinois

Report on the Financial Statements

We have audited the accompanying basic financial statements of Cook County Health and Hospitals System of Illinois (CCHHS), an enterprise fund of Cook County, Illinois, as of and for the year ended November 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to CCHHS'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 basic financial statements referred to above present fairly, in all material respects, the financial position of CCHHS as of November 30, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the basic financial statements referred to above present only those of CCHHS and do not purport to, and do not, present fairly the financial position of Cook County, Illinois, as of November 30, 2015, or the changes in financial position, and, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in the Note 19 to the financial statements, during the year ended November 30, 2015 CCHHS adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Also, as described in Note 19 to the financial statements, CCHHS changed its accounting policy for self-insurance claims. The implementation of GASB Statement Nos. 68 and 71 and the change in accounting policy for self-insurance claims resulted in a restatement of November 30, 2014 net position as described in Note 19. Our opinion is not modified with respect to this matter.

Other Matter*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 – 10 and the pension and post-retirement benefit data on pages 37 – 39 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

RSM US LLP

Chicago, Illinois
May 31, 2016

Management's Discussion and Analysis

Introduction

This discussion and analysis provides the readers of the financial statements of Cook County Health and Hospitals System of Illinois (CCHHS) with an overview of the financial activities and financial position for the fiscal years ended November 30, 2015 and 2014. This discussion focuses on the significant financial issues and major financial activities and the resulting changes in financial position and includes comparative data for the prior year. It should be read in conjunction with the accompanying financial statements of CCHHS.

The mission of CCHHS is to deliver integrated health services with dignity and respect regardless of a patient's ability to pay, foster partnerships with other health providers and communities to enhance the health of the public, and advocate for policies which promote and protect the physical, mental and social well-being of the people of Cook County.

CCHHS operates throughout Chicago and suburban Cook County and offers a broad range of services from specialty to primary care to emergency, acute, outpatient and preventive care. CCHHS entities are: John H. Stroger, Jr. Hospital (JSH), Provident Hospital (PH), CountyCare, Oak Forest Health Center (OFHC), the Ambulatory and Community Health Network (ACHN), the Cook County Department of Public Health (DPH), the Ruth Rothstein Core Center (CORE), and Cermak Health Services (CHS), a correctional healthcare facility. The Bureau of Health Services (BHS) oversees the operational, planning and policy activities of CCHHS.

CCHHS is one of the largest public hospital systems in the United States operated by a unit of local government and is the largest provider of medical care to the uninsured, underinsured, and Medicaid populations in the State of Illinois. The emergency department at JSH is the busiest in the metropolitan Chicago area with a 2015 census of more than 112,000 patient encounters. PH's emergency department is one of the busiest in the area with almost 27,000 encounters in 2015.

CCHHS is included in the reporting entity of Cook County, Illinois (County) as an enterprise fund. As an enterprise fund, CCHHS's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in net position, financial position, and cash flows in a manner similar to private sector businesses. The financial statements are prepared on an accrual basis of accounting, which recognizes revenue when earned and expenses when incurred.

Summary of Operating and Financial Highlights

The Cook County Board of Commissioners established the Cook County Health and Hospitals System Board (CCHHS Board) in 2008 to provide independent oversight of health care operations. The CCHHS Board is accountable to the Cook County Board of Commissioners. The CCHHS Board and CCHHS's management continue to work together to identify new sources of revenues, reduce costs or realign services in order to mitigate operating losses related to declining federal reimbursements, dependency on Illinois Medicaid payments, a large self-pay population, and rising labor and medical costs.

CountyCare began as an Illinois Medicaid demonstration program in 2013. When the demonstration program period ended on June 30, 2014, CountyCare members were transitioned into a County Managed Care Community Network (MCCN) which is an Illinois-designated Medicaid managed care structure to ensure members can remain with their medical home and network of care. In 2015, CountyCare membership totals over 167,000 and included Affordable Care Act adults (ACA), Family Health Plan (FHP) members, and Integrated Care Program (ICP) members.

Financial Highlights for 2015

All amounts within this Management's Discussion and Analysis are expressed in thousands of dollars.

CCHHS's financial statements have been restated as of November 30, 2014. The restatement is a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Additionally, CCHHS changed its accounting policy for self-insurance claims. The implementation of the pension standards and the change in accounting policy resulted in a restatement of opening net position. See Note 19 for information on the impact of the restatement.

- The liabilities and deferred inflows of resources of CCHHS exceeded its assets and deferred outflows of resources at the close of fiscal year 2015 by \$3,798,643. Of this amount, \$4,194,186 is unrestricted net deficit. This net deficit resulted from the recognition of a \$4,232,625 net pension liability in connection with the implementation by CCHHS during fiscal year 2015 of GASB Statement No. 68. In addition, in 2015, CCHHS's net investment in capital assets decreased by \$5,419, primarily due to annual depreciation.
- Total net deficit increased by \$101,730 in fiscal year 2015. The change in net position for 2015 is the result of loss before capital contributions and transfers of \$181,847, and capital contributions and net transfers of \$80,117.
- Loss from operations in fiscal year 2015 was \$339,556. The increase in the loss is primarily the result of GASB 68 implementation, which resulted in CCHHS recording more pension expense than in the past.
- During fiscal year 2015, the self-pay component of CCHHS's payor mix decreased to 40.9%, while Medicaid payor mix increased to 38.2% over the same period.
- The provision for bad debt decreased slightly in fiscal year 2015 by \$451, or 0.24%, to \$190,944.

Financial Highlights for 2014

- The liabilities of CCHHS exceeded its assets and deferred outflows of resources at the close of fiscal year 2014 by \$3,553,704. Of this amount \$3,954,367 is unrestricted net deficit. In addition, in 2014, CCHHS's net investment in capital assets decreased by \$25,958, primarily due to annual depreciation.
- Total net position increased by \$22,206 in fiscal year 2014. The change in net position for 2014 is the result of loss before capital contributions and transfers of \$43,974, and capital contributions and net transfers of \$66,180.
- Loss from operations in fiscal year 2014 was \$213,651. The decrease in the loss is primarily the result of increase in CountyCare and Medicaid revenue and the decrease in self-pay and charity care activity.
- During fiscal year 2014, the self-pay component of CCHHS's payor mix decreased to 44.1%, while Medicaid payor mix increased to 36.8% over the same period.
- The provision for bad debt decreased in fiscal year 2014 by \$160,528, or 46%, to \$191,395. The decrease is due to an increase in CountyCare and Medicaid volume of patients being treated at CCHHS facilities.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to CCHHS's financial statements. CCHHS's basic financial statements are comprised of two components: (1) fund financial statements and (2) notes to financial statements. This report also contains required supplementary information and other supplementary information in addition to the financial statements themselves.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. CCHHS, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary Funds

CCHHS maintains one type of proprietary fund. CCHHS uses one enterprise fund to account for its health care operations.

The proprietary fund financial statements can be found on pages 11 – 15 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 16 – 36 of this report.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's progress in funding its obligation to provide pension and post-employment health benefits to its employees. Required supplementary information can be found on pages 37 – 39 of this report.

Operating Statistics

The utilization statistics for CCHHS for the fiscal years ended November 30, 2015 and 2014, are as follows:

	2015	2014	Percent Change
Patient days	103,974	106,375	(2.3) %
Average daily census	285	291	(2.1) %
Admissions	22,236	22,059	0.8 %
Average length of stay (days)	4.68	4.82	(2.9) %

Fund-Wide Financial Analysis

Net position may serve over time as a useful indicator of a fund's financial position. In the case of CCHHS, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$3,798,643 at November 30, 2015, and liabilities exceeded assets and deferred outflows of resources by \$3,553,704 at November 30, 2014.

A portion of CCHHS's net position (deficit) reflects its investments in capital assets. CCHHS uses these capital assets to provide services; consequently, these assets are not available for future spending.

Table 1**Statements of Net Position
November 30, 2015 and 2014
(In Thousands)**

	2015	2014
Current assets	\$ 782,052	\$ 489,637
Capital assets	394,978	400,397
Total assets	1,177,030	890,034
Deferred outflows of resources	93,364	50,006
Current liabilities	631,842	402,914
Other liabilities	4,408,421	4,090,830
Total liabilities	5,040,263	4,493,744
Deferred inflow of resources	28,774	-
Net position (deficit)		
Net investment in capital assets	394,978	400,397
Restricted for patient care	565	266
Unrestricted	(4,194,186)	(3,954,367)
Total net position (deficit)	\$ (3,798,643)	\$ (3,553,704)

Fiscal year 2015 ended with an increase in net deficit for CCHHS by \$244,939 from fiscal year 2014 to a net deficit of \$3,798,643. Most of this increase was due to the implementation of GASB Statement No. 68. Current assets increased by \$292,415 during fiscal year 2015 to \$782,052. Cash and cash equivalents increased by \$82,740 to \$438,682 in fiscal year 2015. The current ratio for fiscal year 2015 was 1.24.

