

Financial Statements  
June 30, 2011 and 2010

# Hand County Memorial Hospital, Inc.



<b>Avera Heart County Memorial Hospital Campus</b> <b>Consolidated Statement of Operations</b> <b>For the Period Ended June 30, 2011</b>					
	Monthly		Year to date		
	Actual	Budget	Variance	Actual	Budget
					Variance
<b>Gross patient service revenue</b>					
Inpatient revenue	\$134,983	\$172,031	(\$37,048)	\$1,969,965	\$2,061,513
Outpatient revenue	431,660	370,160	61,500	4,342,692	4,264,326
Clinic Revenue	59,222	69,770	(10,548)	933,119	844,937
<b>Total gross revenue</b>	<b>625,865</b>	<b>611,961</b>	<b>13,904</b>	<b>7,245,775</b>	<b>7,170,776</b>
<b>Deductions from revenue</b>					
Contractual adjustments	70,579	148,652	78,073	1,692,353	1,711,958
Charity care	18,485	1,659	(16,826)	28,043	19,908
<b>Net patient service revenue</b>	<b>536,802</b>	<b>461,650</b>	<b>75,152</b>	<b>5,525,380</b>	<b>5,438,910</b>
<b>Other operating revenue</b>					
Other Operating Revenue	(28)	5,003	(5,031)	70,433	60,036
Operating Interest Income	1,387	1,316	71	16,952	15,792
<b>Total operating revenue</b>	<b>538,161</b>	<b>467,969</b>	<b>70,192</b>	<b>5,612,764</b>	<b>5,514,738</b>
<b>Operating expenses</b>					
Salaries and wages	216,724	215,596	(1,128)	2,623,735	2,635,611
Employee Benefits	55,441	74,045	18,604	815,742	853,941
Medical fees	3,468	3,406	(62)	46,974	41,817
Purchased Services	29,997	31,043	1,046	332,875	354,699
Supplies	11,272	31,198	19,926	499,786	363,916
Repairs and maintenance	8,833	7,192	(1,641)	87,913	87,333
Other expenses	85,149	41,907	(43,242)	555,782	507,610
Insurance	3,182	4,211	1,029	42,931	50,346
Utilities and telephone	5,265	6,421	1,156	109,288	118,005
Interest					
Depreciation and Amortization	14,314	4,179	(10,135)	38,259	45,279
Provision for Bad Debt	(7,014)	12,105	19,119	99,627	145,260
<b>Total operating expense</b>	<b>426,630</b>	<b>431,303</b>	<b>4,673</b>	<b>5,252,911</b>	<b>5,203,817</b>
<b>Net operating income</b>	<b>111,531</b>	<b>36,666</b>	<b>74,865</b>	<b>359,854</b>	<b>310,921</b>
<b>Non operating gains (losses)</b>					
Investment Income (loss)	-	-	-	-	-
Other gains (losses)	-	293	(293)	3,002	3,516
<b>Net income prior to unrealized change in investments</b>	<b>111,531</b>	<b>36,959</b>	<b>74,572</b>	<b>362,856</b>	<b>314,437</b>
Unrealized gain (loss) on investments	98,915	-	98,915	98,915	-
<b>Increase (decrease) in net assets</b>	<b>\$210,446</b>	<b>\$36,959</b>	<b>\$173,487</b>	<b>\$461,771</b>	<b>\$314,437</b>
<b>FTE's</b>	<b>55.59</b>	<b>56.32</b>	<b>0.73</b>	<b>53.82</b>	<b>55.20</b>
					<b>1.38</b>