Capital assets for CCHHS decreased \$5,419 during fiscal year 2015 to \$394,978 from fiscal year 2014. Additions for fiscal year 2015 were \$22,373 while depreciation expense was \$27,792. As a result, the average age of plant of CCHHS's facilities increased to 19.6 years in fiscal year 2015 from the prior year.

Fiscal year 2014 ended with a net deficit of \$3,553,704. Current assets increased by \$127,241 during fiscal year 2014 to \$489,637. Cash and cash equivalents increased by \$217,115 to \$355,942 in fiscal year 2014. The current ratio for fiscal year 2014 was 1.22.

Capital assets for CCHHS decreased \$25,958 during fiscal year 2014 to \$400,397 from fiscal year 2013. Additions for fiscal year 2014 were \$6,539 while depreciation expense was \$32,497. As a result, the average age of plant of CCHHS's facilities increased to 15.9 years in fiscal year 2014 from the prior year.

Table 2

**Statements of Revenues, Expenses, and Changes in Net Position
Years Ended November 30, 2015 and 2014
(In Thousands)**

	2015	2014**
Operating revenues:		
Net patient service revenue - net of bad debt provision of \$190,944 and \$191,395, respectively	\$ 625,215	\$ 573,660
CountyCare capitation revenue	861,573	656,029
Provident capitation revenue	58,677	-
Grant revenue	12,609	13,372
Electronic health record incentive program revenue	5,894	4,781
Other revenue	7,737	16,779
Total operating revenues	<u>1,571,705</u>	<u>1,264,621</u>
Nonoperating revenues (expenses):		
Property taxes	143,417	37,346
Cigarette taxes	13,196	126,676
Other tobacco products taxes	1,094	5,639
Interest income	2	16
Total nonoperating revenues	<u>157,709</u>	<u>169,677</u>
Total revenues	<u>1,729,414</u>	<u>1,434,298</u>
Operating expenses:		
Salaries, wages and benefits	628,006	613,404
Pension	220,523	58,090
Supplies	114,793	87,518
Purchased services, rental, and other	183,832	171,388
Foreign claims	660,301	468,929
Insurance	48,361	24,620
Depreciation	27,792	32,497
Utilities	12,678	12,826
Services contributed by other County offices	14,975	9,000
Total operating expenses	<u>1,911,261</u>	<u>1,478,272</u>
Loss before capital contributions and transfers	(181,847)	(43,974)
Capital contributions	17,129	6,539
Transfers	62,988	59,641
Change in net position	(101,730)	22,206
Net position (deficit):		
Beginning of year (restated)	<u>(3,696,913)</u>	<u>(3,575,910)</u>
End of year	<u>\$ (3,798,643)</u>	<u>\$ (3,553,704)</u>

**See management's discussion of 2014 activity that follows regarding accounting changes affecting the comparability of certain 2014 amounts.

2015 Activity

In fiscal year 2015, operating revenues, net of bad debt provision, increased to \$1,571,705 from the prior year, which represents a 24.3% increase in total operating revenues. This increase is primarily due to an increase in CountyCare revenue of \$205,544.

In fiscal year 2015, nonoperating revenues increased by \$11,968 from the prior year to \$157,709. The drop in nonoperating revenues was due to the County allocation of tax revenue based on the fiscal year 2015 budget projection that CCHHS would receive additional revenue from CountyCare, and therefore be less reliant upon the home rule tax subsidy.

In fiscal year 2015, salaries, wages and benefits increased by \$14,602 to \$628,006 from the prior year. This is because CCHHS created new positions and units bringing some prior services that were outsourced to in house, such as the call center, and created new units such as project management, and other high level administrative positions.

Supplies expense, including pharmaceuticals, increased to \$114,793. This increase is primarily due to the GPO contract with Owens and Minor ending before the contract with Cardinal GPO was executed, but due to operational needs we had to purchase supplies at higher contract prices than expected.

Purchased services, rental, and other expenses increased by \$12,444 from the prior year to \$183,832 in fiscal year 2015. The increase is primarily due to an increase in the use of consultants on various IT initiatives in fiscal year 2015.

Foreign claims expense increased by \$191,372 from the prior year to \$660,301 in fiscal year 2015. The increase is primarily due to an increase in CountyCare activity in fiscal year 2015.

In fiscal year 2015, the operating loss of CCHHS increased by \$125,905 from the prior year to \$339,556. The increase in the operating loss is due primarily to the GASB 68 implementation, which resulted in CCHHS recording more pension expense than in the prior year.

2014 Activity

The impact of GASB Statement No. 68 on fiscal year 2014 activities could not be determined so the fiscal year 2014 expenses presented in the MD&A are measured under the previous standard, GASB Statement No. 27. Approximately \$162,000 more in pension expense was recorded in 2015 compared to 2014. Also, in fiscal year 2015, CCHHS changed its accounting policy for self-insurance claims. The impact on expenses for fiscal year 2014 could not be determined.

In fiscal year 2014, operating revenues, net of bad debt and charity provision, increased to \$1,264,621 from the prior year, which represents a 78% increase in total operating revenues. This increase is primarily due to increase in CountyCare revenue of \$538,486.

In fiscal year 2014, nonoperating revenues decreased by \$74,829 from the prior year to \$169,677. The drop in nonoperating revenues was due to the County allocation of tax revenue based on the fiscal year 2014 budget projection that CCHHS would receive additional revenue from CountyCare, and therefore be less reliant upon the home rule tax subsidy.

In fiscal year 2014, salaries, wages, and benefits increased nominally by \$17,903 to \$613,404 from the prior year. This increase is primarily due to hiring additional professional staff related to various initiatives within CCHHS.

Supplies expense, including pharmaceuticals, decreased to \$87,518. This decrease is primarily due to CCHHS entering into a group purchasing organization which resulted in better pricing on supplies and pharmaceuticals.

Purchased services, rental, and other expenses decreased by 5% to \$171,388 in fiscal year 2014 from the prior year. The decrease is primarily due to the use less consultants primarily in the areas of laboratory and radiology as more patients were transitioned to the CountyCare managed care program.

In fiscal year 2014, the operating loss of CCHHS decreased significantly by \$180,757 from the prior year to \$213,651. The decrease in the operating loss is due to an increase in operating revenue from the CountyCare program and increase in operating revenue from Medicaid, with an offsetting increase in operating expenses as a result of caring for the increased patient activity, with an overall result of a decrease in the operating loss. The significant reduction in the operating loss is expected to continue; however, long term results will be related to improved patient experience and reductions in cost. To this end, CCHHS has several initiatives to improve performance, patient satisfaction, and patient retention.

Capital Assets and Debt Administration

Capital Assets

CCHHS's investment in capital assets amounts to \$394,978, net of depreciation, as of November 30, 2015. This investment includes building, improvements, and equipment. The \$5,419 decrease in capital assets for fiscal year 2015 is the result of depreciation expense of \$27,792 outpacing the investment in capital assets of \$22,373. In 2016 CCHHS is taking steps to increase the investment in capital to improve their patient experience and efficiency.

CCHHS's investment in capital assets amounts to \$400,397, net of depreciation, as of November 30, 2014. This investment includes building, improvements, and equipment. The \$25,958 decrease in capital assets for fiscal year 2014 is the result of depreciation expense of \$32,497 outpacing the investment in capital assets of \$6,539.

Additional information of CCHHS's capital assets can be found in Note 6 on page 25 of this report.

Debt Administration

It should be noted that all debts associated with the capital assets of CCHHS are the general obligations of the County. These debts are expected to be paid by the County and, therefore, are not reflected in the financial statements of CCHHS.

Economic Factors

The health care industry is highly dependent upon a number of factors that have a significant effect on the future operations and financial condition of CCHHS. These factors include federal and state regulatory authorities, Medicare and Medicaid laws and regulations, health care reform initiatives, and managed care contract terms and conditions.

CCHHS had more insured patients than uninsured in fiscal year 2015. While it continues to carry the highest uninsured volume in the state of Illinois, this is a significant improvement. However, the percentage of its revenues tied to individuals insured by the government continues to rise and makes CCHHS subject to risks related to changes in state and federal policies covering these individuals.

Contacting CCHHS's Financial Management

This financial report is intended to provide our patients, elected officials, citizens, creditors, and vendors with a general overview of CCHHS's finances and to demonstrate accountability for the tax funding that it receives. If you have any questions regarding this report or need additional information, please contact CCHHS's Deputy Chief Executive Officer for Finance and Strategy at 1900 West Polk Street, Room 154, Chicago, IL 60612, www.cookcountygov.com.