**Avera Hand County Memorial Hospital Campus**

**Comparative Balance Sheets**

**For the Period Ended June 30, 2011**

	Current Month June 30, 2011	Prior Month May 31, 2011	Prior Year June 30, 2010
<b>Current assets</b>			
Cash and cash equivalents	\$123,168	\$175,458	\$108,478
Accounts receivable, patients	1,212,388	1,305,226	1,203,357
Less allowances and uncollectibles, patients	(413,083)	(400,720)	(391,247)
Net accounts receivable, patients	799,305	904,506	812,110
Other receivables	15,126	7,351	6,587
Inventories	114,210	83,843	82,722
Prepaid expenses	23,047	17,029	36,057
Investments	760,062	762,662	528,794
Current portion of assets whose use is limited	-	-	-
<b>Total current assets</b>	<b>1,834,917</b>	<b>1,950,848</b>	<b>1,574,748</b>
<b>Property, plant and equipment</b>			
Fixed and Moveable equipment	402,962	247,254	191,378
Less accumulated depreciation	(144,222)	(129,908)	(105,963)
<b>Net property, plant and equipment</b>	<b>258,740</b>	<b>117,345</b>	<b>85,415</b>
<b>Other Assets</b>			
Goodwill	66,444	346,610	362,903
<b>Total assets</b>	<b>\$2,160,102</b>	<b>\$2,414,803</b>	<b>\$2,023,066</b>
<b>Current liabilities</b>			
Accounts payable	25,856	51,473	23,036
Due to McKennan	(384,357)	(334,085)	127,468
Accrued payroll, payroll taxes and vacation pay	189,713	208,277	170,659
Due to 3rd Party Payors	654,787	736,077	125,167
Deferred Revenue	-	-	-
<b>Total current liabilities</b>	<b>485,998</b>	<b>661,743</b>	<b>446,330</b>
<b>Unrestricted Net Assets</b>	<b>1,674,103</b>	<b>1,753,060</b>	<b>1,576,736</b>
<b>Total liabilities and net assets</b>	<b>\$2,160,102</b>	<b>\$2,414,803</b>	<b>\$2,023,066</b>
<b>Key ratios</b>	<b>Year to date June 30, 2011</b>	<b>FY11 Operating Plan</b>	
Net income from operations	6.41%	5.64%	
Excess revenue over expense	8.23%	5.70%	
Return on assets	21.38%	13.02%	
Gross days in accounts receivable	52.60	62.00	
Labor cost/net revenue	61.28%	63.28%	
Charity as % of net revenue	0.51%	0.37%	

# Volume Statistics

	2010	2011% CHANGE	
ACUTE DAYS	650	726	12%
ACUTE ADMISSIONS	248	262	5.6%
SWINGBED DAYS	719	855	18.9%
SWINGBED ADMISSIONS	88	119	35.2%
OUTPATIENT VISITS	6,604	7,783	17.9%
CLINIC VISITS	10,030	10,090	0.6%





# Hand County Memorial Hospital, Inc.

## Table of Contents

June 30, 2011 and 2010

---

Independent Auditor's Report .....	1
Financial Statements	
Balance Sheets.....	2
Statements of Operations .....	3
Statements of Changes in Net Assets .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	6







CPAs & BUSINESS ADVISORS

### **Independent Auditor's Report**

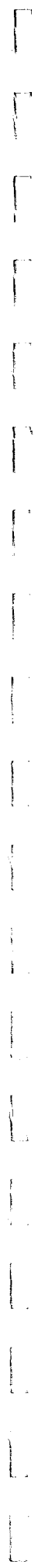
The Board of Directors  
Hand County Memorial Hospital, Inc.  
Miller, South Dakota

We have audited the accompanying balance sheets of Hand County Memorial Hospital, Inc. as of June 30, 2011 and 2010, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hand County Memorial Hospital, Inc. as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sioux Falls, South Dakota  
November 16, 2011



(This page left blank intentionally.)

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 99,338	\$ 66,538
Assets limited as to use	151,253	151,650
Receivables		
Patients and residents	67,394	53,187
Other	17,802	4,988
Supplies	5,357	1,704
Prepaid expenses	8,142	10,235
Total current assets	349,286	288,302
Assets Limited as to Use		
By Board for capital improvements and debt redemption	1,193,110	1,416,165
Under bond indenture agreement	29,620	30,070
Under state unemployment agreement	5,034	13,004
Total assets limited as to use	1,227,764	1,459,239
Leasehold Improvements, Land, and Equipment	3,472,738	2,190,016
Other Assets		
Deferred financing costs, net of accumulated amortization	5,382	7,005
Interest in net assets of Avera Health Foundation	116,639	125,426
Due from Avera McKennan	796,570	797,371
Cash surrender value of life insurance	-	9,701
Total other assets	918,591	939,503
	\$ 5,968,379	\$ 4,877,060

Hand County Memorial Hospital, Inc.

Balance Sheets

June 30, 2011 and 2010

	2011	2010
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 147,000	\$ 149,000
Accounts payable		
Trade	20,075	10,570
Construction	646,194	148,750
Estimated third-party payor settlements	-	2,500
Accrued expenses		
Salaries and wages	39,635	33,015
Vacation	44,617	48,912
Interest	16,221	19,279
Payroll taxes, withholdings, and other	11,405	12,631
Total current liabilities	925,147	424,657
 Long-Term Debt, Less Current Maturities	 567,504	 643,470
Total liabilities	1,492,651	1,068,127
 <b>Net Assets</b>		
Unrestricted	4,384,605	3,699,435
Temporarily restricted	51,875	44,786
Permanently restricted	39,248	64,712
Total net assets	4,475,728	3,808,933
	<u>\$ 5,968,379</u>	<u>\$ 4,877,060</u>



Hand County Memorial Hospital, Inc.  
Statements of Operations  
Years Ended June 30, 2011 and 2010

	2011	2010
Unrestricted Revenue, Gains, and Other Support		
Net patient and resident service revenue		
Assisted living	\$ 443,915	\$ 450,793
Ambulance services	156,879	142,434
Home health	131,392	142,957
Homemaker	66,667	60,893
Community health	93,859	94,499
Total net patient and resident service revenue	892,712	891,576
Dietary revenue	130,604	109,377
Wellness revenue	53,463	49,470
Lease revenue	179,335	192,968
Other revenue	36,328	5,713
Total revenue, gains, and other support	1,292,442	1,249,104
Expenses		
Salaries and wages	627,839	593,837
Employee benefits	130,808	137,766
Supplies and other expense	299,362	301,690
Depreciation and amortization	192,501	216,282
Interest	8,828	40,921
Provision for (recoveries of) bad debts, net	(2,546)	(3,000)
Total expenses	1,256,792	1,287,496
Operating Income (Loss)	35,650	(38,392)
Other Income		
Investment income	155,649	92,580
Loss on sales and disposals of property and equipment	(15,195)	(23,501)
Unrestricted contributions	43,944	2,888
Total other income	184,398	71,967
Revenues in Excess of Expenses		
Before Discontinued Operations	220,048	33,575
Gain from Discontinued Operations	2,500	12,500
Revenues in Excess of Expenses	222,548	46,075
Contributions and grants for capital	462,622	-
Increase in Unrestricted Net Assets	\$ 685,170	\$ 46,075





Hand County Memorial Hospital, Inc.  
Statements of Changes in Net Assets  
Years Ended June 30, 2011 and 2010

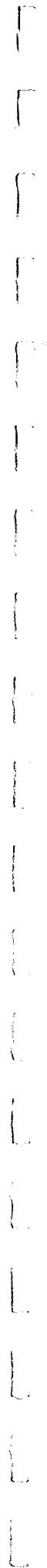
	<u>2011</u>	<u>2010</u>
Unrestricted Net Assets		
Revenues in excess of expenses	\$ 222,548	\$ 46,075
Contributions and grants for capital	<u>462,622</u>	<u>-</u>
Increase in unrestricted net assets	685,170	46,075
Temporarily Restricted Net Assets		
Change in interest in net assets of Avera Health Foundation	<u>7,089</u>	<u>22,615</u>
Permanently Restricted Net Assets		
Change in interest in net assets of Avera Health Foundation	<u>(25,464)</u>	<u>2,965</u>
Increase in Net Assets	666,795	71,655
Net Assets, Beginning of Year	<u>3,808,933</u>	<u>3,737,278</u>
Net Assets, End of Year	<u><u>\$ 4,475,728</u></u>	<u><u>\$ 3,808,933</u></u>



Hand County Memorial Hospital, Inc.  
Statements of Cash Flows  
Years Ended June 30, 2011 and 2010

	2011	2010
Operating Activities		
Change in net assets	\$ 666,795	\$ 71,655
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	192,501	216,282
Loss on sales and disposals of property and equipment	15,195	23,501
Change in unrealized gains and losses on investments	(97,166)	(49,077)
Undistributed portion of change in interest in net assets of Avera Health Foundation	20,702	(28,412)
Change in assets and liabilities		
Receivables	(14,207)	11,357
Supplies	(3,653)	511
Prepaid expenses	2,093	1,227
Due from Avera McKennan	801	-
Accounts payable	(490,439)	(25,956)
Accrued expenses and other liabilities	(1,959)	18,590
Net Cash from Operating Activities	<u>290,663</u>	<u>239,678</u>
Investing Activities		
Purchase of property and equipment	(423,907)	(200,581)
Decrease in assets limited as to use	317,123	128,421
Net Cash used for Investing Activities	<u>(106,784)</u>	<u>(72,160)</u>
Financing Activities		
(Decrease) increase in other accounts receivable	(12,814)	31,367
Principal payments on long-term debt	(136,550)	(131,093)
Principal payments under capital lease obligations	(11,416)	(16,155)
Proceeds from surrender of life insurance policy	9,701	-
Net Cash used for Financing Activities	<u>(151,079)</u>	<u>(115,881)</u>
Net Increase in Cash and Cash Equivalents	32,800	51,637
Cash and Cash Equivalents, Beginning of Year	66,538	14,901
Cash and Cash Equivalents, End of Year	<u>\$ 99,338</u>	<u>\$ 66,538</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest, net of interest capitalized of \$24,000 and \$0 for the years ended June 30, 2011 and 2010, respectively	<u>\$ 11,886</u>	<u>\$ 42,380</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Change in accounts payable for purchases of property	<u>\$ 497,444</u>	<u>\$ 58,750</u>
Purchase of property financed with contract for deed	<u>\$ 70,000</u>	<u>\$ -</u>