Cook County Health and Hospitals System of Illinois

**Statement of Net Position
November 30, 2015**

Assets

Current assets:

Cash and cash equivalents (Note 5):

Cash in banks	\$ 1,569,541
Cash held by Cook County Treasurer	341,965,251
Working cash fund	<u>95,147,154</u>

Total cash and cash equivalents 438,681,946

Property taxes receivable - net of allowance of \$5,835,492:

Tax levy - current year	149,756,021
Tax levy - prior year	<u>1,483,304</u>

Total property taxes receivable 151,239,325

Receivables:

Patient accounts - net of allowance for uncollectible accounts of \$250,451,807	67,233,873
Due from State of Illinois - CountyCare (Note 17)	51,750,784
Capitation receivable (Note 18)	55,771,662
Third-party settlements	3,830,072
Other receivables	<u>9,106,023</u>

Total receivables 187,692,414

Inventories 4,438,429

Total current assets 782,052,114

Capital assets, net of accumulated depreciation (Note 6) 394,977,522

Total assets 1,177,029,636

Deferred outflows of resources:

Pension related amounts (Note 11)	<u>93,364,101</u>
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Cook County Health and Hospitals System of Illinois

Statement of Net Position (Continued)

November 30, 2015

Liabilities and Net Position (Deficit)

Current liabilities:

Accounts payable	\$	85,236,927
Accrued salaries, wages, and other liabilities		46,849,771
Claims payable (Note 17)		188,664,189
Compensated absences		6,435,734
Pension contributions payable (Note 11)		49,227,952
Unearned revenue (Note 7)		77,951,498
Due to State of Illinois (Notes 17 and 18)		59,915,794
Third-party settlements		85,581,969
Self-insurance claims payable		31,879,452
Due to other County governmental fund		43,455
Due to others		21,024
Trust funds		33,944

Total current liabilities 631,841,709

Compensated absences, less current portion	36,469,157
Self-insurance claims, less current portion	126,111,604
Property tax objections (Note 8)	13,215,512
Net pension liability (Note 11)	4,232,624,501

Total liabilities 5,040,262,483

Commitments and contingencies (Note 15)

Deferred inflows of resources:

Pension related amounts (Note 11)	<u>28,774,429</u>
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Net position (deficit):

Net investment in capital assets	394,977,522
Restricted for patient care	564,564
Unrestricted	<u>(4,194,185,261)</u>

Total net position (deficit) \$ (3,798,643,175)

Cook County Health and Hospitals System of Illinois

**Statement of Revenues, Expenses, and Changes in Net Position
Year Ended November 30, 2015**

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Operating revenues:	
Net patient service revenue - net of bad debt provision of \$190,943,545	\$ 625,214,692
CountyCare capitation (Note 17)	861,572,979
Provident hospital capitation (Note 18)	58,677,250
Grant revenue	12,608,407
Electronic health record incentive program revenue	5,894,055
Other revenue	7,737,330
Total operating revenues	<u>1,571,704,713</u>
Operating expenses:	
Salaries and wages	540,701,241
Employee benefits	87,305,307
Pension (Note 11)	220,522,538
Supplies	114,793,420
Purchased services, rental, and other	183,831,771
Foreign claims (Note 17)	660,300,874
Insurance	48,360,806
Depreciation	27,791,777
Utilities	12,677,634
Services contributed by other County offices (Note 9)	14,975,380
Total operating expenses	<u>1,911,260,748</u>
Operating loss	<u>(339,556,035)</u>
Nonoperating revenues:	
Property taxes	143,417,429
Cigarette taxes	13,196,187
Other tobacco products taxes	1,093,901
Interest income	1,662
Total nonoperating revenues	<u>157,709,179</u>
Loss before capital contributions and transfers	<u>(181,846,856)</u>
Capital contributions (Note 9)	17,128,696
Transfers	<u>62,987,754</u>
Change in net position	<u>(101,730,406)</u>
Net position (deficit):	
Beginning of year (restated) (Note 19)	<u>(3,696,912,769)</u>
End of year	<u><u>\$ (3,798,643,175)</u></u>

Cook County Health and Hospitals System of Illinois

Statement of Cash Flows
Year Ended November 30, 2015

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Cash flows from operating activities	
Receipts from third-party payors and patients	\$ 1,241,068,133
Payments to employees	(614,080,969)
Contributions to the pension plan for employee benefits	(48,012,374)
Payments to suppliers	(603,718,989)
Other receipts	13,186,169
Net cash used in operating activities	<u>(11,558,030)</u>
Cash flows from capital financing activities	
Acquisition of capital assets	(5,243,730)
Net cash used in capital financing activities	<u>(5,243,730)</u>
Cash flows from noncapital financing activities	
Borrowings from County Working Cash Fund (Note 9)	35,000,000
Repayment of borrowings from County Working Cash Fund (Note 9)	(35,000,000)
Transfers from County funds	48,012,374
Real and personal property taxes received - net	37,237,515
Cigarette taxes received	13,196,187
Other tobacco products taxes received	1,093,901
Net cash provided by noncapital financing activities	<u>99,539,977</u>
Cash flows from investing activities	
Interest received	1,662
Net cash provided by investing activities	<u>1,662</u>
Change in cash and cash equivalents	82,739,879
Cash and cash equivalents:	
Beginning of year	<u>355,942,067</u>
End of year	<u>\$ 438,681,946</u>
Supplemental disclosure of noncash transactions	
Transfers - capital assets	<u>\$ 17,128,696</u>

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Cook County Health and Hospitals System of Illinois

Statement of Cash Flows (Continued)

Year Ended November 30, 2015

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (339,556,035)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	27,791,777
Provision for bad debts	190,943,545
Services contributed by other County offices	14,975,380
Net change in assets and liabilities:	
Patient accounts receivable	(199,800,850)
Due from State of Illinois - CountyCare	(38,149,640)
Capitation receivable	(55,771,662)
Third-party settlements	13,286,474
Other receivables	(1,975,570)
Inventories	(972,732)
Accounts payable	25,864,448
Accrued salaries, wages, and other liabilities	12,629,844
Pension contributions payable	(778,112)
Self-insurance claims payable	14,782,804
Net pension liability	187,871,884
Deferred amounts related to pensions	(14,583,608)
Claims payable	87,111,785
Compensated absences	1,434,309
Unearned revenue	1,129,723
Due to State of Illinois	59,841,357
Due to others	(8,840)
Trust funds	(13,219)
Property tax objections	2,388,908
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Net cash used in operating activities	\$ (11,558,030)

See notes to financial statements.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 1. Reporting Entity

Cook County Health and Hospitals System of Illinois (CCHHS) is included in the reporting entity of Cook County, Illinois (County), as an enterprise fund. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises — where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through revenue from user fees. CCHHS also receives various tax and County subsidies to support its operations. The Board of Commissioners is responsible for the operation of CCHHS. CCHHS is presented as a business-type activity in the basic financial statements of the County.

CCHHS includes the following entities: John H. Stroger, Jr. Hospital of Cook County (JSH), Oak Forest Health Center (OFHC), CountyCare, Provident Hospital (PH), the Cook County Department of Public Health (DPH), the Bureau of Health Services (BHS), the Ambulatory and Community Health Network (ACHN), the Ruth Rothstein Core Center (CORE) and Cermak Health Services of Cook County (CHS).

BHS oversees the operational, planning and policy activities of CCHHS.

Collectively, JSH, OFHC, PH, DPH, ACHN, CORE and CHS provide primary, intermediate, acute, and tertiary medical care to patients, without regard to their ability to pay. These entities also provide disease prevention and health promotion services.

CountyCare capitation, Medicaid and Medicare revenue account for a significant portion of CCHHS's total revenues. CCHHS receives Medicaid reimbursement under an interagency agreement between the Board of Commissioners and the Illinois Department of Healthcare and Family Services (see Note 7). Property and other taxes also represent an important source of financing for CCHHS. The receipt of future revenues by CCHHS is subject to, among other factors, federal and state policies affecting CCHHS and the health care industry.

In October 1998, Cook County/Rush Health Center (Health Center) was opened to combat HIV/AIDS and other related communicable diseases. The CORE Foundation, an Illinois not-for-profit corporation, funded the development and construction of the Health Center. CCHHS leases the Health Center from the CORE Foundation for \$1 per year. CCHHS staffs and operates the Health Center. CCHHS accounts for the Health Center as part of ACHN.

On May 20, 2008, the Board of Commissioners created the Cook County Health and Hospitals System Board of Directors to provide independent oversight of health care operations. The Cook County Health and Hospitals System Board of Directors is accountable to the Board of Commissioners. In May 2010, the Board of Commissioners voted to make the Cook County Health and Hospitals System Board of Directors permanent.

Note 2. Financial Condition

Losses from operations for CCHHS totaled \$339,556,035 for the year ended November 30, 2015.

The health care industry is highly dependent upon a number of factors that have a significant effect on operations, such as laws and regulations, and continuing shifts in payor utilization. Additionally, certain salaries in the health care industry have become very competitive as a result of the national shortage of health care professionals. CCHHS has provided for increases in salaries and benefits in its fiscal year 2016 budget to assist in the hiring and retention of high-quality employees.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 2. Financial Condition (Continued)

In 2012, CCHHS and the Cook County Board Officials collaborated to cut Medicaid costs, help County taxpayers, and transform Cook County's hospital system by jump-starting national health care reform in Cook County. In October 2012, the Federal government approved CCHHS's Medicaid Expansion Program (CountyCare) by creating the CMS waiver under Section 1115 of the Social Security Act (1115 Waiver) for Cook County, allowing CCHHS to enroll more than 115,000 individuals who would become eligible for Medicaid in 2014 under the Affordable Care Act with no cost to the State of Illinois. However, when the State of Illinois begins to fund the program in July 2016 there is risk that the State will cut funding or not pay timely.

Once enrolled in CountyCare, members receive covered services at no cost including but not limited to primary and specialty visits within a broad network of doctors and hospitals. The CountyCare network consists of 138 primary care access points including CCHHS facilities, all Federally Qualified Health Centers (FQHCs) in Cook County, over 35 community hospitals, and five major academic medical centers.

CountyCare began as an Illinois Medicaid Demonstration program. When the demonstration program period ended on June 30, 2014, CountyCare members were transitioned into a County Managed Care Community Network (MCCN), which is an Illinois-designated Medicaid managed care structure to ensure members can remain with their medical home and network of care. Membership continues to grow especially in the Family Health Plan (FHP) and Integrated Care Program (ICP). As of November 30, 2015 and 2014, the total membership for the FHP, ICP and Affordable Care Act programs totaled 168,000 and 87,000, respectively.

CCHHS experienced an increase in its operating loss in 2015 due to GASB 68 implementation, which resulted in CCHHS recording more pension expense than in the past. CCHHS expects operating losses in the future to decrease due to increased CountyCare membership and increases in Provident Access revenue, but understands that to sustain this trend it is dependent upon decreasing costs and increasing patient satisfaction and retention. To this end, CCHHS is establishing initiatives to sustain the trend of decreasing operating losses. Even with the favorable impact of the CountyCare revenue, CCHHS continues to be highly dependent on reimbursement from the Illinois Department of Healthcare and Family Service (DHFS). Future declines in DHFS reimbursement could have a significant adverse effect on CCHHS's operating results.

For the year ended November 30, 2015, the CCHHS's payor utilization based on gross patient service revenue was as follows:

	<u>2015</u>
Self-Pay	\$ 458,335,358
Medicaid and Medicaid managed care	428,397,160
Medicare	175,044,211
Other	<u>59,846,540</u>
Total	<u>\$ 1,121,623,269</u>

For the year ended November 30, 2015, estimated gross charges associated with services provided to CountyCare patients totaled approximately \$180,712,000. Charges related to CountyCare patients are excluded from the table above as CCHHS is reimbursed through capitation rather than through patient service revenue, and any gross charges associated with CCHHS services provided to CountyCare patients are eliminated in combination.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 2. Financial Condition (Continued)

CCHHS's revenue associated with CountyCare patients is reported in CountyCare capitation revenue in the statement of revenues, expenses and changes in net position.

Note 3. Summary of Significant Accounting Policies

Basis of presentation: The financial statements have been presented in conformity with accounting principles generally accepted in the United States of America and in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). Accounting records are maintained on the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. Actual results could differ from those estimates.

Combination: These financial statements include the accounts of JSH, OFHC, CountyCare, PH, DPH, BHS, CORE, ACHN, and CHS. The accounts of CountyCare, ACHN, CORE and OFHC are presented with those of JSH. All material intra-account transactions have been eliminated.

Operating and restricted accounts: Operating accounts are used for unrestricted funds, which arise from normal operations. Restricted accounts are resources whose use has been limited by donors or grantors. Restricted accounts are accounted for in specific purpose accounts until expended for their identified purpose, at which time they are reported as operating revenues and expenses.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, it is CCHHS's policy to first apply restricted resources and then unrestricted resources to the expense.

Substantially all restricted net position is restricted for patient care services.

Cash and cash equivalents: Cash and cash equivalents consist primarily of time deposits and cash invested in other authorized short-term securities (Note 5) with maturities at the date of purchase of three months or less. Realized gains and losses and changes in unrealized gains and losses attributable to cash equivalents are included as a component of nonoperating revenue in the statement of revenues, expenses, and changes in net position. Cash and cash equivalents are recorded at their fair value.

Property taxes receivable: Property taxes are levied each calendar year on all taxable real property. The owner of the property on January 1 in any year is liable for taxes of that year. Property taxes attach as an enforceable lien on property as of January 1 of the levy year. The taxes are collected by the Cook County Collector, who remits to CCHHS its respective portion. The County's taxes levied in one year become payable during the following year in two installments, one on March 1 and the second on August 1, or 30 days after the tax bills are mailed, whichever is later. The first installment is an estimated bill and is one-half of the prior year's tax bills. The second installment is based on the current levy, assessment, and equalization and reflects any changes from the prior year in those factors.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 3. Summary of Significant Accounting Policies (Continued)

Any changes from the prior year will be reflected in the second installment bill. Property taxes receivable at November 30, 2015, represents CCHHS's portion of the tax year 2015 taxes and uncollected tax year 2014 taxes.

CCHHS records property taxes as revenue in the year in which they are levied. Property taxes receivable are recognized for the current and prior fiscal years. Uncollected taxes are written off at the end of the fiscal year immediately following the year in which the taxes become due. The County's annual appropriation ordinance includes a provision for uncollectible property taxes. CCHHS records its portion of this provision and a corresponding allowance for loss against property taxes receivable.

Patient accounts receivable: Patient accounts receivable represents amounts owed to CCHHS for services provided to patients. The receivable is either due from a third-party payor, such as a commercial insurance carrier, or directly from the patient. CCHHS evaluates the collectability of its patient accounts receivable based on the length of time the receivable is outstanding, payor class, and historical experience. Accounts receivable are charged against the allowance for uncollectible accounts when they are deemed uncollectible. Medicaid patient accounts receivable (excluding Medicaid managed care) represented approximately 47% of patient accounts receivable, net, as of November 30, 2015.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Capital assets: The County contributes to the acquisition of capital assets for the operation of CCHHS. The assets, which include land improvements, buildings, building improvements, and equipment and furniture, are recorded at cost at the time of receipt and, in the case of construction in progress, are transferred from the County at the time of completion. No value has been assigned to the land upon which CCHHS is located. Capital assets are defined by CCHHS as assets with an initial, individual cost of \$1,000 or more. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as construction projects are substantially completed.

Depreciation is provided over the estimated useful life of each class of assets. Estimated useful lives are as follows:

Land improvements	5–25 years
Buildings	20–40 years
Building improvements	5–40 years
Equipment and furniture	3–20 years

Depreciation is calculated on a straight-line method for all institutions, except JSH, which used the 150% declining balance on assets acquired prior to 2008. Beginning in 2008, new acquisitions at JSH are depreciated using the straight-line method for better cost allocation. One-half year's depreciation is taken in the year of acquisition.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 3. Summary of Significant Accounting Policies (Continued)

Claims payable: Claims payable represents amounts payable to providers outside of CCHHS for services provided to CountyCare members. This estimate reflects the estimated ultimate cost of services incurred but not paid, net of expected stop-loss insurance recoveries. Stop-loss coverage limits vary based on the services provided and are reimbursed based on a percentage of charges. Management believes that the claims payable liability is adequate to cover the claims incurred but not paid as of November 30, 2015.

Compensated absences: Employees can earn from 10 to 25 vacation days per year, depending on their length of employment with the County. An employee can accumulate no more than the equivalent of two years vacation. Accumulated vacation leave is due to the employee, or employee's beneficiary, at the time of termination or death. Salaried employees can accumulate sick leave at the rate of one day for each month worked, up to a maximum of 175 days. Accumulated sick leave is forfeited at the termination of employment; therefore, sick leave pay is not accrued and is charged to employee benefits expense when paid. Sick leave does not vest, but any unused sick and vacation leave, up to six months in duration, accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Changes in compensated absences were as follows for the year ended November 30, 2015:

Balance, December 1, 2014	Additions	Reductions	Balance, November 30, 2015	Amount Due Within One Year
\$ 41,470,582	\$ 43,216,726	\$ 41,782,417	\$ 42,904,891	\$ 6,435,734

Self-insurance claims payable: Self-insurance claims payable represents CCHHS's allocation of an actuarially-determined estimate of the County's liability for medical malpractice, workers' compensation, general automobile and other self-insured risks. Changes in self-insurance claims payable were as follows for the year ended November 30, 2015:

Balance, December 1, 2014, as Restated**	Additions	Reductions	Balance, November 30, 2015	Amount Due Within One Year
\$ 143,208,252	\$ 45,741,926	\$ (30,959,122)	\$ 157,991,056	\$ 31,879,452

**The December 1, 2014 balance presented has been restated (see Note 19).

Net position: CCHHS classifies its net position into three categories as follows:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, other debt and deferred inflows and outflows of resources that are attributable to the acquisition, construction or improvement of those assets.

Restricted – results when constraints placed on the use of the net position are either externally imposed by creditors, grantors, contributors, or imposed by law through constitutional provisions or enabling legislation.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 3. Summary of Significant Accounting Policies (Continued)

Unrestricted – consists of the remaining net position that does not meet the previously listed criteria. CCHHS's beginning net position has been restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and a change in its accounting policy for self-insurance claims (see Note 19).

Operating and nonoperating revenues and expenses: The principal operating revenues of the CCHHS enterprise fund, with the exception of DPH, are charges to patients for services performed and payments received under CountyCare. The principal operating revenues of DPH are grants. Operating expenses of CCHHS include the cost of patient care services to CCHHS patients, services provided by providers outside of CCHHS to CountyCare members, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Net patient service revenue: A significant amount of CCHHS's net patient service revenue is derived from the Medicaid and Medicare programs. Payments under these programs are based on a specific amount per case or on a contracted price or cost, as defined, of rendering services to program beneficiaries.

Net patient service revenue is reported at estimated realizable amounts from patients, third-party payors, and others for services rendered. Retroactive adjustments under reimbursement agreements with third-party payors are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined. Estimated amounts due from or to third-party payors are reported as third-party settlements in the statement of net position.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change. Estimates for cost report settlements and contractual allowances can differ from actual reimbursements based on the results of subsequent reviews and cost report audits. Net patient service revenue decreased by approximately \$7,956,000 for the year ended November 30, 2015, for third-party settlements and changes in estimates related to services rendered in previous years.

Medicare and Medicaid Electronic Health Record (EHR) incentive programs: The American Recovery and Reinvestment Act of 2009 (ARRA) provides for Medicare and Medicaid incentive programs beginning in federal fiscal year 2011 for eligible acute care hospitals that are meaningful users of certified EHR technology, as defined by the *Federal Register*. CCHHS has implemented certified EHR technology that has enabled it to qualify for the incentive programs. The initial incentive payments received for both the Medicare and Medicaid EHR incentive programs are estimates based upon data from prior year cost reports. The final settlements will be determined after the submission of the current annual cost reports and subsequent audits by the fiscal intermediary. CCHHS's compliance with the meaningful use criteria is also subject to audit by the Federal government. The EHR incentive programs are expected to continue through September 30, 2017, and the payments will be calculated annually. CCHHS accounts for EHR incentive funds using the grant accounting model. Under this model, CCHHS records EHR incentive revenue when it is reasonably assured that it will meet the meaningful use criteria for the required reporting period and that the grant will be received.

During the year ended November 30, 2015, CCHHS received Medicaid hospital EHR incentive revenue of \$127,500, which is reported in operating revenues in the accompanying statement of revenues, expenses, and changes in net position.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 3. Summary of Significant Accounting Policies (Continued)

During the year ended November 30, 2015, CCHHS recorded net repayments to Medicare of hospital EHR incentive revenue of \$301,778, which are reported in operating revenues in the accompanying statement of revenues, expenses, and changes in net position.

ARRA also provides for Medicare and Medicaid EHR incentives for eligible professionals that are meaningful users of certified EHR technology. During the year ended November 30, 2015, CCHHS recognized Medicaid physician EHR incentive revenue of \$6,068,334, which is reported in operating revenues in the accompanying statement of revenues, expenses, and changes in net position. CCHHS recorded related receivables of \$2,974,424 at November 30, 2015, which are reported in other receivables in the accompanying statement of net position.

Cigarette taxes revenue: Annually, the County Board of Commissioners determines the allocation of cigarette taxes revenue to the various County funds. The cigarette tax is imposed at a rate of 150 mills, or \$0.15 per cigarette, and is imposed upon all cigarettes possessed for sale in Cook County. The tax imposed is paid by the purchase of tax stamps sold by the Department of Revenue to cigarette distributors licensed with the State of Illinois. Taxes collected are remitted monthly by the Illinois Department of Revenue.

New accounting pronouncements: CCHHS implemented the following GASB Statements during the fiscal year ended November 30, 2015:

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*

See Note 19 for additional information regarding the effects on the financial statements of the implementation of GASB Statement Nos. 68 and 71.

Management is currently assessing the impact that the adoption of the following GASB Statements, which are not implemented and not required for the fiscal year ended November 30, 2015, will have in CCHHS's future financial statements:

- GASB Statement No. 72, *Fair Value Measurement and Application*, will become effective for CCHHS's fiscal year ending November 30, 2016.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will become effective for CCHHS's fiscal year ending November 30, 2018.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, will become effective for CCHHS's fiscal year ending November 30, 2016.
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, will become effective for CCHHS's fiscal year ending November 30, 2017.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 3. Summary of Significant Accounting Policies (Continued)

- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*, will become effective for CCHHS's fiscal year ending November 30, 2017.

Note 4. Charity Care

CCHHS's mission is to treat all patients in need of medical services without regard to their ability to pay. Medical services are available at all CCHHS's locations for those patients that are unable to pay for them. All patients are evaluated through the CCHHS financial counseling services. If a patient qualifies for Medicaid or other federal programs, CCHHS will assist the patient in completing the applications for those programs.

For those patients who do not qualify for Medicaid or any other Federal programs, CCHHS has a charity care program for Cook County residents that evaluates the patient's need based on family size and income. The guidelines to qualify for charity care are adjusted each year based on changes in the federal government's poverty guidelines. The charity program covers patients with incomes up to 600% of the federal poverty guidelines. CCHHS is committed to identifying patients needing charity care at the point of service.

Patients who are not residents of Cook County that need financial assistance in paying for their medical services are also offered a discount under the Illinois Uninsured Patient Discount program if their income is less than 600% of the federal poverty guidelines.

Charity care is measured based on the CCHHS's estimated direct and indirect costs of providing charity care services. That estimate is made by calculating a ratio of cost to gross charges, applied to the uncompensated charges associated with providing charity care to patients.

	<u>2015</u>
Charges forgone	<u>\$ 365,044,304</u>
Estimated costs incurred	<u>\$ 265,739,453</u>

Note 5. Cash Management

The Cook County Treasurer, the County, and the County Comptroller each maintains cash records for the County funds, including CCHHS. The County Comptroller maintains cash records for each individual fund, whereas the Cook County Treasurer maintains records for the County Comptroller's cash on a pooled basis. The Cook County Treasurer deposits cash into various bank accounts, which are treated as a single aggregate bank account for County cash resources. The County Comptroller issues checks for authorized County expenditures, which represent a claim for payment when presented to the County's operating disbursement bank. Funding for County checks is made at the time of issue into the appropriate disbursement checking account. Funding is accomplished via book transfers and wire transfers from the appropriate fund into the disbursement account. Balances in the disbursement accounts, which represent checks not yet presented, are invested by the County Treasurer.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 5. Cash Management (Continued)

The Cook County Treasurer invests on an aggregate basis, consistent with a written investment policy. The current policy is primarily concerned with the safety of invested principal and then with liquidity and rates of return. Funds are deposited in banks that are required to collateralize uninsured deposits with approved securities equal to 102% of market value. Securities approved for investment include U.S. government securities, certificates of deposit, or time deposits issued by certain banks and limited other investments permitted by State of Illinois law. The Cook County Treasurer does not invest in derivatives, structured notes, or other leveraged investments.

As of November 30, 2015, CCHHS's cash and cash equivalents consisted of the following:

	<u>2015</u>
Demand deposits held by Cook County Treasurer	\$ 341,965,251
Working cash fund	95,147,154
Demand deposits held in banks	<u>1,569,541</u>
Total	<u><u>\$ 438,681,946</u></u>

Custodial credit risk - cash and certificates of deposit: In the case of deposits, there is the risk that in the event of a bank failure the County's or CCHHS's deposits may not be returned. The County's Investment Policy states that in order to protect the County's public fund deposits, depository institutions are to maintain collateral pledges on County certificates of deposit during the term of the deposit of at least 102% of marketable U.S. government or approved securities or surety bonds issued by top-rated issuers. Collateral is required as security whenever deposits exceed the insured limits of the Federal Deposit Insurance Corporation (FDIC). CCHHS's total bank deposits as of November 30, 2015, were fully insured or collateralized.

Working cash funds are maintained by the County. The money to establish and increase these working cash funds was obtained from the issuance of long-term bonds and from legally available County resources. Monies on deposit in the working cash funds are invested with the interest earnings being credited to the working cash funds. Of the total working cash funds maintained by the County, as of November 30, 2015, \$95,147,154 is reported at CCHHS.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 6. Capital Assets

A summary of capital assets activity for the year ended November 30, 2015, follows:

	Balance, December 1, 2014	Additions and Transfers	Disposals	Balance, November 30, 2015
Depreciable capital assets:				
Land improvements	\$ 2,717,511	\$ -	\$ -	\$ 2,717,511
Buildings and building improvements	667,614,316	1,664,327	-	669,278,643
Equipment and furniture	245,986,047	20,708,095	-	266,694,142
Total depreciable capital assets	916,317,874	22,372,422	-	938,690,296
Less accumulated depreciation:				
Land improvements	1,742,287	87,738	-	1,830,025
Buildings and building improvements	306,460,122	15,489,680	-	321,949,802
Equipment and furniture	207,718,588	12,214,359	-	219,932,947
Total accumulated depreciation	515,920,997	27,791,777	-	543,712,774
Total capital assets at cost, net	\$ 400,396,877	\$ (5,419,355)	\$ -	\$ 394,977,522

Note 7. Interagency Transfer Agreements

CCHHS receives enhanced Medicaid reimbursement by means of an Interagency Transfer Agreement (Agreement) between the Board of Commissioners and the Department of Health and Family Services (DHFS). Under terms of the Agreement, DHFS will direct additional funding to CCHHS for inpatient and outpatient services based on per-diem and per-visit cost reimbursement methodologies. In addition, the Agreement requires DHFS to provide CCHHS additional funding to assist CCHHS in offsetting the cost of its uncompensated care. Such adjustment amounts include federal matching funds.

Under the terms of the Agreement, CCHHS received \$292,900,988 in additional payments from DHFS during the year ended November 30, 2015. Of the amounts received, \$77,890,401 are unearned as of November 30, 2015, and are included in Unearned revenue in the statement of net position. Such unearned revenue is excluded from net patient service revenue and represents amounts to be earned during December through June, the last seven months of the State of Illinois' fiscal year. Included in net patient service revenue as earned is \$291,776,026 for the year ended November 30, 2015, which takes into consideration the prior-year unearned revenue of \$76,765,440.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 7. Interagency Transfer Agreements (Continued)

Reimbursement under the Agreement will automatically terminate if federal funds under Title XIX are no longer available to match 50% of the amounts collected and disbursed according to the terms of the Interagency Agreements. The Interagency Agreements will also automatically terminate in any year in which the General Assembly of the State of Illinois fails to appropriate or re-appropriate funds to pay DHFS's obligations under these arrangements or any time that such funds are not available. The Interagency Agreements can be terminated by either party upon 15 days' notice. Additionally, the Interagency Agreements require the parties to comply with certain laws, regulations, and other terms of operations.

Note 8. Other Liabilities

Long-term liability activity for the year ended November 30, 2015, was as follows:

	Balance, December 1, 2014	Increase	Decrease	Balance, November 30, 2015	Amount Due Within One Year
Property tax objections	\$ 10,826,604	\$ 2,388,908	\$ -	\$ 13,215,512	\$ -

Note 9. Related-Party Transactions

During 2015, significant related-party transactions between the County and CCHHS included the provision of various services and the contribution of capital assets.

Working cash loan: In order to finance operations pending the collection of taxes and to provide for month-to-month cash flow needs, the County maintains a Working Cash Fund. The County's Working Cash Fund and the outstanding bonds that were issued to create it are reported in the County's long-term obligations and, therefore, are not reflected in the accompanying financial statements. Amounts advanced from the County's Working Cash Fund may be designated as either loans or operating contributions. During the year ended November 30, 2015, the County's Working Cash Fund made loans of \$35,000,000 to CCHHS. These loans were repaid in full by the end of the fiscal year.

Cash held by Cook County Treasurer: The County maintains bank accounts for the cash receipts and disbursements of CCHHS. Cash held by the Cook County Treasurer represents balances maintained for CCHHS activities by the Cook County Treasurer. These balances are reflected as a current asset in the statement of net position.

Provision of services: The County contributes certain services, such as purchasing, data, and payroll processing, to the operations of CCHHS. Accordingly, these services, which totaled \$14,975,380 during the year ended November 30, 2015, are reflected as both transfers and operating expenses of CCHHS.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 9. Related-Party Transactions (Continued)

Contribution of capital assets: The County has contributed the construction and acquisition of significant capital assets to the operations of CCHHS. The general obligation bonds issued to finance such contributed assets are reported in the County's long-term obligations and, therefore, are not reflected in the accompanying financial statements. The County does not expect the payment of the debt related to the capital assets to be repaid from the operating results of CCHHS and, therefore, the debt resides with the County.

During the year ended November 30, 2015, CCHHS has recognized capital assets and capital contributions from the County of \$17,128,696, in the accompanying statement of revenues, expenses, and changes in net position.

Note 10. Interfund Receivables, Payables, and Transfers

As of November 30, 2015, CCHHS reported amounts due to the other County funds of \$43,455. Balances between CCHHS and the County result from the time lag between the dates that services are provided between the two entities, versus when cash payment is made.

Note 11. Pension Plan

General Information about the Pension Plan

Plan description: Substantially all of CCHHS's full-time employees participate in the County Employees' and Officers' Annuity and Benefit Fund of Cook County (the A & B Plan), which is the administrator of the single employer defined benefit pension plan established by the State of Illinois on January 1, 1926. The A & B Plan is governed by legislation contained in the Illinois Pension Code particularly Chapter 40 of the Illinois Compiled Statutes (ILCS), Article 9 (Article). The A & B Plan (including employer and employee contribution requirements) can be amended only by the Illinois Legislature. The A & B Plan was created for the purpose of providing retirement, death (spouse or children) and disability benefits for full-time employees of the County and the dependents of such employees. The A & B Plan Board consists of nine members – two members of the Board are ex officio, four are elected by the employee members of the A & B Plan and three are elected by the annuitants of the A & B Plan. The two ex officio members are the Comptroller of Cook County, or someone chosen by the Comptroller, and the Treasurer of Cook County, or someone chosen by the Treasurer. The County Employees' and Officers' Annuity and Benefit Fund of Cook County issues a publicly available financial report that includes financial statements and required supplementary information for the A & B Plan.

To obtain a copy of this report, write:
Cook County Pension Board
33 N Dearborn St #1000
Chicago, Illinois 60602

Benefits provided: The A & B Plan provides retirement, disability, and death benefits to plan members and beneficiaries. Tier 1 employees age 50 or over and Tier 2 employees age 62 or over with at least 10 years of service are entitled to receive a minimum formula annuity of 2.4% for each year of credited service to a maximum benefit of 80% of the final average monthly salary. For Tier 1 employees under age 60 and Tier 2 employees under age 67, the monthly retirement benefit is reduced ½ percent for each month the participant is below the age. This reduction is waived for Tier 1 participants having 30 or more years of credited service.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 11. Pension Plan (Continued)

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are 3.0% compounded annually for Tier 1 participants, and the lesser of 3.0% or one half of the increase in the Consumer Price Index for Tier 2 participants.

If a covered employee leaves employment without qualifying for an annuity, accumulated employee contributions are refundable with interest (3% or 4% depending on when the employee became a participant).

Contributions and payable to the pension plan: The A & B Plan is a single employer defined benefit pension plan with a defined contribution minimum. Illinois Compiled Statutes (40 ILCS 5/9-169) establish the contribution requirements of the County and may only be amended by the Illinois legislature. The County is required to levy a tax at a rate not more than an amount equal to the total amount of contributions by the employees to the A & B Plan made in the fiscal year two years prior to the year for which the annual applicable tax is levied, multiplied by a factor of 1.54.

For the year ended November 30, 2015, employees were required to contribute 8.5% of their salary to the A & B Plan, subject to the salary limitations for Tier 2 participants in 40 ILCS 5/1-160. The County's actual contributions to the A & B Plan were \$194.8 million. Contributions legally due to the A & B Plan for the County's fiscal year 2015 pension contributions are reported as a payable to the A & B Plan. Amounts remitted to the A & B Plan by the County during fiscal year 2015 represent collections of the FY2014 levy, and personal property replacement taxes collected during fiscal year 2015.

CCHHS's required contributions to the A & B Plan are determined using an allocation based on the percentage of CCHHS's covered-employee payroll to the County's total covered-employee payroll. Contributions to the A & B Plan made by the County on behalf of CCHHS were \$48,012,374 during the year ended November 30, 2015. These contributions are reflected as both pension expense and transfers in the statement of revenues, expenses, and changes in net position. Contributions payable by CCHHS to the A & B Plan totaled \$49,227,952 as of November 30, 2015, and are reported within current liabilities in the statement of net position.

Net pension liability: The County's net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. CCHHS's proportionate share of the County's net pension liability as of December 31, 2014, was \$4,232,624,501, or approximately 33% of the County's net pension liability. This percentage was determined based on the percentage of CCHHS's covered-employee payroll to the County's total covered-employee payroll.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 11. Pension Plan (Continued)

Pension expense and deferred outflows of resources of resources related to pensions: For the year ended November 30, 2015, CCHHS recognized total pension expense of \$220,522,538. At November 30, 2015, CCHHS reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportionate share of contributions	\$ -	\$ 28,774,429
Net differences between projected and actual earnings on pension plan investments	44,136,149	-
Contributions subsequent to measurement date	49,227,952	-
	<u>\$ 93,364,101</u>	<u>\$ 28,774,429</u>

Actuarial assumptions: The total pension liability in the December 31, 2014 actuarial valuation was determined using the Entry Age Normal actuarial cost method and using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	8.0% to 3.75%
Investment rate of return	7.50%, net of investment expense, including inflation
Municipal Bond Rate	3.34%

Mortality rates were based on an experience analysis of the County Employees Annuity and Benefit Fund over the period 2009 through 2012. The RP-2000 Blue Collar Mortality Table, base year 2000, fully generational based on Scale BB was used.

The long-term expected rate of return on the Fund's investments was determined based on the results of an experience review performed by a consultant. The investment return assumption was based on the current asset allocation of the A & B Plan. In the experience review, the consultant developed best estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) for each major asset class. These ranges were 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. Best estimates or geometric real rates of return for each major asset class included in the Fund's target asset allocation are listed in the table below.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 11. Pension Plan (Continued)

	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed income	32%	2.00%
Domestic equity	25%	6.50%
International equity	20%	6.50%
Real Estate	8%	5.70%
Private equity	9%	4.72%
Hedge Funds	6%	12.41%

Discount rate: The discount rate used to measure the total pension liability was 4.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that County contributions will be made at rates required by the Illinois Pension Code (40 ILCS 5/9-169). Based on this assumption, the A & B Plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members in 2038. A municipal bond rate of 3.34% was used in the development of the blended discount rate after that point. The 3.34% rate is based on the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date (December 31, 2014). Based on the long-term rate of return of 7.50% and the municipal bond rate of 3.34%, the blended discount rate would be 4.50%.

Changes in the net pension liability were as follows for the year ended November 30, 2015:

Balance, December 1, 2014, as Restated**	Additions	Reductions	Balance, November 30, 2015	Amount Due Within One Year
\$ 4,044,752,616	\$ 187,871,885	\$ -	\$ 4,232,624,501	\$ -

**The December 1, 2014 balance presented has been restated (see Note 19).

Note 12. Other Postemployment Benefits (OPEB)

Plan description: The County Employees' and Officers' Annuity and Benefit Fund of Cook County administers the Health Care Premium Plan (HPP), is a single-employer defined benefit postemployment health care plan. HPP is administered in accordance with Chapter 40, Article 5/9 of the Illinois Compiled Statutes, which assigns the authority to establish and amend benefit provisions to the Plan's Board of Trustees. HPP provides a health care premium subsidy to annuitants who elect to participate in HPP. The Plan is currently allowed, in accordance with State Statutes, to pay all or a portion of medical insurance premiums for the annuitants. The HPP is included in the County's financial statements as a pension trust fund. The financial statements of the HPP are audited by an independent public accountant and are the subject of a separate report.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 12. Other Postemployment Benefits (OPEB) (Continued)

Funding policy: The contribution requirement of plan members and the County is established and may be amended by the State legislature. The required contribution is based on projected “pay-as-you-go” financing requirements. The Plan pays all or any portion of the premium for health insurance on behalf of each annuitant who participates in any of the Plan’s health care plans. The Plan is paying 55% of the total premiums for retiree annuitants, including the cost of any family coverage, and 70% of the premiums for survivor annuitants, including the cost of family coverage. The remaining premium cost is borne by the annuitant.

The County maintains and funds the Plan, which includes CCHHS employees. The OPEB liability is included in the County CAFR; separate information for CCHHS employees is not available. Information related to the Plan as a whole is included in the County’s CAFR which can be obtained at the address noted below.

To obtain a copy of the County’s CAFR, write:
Controller, Cook County,
118 North Clark
Chicago, Illinois 60602

To obtain a copy of the HPP’s financial statements, write:
Executive Director,
Office of the Cook County and Forest Preserve District Employees’ and
Officers’ Annuity and Benefit Funds,
33 North Dearborn
Chicago, Illinois 60603

The schedule of funding progress, presented in the Required Supplementary Information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of the County OPEB Trust Fund assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Note 13. Insurance

The County self-insures all risks, including medical malpractice, workers’ compensation, general automobile and other liabilities. The County purchases excess liability coverage for medical malpractice and other claims that exceed the County’s self-insured retentions. The current medical malpractice policy is on a claims-made basis. The County is a defendant in lawsuits alleging work-related injuries, malpractice, and other claims in which it is involved. Cases related to these areas are in various stages in the legal process. Additional information on the County’s self-insurance claims, including those pertaining to CCHHS are available in the County’s Comprehensive Annual Financial Report.

The County engages an independent actuary to provide an actuarial estimate of its liabilities for self-insured expenses. The liability recorded reflects a 3.6% discount factor. CCHHS’s portion of the self-insurance liability included in the self-insurance fund in the County’s financial statements was \$157,991,056 at November 30, 2015. Beginning in fiscal year 2009, the County began to allocate a portion of self-insurance costs to other County funds; CCHHS has recorded insurance expense of \$48,360,806 related to this allocation during the year ended November 30, 2015.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 13. Insurance (Continued)

The County funds its self-insurance liabilities, including those of CCHHS, on a current basis and has the authority to finance such liabilities through the levy of property taxes. While it is difficult to estimate the timing or amount of expenditures, management of the County believes that the self-insurance liabilities recorded are adequate to provide for potential losses resulting from medical malpractice, workers' compensation, and general liability claims, including incurred but not reported claims. The self-insurance liabilities recorded are based on facts known at the current time and an estimate for claims incurred but not reported; however, the discovery of additional information concerning specific cases could affect estimated costs in the future.

Note 14. General Obligation Bonds Issued by Cook County

Approximately \$422,588,000 of the County's outstanding debt as of November 30, 2015, pertained to CCHHS capital projects. These outstanding bonds are expected to be paid by the County and, therefore, are not reflected in the financial statements of CCHHS.

Note 15. Commitments and Contingencies

Leases: CCHHS leases data processing and other equipment. Lease agreements frequently include renewal options and usually require CCHHS to pay for maintenance costs. Rental payments for operating leases are charged to operating expense in the period incurred. Rental expense for operating leases was approximately \$8,434,000 during the year ended November 30, 2015.

Approximate minimum future payments under noncancelable lease obligations are as follows:

Years Ending November 30	
2016	\$ 7,509,554
2017	4,381,636
2018	3,101,399
2019	1,598,555
2020	748,963
Thereafter	<u>1,003,337</u>
Total	<u>\$ 18,343,444</u>

Asset use and disposal: During 1990, the County purchased property known as the Provident Hospital facility from the U.S. Department of Housing and Urban Development for \$1. The purchase agreement restricts the use of the property to a general public hospital or other public health care facility for a period of 50 years, or the remaining useful life of the property. Additional restrictions exist related to the distribution of proceeds from any sale of the property.

Third-party administrator contract: See subsequent events disclosure in Note 20.

Health care regulation: The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, governmental activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations create a possibility of significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 15. Commitments and Contingencies

Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor (RAC) program. The program, which uses RACs to search for potentially improper Medicare payments that may have been made to health care providers, identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states by 2010. CMS implemented the RAC program in Illinois in 2010. CCHHS deducts from revenue amounts that are assessed under the RAC audits when sufficient information is available to make a reasonable estimate of amounts due.

Management believes that CCHHS is in compliance, in all material respects, with applicable government laws and regulations. While no regulatory inquiries have been made that are expected to have a material effect on the financial statements, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The Governor of the State of Illinois is proposing significant reductions in the Illinois Medicaid program to help balance the State's budget. CCHHS's management is concerned about any changes in the rules that govern Medicaid eligibility in Illinois. If the State eliminates Medicaid eligibility for groups of patients in Illinois, it may increase the numbers of patients who are unable to pay for their medical services that come to CCHHS facilities. In addition to changing the eligibility rules, if the state is forced to reduce its work force, it may extend the time it takes to get a patient qualified for Medicaid.

CCHHS is continuing with existing operations pursuant to the Order to Enforce Consent Decree, filed July 24, 2015, which grants emergency motion to compel the State of Illinois to make all Medicaid payment for claims properly billed, including capitated payments to managed care entities that would have been paid in absence of the budget impasse on July 1, 2015, and make timely and schedule Medicaid payments in compliance with applicable federal law, until the budget impasse is resolved. CCHHS continues to honor the Interagency Transfer Agreement (Agreement) in order to receive enhanced Medicaid reimbursement.

Medicaid payments to CCHHS facilities are different than most of the providers in the State of Illinois. The Medicaid payments to CCHHS are paid from federal dollars rather than State revenues. CCHHS should not be affected by the delays that other health care providers have experienced in 2015 and 2014 because of the State's backlog of unpaid bills.

Note 16. Functional Expenses

CCHHS provides health care services to patients within its geographic region. Expenses related to providing these services for the year ended November 30, 2015, were as follows:

Patient care services	\$ 1,577,306,187
General and administrative	<u>333,954,561</u>
Total	<u><u>\$ 1,911,260,748</u></u>

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 17. CountyCare

As described in Note 2, in October 2012 the federal government approved CCHHS's Medicaid Expansion Program (CountyCare) by creating the CMS waiver under Section 1115 of the Social Security Act (1115 Waiver) for Cook County. CountyCare began as an Illinois Medicaid demonstration project that ran through June 30, 2014, at which time CountyCare members were transitioned into a County Managed Care Community Network (MCCN). Before the 1115 Waiver, most of the CountyCare members were already patients being treated by CCHHS without compensation.

Under the 1115 Waiver, CCHHS received Per Member Per Month (PMPM) revenue for CountyCare members of \$629, but subject to the Federal Medical Assistance Percentage (FMAP), which CCHHS funded through the Interagency Transfer Agreement. As a result, through December 31, 2013, CCHHS retained only \$314.50 PMPM. Effective January 1, 2014, the PMPM increased to \$632, with no FMAP requirement.

At November 30, 2015, estimated amounts due from the State of Illinois relating to the CountyCare program totaled \$51,750,784, which are reported as due from State of Illinois – CountyCare in the statement of net position. At November 30, 2015, estimated amounts due to the State of Illinois relating to the CountyCare program totaled \$15,239,300, which are included in due to State of Illinois in the statement of net position.

All claims for payment of CountyCare are handled by a Third Party Administrator (TPA), whether the claims are generated by CCHHS facilities (domestic claims) or the network of outside providers (foreign claims). Total estimated foreign claims expense for the year ended November 30, 2015, was approximately \$660,301,000. Estimated foreign claims incurred but not paid as of November 30, 2015 were \$176,614,807 at November 30, 2015, and are included in claims payable in the statement of net position.

While it was an Illinois Medicaid Demonstration program, CountyCare had to demonstrate that its costs were justified for the PMPM rate negotiated. If CountyCare's costs during the demonstration period were less than the PMPM rate, CCHHS must repay the overpayment of PMPM received. At November 30, 2015, CCHHS has reserved estimated overpayments of \$83,000,000, which are included in third-party settlements liability in the statement of net position. This estimated liability will be settled based on cost reports summarizing the 1115 Waiver activity.

Note 18. Provident Hospital Capitated Access Payments

In 2014, the CCHHS Board entered into an agreement with the State of Illinois to receive capitated payments for selected services provided at Provident Hospital to members of certain Medicaid managed care plans. CCHHS receives a payment of \$10 PMPM, but subject to the Federal Medical Assistance Program (FMAP) which CCHHS funds through the Interagency Transfer Agreement. At November 30, 2015, estimated amounts due from the State of Illinois for these capitated payments totaled approximately \$55,772,000. This is included as capitation receivable in the statement of net position. At November 30, 2015, estimated assessment tax amounts due to the State of Illinois totaled \$44,676,494, which is included in due to State of Illinois in the statement of net position.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 19. Restatement for Implementation of New Accounting Standards and Change in Accounting Policy

CCHHS's financial statements have been restated as of November 30, 2014. The restatement is a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* and to report a change in accounting policy for self-insurance claims as more fully described below the table. The restatement for the implementation of the pension standard is to record the effect of the net pension liability and deferred outflows of resources as of the measurement date for the previous year and to report pension contributions payable to the pension plan. Because the deferred outflows for contributions subsequent to the measurement date were equally offset by contributions payable to the pension plan, the amounts are not displayed below as they had no impact on total net position:

Net position, November 30, 2014, as previously reported	\$ 491,048,099
Implementation of GASB Statement Nos. 68 and 71:	
Beginning net pension liability	(4,044,752,616)
Change in accounting policy:	
Self-insurance claims liability	<u>(143,208,252)</u>
Net position, November 30, 2014, as restated	<u><u>\$ (3,696,912,769)</u></u>

Restatement for the December 1, 2014 balances for deferred outflows of resources and deferred inflows of resources related to pensions was not done because it was not practical to determine all such amounts. Additionally, the impact on the change in net position for fiscal year 2014 was not determined.

Change in Accounting Policy - Previous to fiscal year 2015, the County accounted for its risk financing activities exclusively in the General Fund, as allowed under GASB Statement No. 10, as amended. Over the previous few years, some portion of claims costs were allocated to CCHHS but total claims and the associated liabilities were not allocated to CCHHS based on several factors including CCHHS's ability to liquidate the amounts and the County's expectation that the liability would not be paid by CCHHS. Beginning in fiscal year 2015 with the adoption of GASB Statement No. 68, the County reassessed its accounting policies with respect to the CCHHS enterprise fund. Beginning in fiscal year 2015, in order to better measure the operating costs of running CCHHS, the County has recorded pension expense and liabilities as well as self-insurance claims costs and liabilities attributable to CCHHS operations, in the CCHHS enterprise fund. Additionally, during fiscal year 2015, CCHHS paid for a significant portion of claims and is expected to continue paying claims going forward. This policy is preferable as it more accurately reflects the true costs of operating CCHHS and the amount of County subsidies necessary to provide these services.

Note 20. Subsequent Events

On March 28, 2014, the CCHHS Board of Directors approved a five-year contract with IlliniCare Health Plan, Inc. (IlliniCare) to provide third-party administrative services, managed care and clinical services for CountyCare. The contract took effect July 1, 2014. Costs of this contract are not to exceed \$1,796,000,000. Amounts are charged monthly by the third-party administrator based on membership levels and expensed as incurred.

Cook County Health and Hospitals System of Illinois

Notes to Financial Statements

Note 20. Subsequent Events (Continued)

In 2015, the IlliniCare contract was terminated, with an effective date of March 31, 2016. IlliniCare will continue to provide run-out services through September 30, 2016. The payment for these run-out services will be \$128,667 per month. There was no termination fee as there was a provision in the original contract with IlliniCare that permitted CCHHS to retain the right to “terminate for convenience” without penalty.

CCHHS executed a contract on March 31, 2016 with Valence, as a replacement for IlliniCare, to perform third-party administration for the CountyCare program. This contract is a 3-year contract with options for two 1-year renewals. The administrative portion of the contract is \$72,099,000. The CCHHS Board has also approved claims payments to Valence to be paid to providers in the amount of \$1,420,510,582. CCHHS has also contracted with additional benefit managers to process claims, including OptumRX (United Healthcare) for pharmacy claims, Dentaquest (Eyequest) for dental and vision claims, and First Transit for transportation claims. First Transit and Dentaquest were already contracted vendors performing these services. IlliniCare's subsidiaries, Opticare and US Scripts, were previously providing services for vision and pharmacy claims, respectively. Valence began processing claims with dates of service beginning April 1, 2016.

Required Supplementary Information

Cook County Health and Hospitals System of Illinois

**Schedule of Funding Progress
Year Ended November 30, 2015
(Information for all County Employees)**

Actuarial Valuation Date Year Ended December 31	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
Postemployment group health benefit plan:						
2013	\$ -	\$ 1,978,767,490	\$ 1,978,767,490	0.00	\$ 1,484,269,715	133.32 %
2014	-	1,980,088,617	1,980,088,617	0.00	1,514,550,023	130.74 %

Source: The information above was taken from the actuarial statements for each of the respective plans and reflects County-wide data.

Separate information for CCHHS is not available.

Cook County Health and Hospitals System of Illinois

**Schedule of CCHHS's Proportionate Share of the Net Pension Liability
Last 10 Measurement Dates***

	2015
CCHHS's proportion of the net pension liability	32.87%
CCHHS's proportionate share of the net pension liability	\$ 4,232,624,501
CCHHS's covered-employee payroll	\$ 521,919,207
CCHHS's proportionate share of the net pension liability as a percentage of its covered-employee payroll	810.97%
Plan fiduciary net position as a percentage of total pension liability	41.32%

*Information is only available for the December 31, 2014 measurement date.

Cook County Health and Hospitals System of Illinois

**Schedule of County Contributions
Last 10 Fiscal Years
(Information for all County Employees)
(Dollars in Thousands)**

Fiscal Year Ended November 30:	Statutory Maximum Required Contributions	Actual Contributions in Relation to the Statutory Maximum Contributions	Contribution Deficiency	Covered-employee Payroll	Actual Contributions as a Percentage of Covered-employee Payroll
2015	\$ 196,493,559	\$ 191,609,506	\$ 4,884,053	\$ 1,529,695,523	13%
2014	198,459,042	190,032,872	8,426,170	1,514,550,023	13%
2013	196,469,308	187,817,644	8,651,664	1,484,269,715	13%
2012	199,352,794	190,720,776	8,632,018	1,478,253,368	13%
2011	196,805,657	198,837,424	(2,031,767)	1,456,444,123	14%
2010	190,616,126	184,722,634	5,893,492	1,494,093,569	12%
2009	189,493,175	183,713,870	5,779,305	1,498,161,713	12%
2008	187,376,070	183,916,221	3,459,849	1,463,372,408	13%
2007	268,289,161	258,141,230	10,147,931	1,370,844,734	19%
2006	229,447,378	221,186,219	8,261,159	1,412,878,627	16%

Separate information for CCHHS is not available.