See Notes to Financial Statements



**Note 1 - Organization and Significant Accounting Policies**

**Organization**

Hand County Memorial Hospital, Inc. (Organization) operates a health care organization and a 22-bed assisted living center located in Miller, South Dakota. Health care services provided by the Organization include home health services, wellness services, community nursing services, nutrition services, and ambulance services. In addition, the Organization owns and leases Hospital property and equipment which are leased to a third party for the operation of a 25-bed acute care hospital.

**Use of Estimates**

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

**Cash and Cash Equivalents**

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

**Patient, Resident, and Other Receivables**

Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Other receivables are comprised of a receivable from the Hand County Health, Wellness and Community Foundation, Inc., for reimbursement of fundraising expenses paid on their behalf, and student loan receivables from prospective employees of the Organization.

The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The estimated allowance for contractual adjustments on patient and resident receivables and uncollectible accounts for the years ended June 30, 2011 and 2010, was \$28,000 and \$46,500, respectively. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management also reviews accounts to determine if classification as charity care is appropriate.

The estimated uncollectible allowance for student loan receivables for the years ended June 30, 2011 and 2010, was \$10,565. Management considers historical write off and recovery information in determining the estimated bad debt provision.



### **Donor-restricted Gifts**

Unconditional promises to give cash and other assets to the Organization are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

### **Supplies**

Supplies are stated at lower of cost (first-in, first-out) or market.

### **Assets Limited as to Use**

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements and debt redemption, over which the Board retains control and may, at its discretion, subsequently use for other purposes, and assets held by a trustee under an indenture agreement. Assets limited as to use that are available for obligations classified as current liabilities are reported in current assets.

### **Deferred Financing Costs**

Deferred financing costs represent the costs related to the issuance of the bonds and are being amortized on the effective interest method over the term of the outstanding debt. Deferred financing costs are presented net of accumulated amortization of \$55,473 and \$53,850 for the years ended June 30, 2011 and 2010, respectively.

### **Investments and Investment Income**

Investments with readily determinable market values are stated at fair value. The fair value of all debt and equity securities with readily determinable fair values are based on quotations obtained from national and foreign securities exchanges. Investments in certificates of deposit that are not publicly traded are recorded at cost plus accrued interest. All investments are classified as trading, therefore investment income or loss (including interest income, dividends, net changes in unrealized gains and losses, and net realized gains and losses) is included in revenues in excess of (less than) expenses unless the income or loss is restricted by donor or law.

The Organization participates in the Avera Pooled Investment Fund, a fund administered by Avera Health. The Pooled Investment Fund has a portion of its holdings in alternative investments, which are not readily marketable. These alternative investments include partnerships and other interests that invest in hedge funds, real asset funds, and private equity/venture capital funds, among others. Certain alternative investments held within Avera Pooled Investment Fund include liquidity and redemption limitations. Alternative investments representing less than 3% ownership interest are carried at cost, subject to an annual review for impairment. Alternative investments representing greater than 3% ownership interest are recorded using the equity method. Investment income, including interest, dividends, realized gains and losses, and unrealized gains and losses are allocated to participants of the Avera Pooled Investment Fund.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54  
55  
56  
57  
58  
59  
60  
61  
62  
63  
64  
65  
66  
67  
68  
69  
70  
71  
72  
73  
74  
75  
76  
77  
78  
79  
80  
81  
82  
83  
84  
85  
86  
87  
88  
89  
90  
91  
92  
93  
94  
95  
96  
97  
98  
99  
100



### **Interest in Net Assets of Foundation**

Avera Health Foundation, an affiliate of the Organization, solicits contributions and holds funds on behalf of the Organization. The Organization's interest in these funds is recorded in assets limited as to use in the accompanying financial statements. Changes in the funds held by the Foundation are recorded as change in interest in net assets of Avera Health Foundation in the accompanying financial statements.

### **Leasehold Improvements and Equipment**

Leasehold improvements and equipment acquisitions in excess of \$1,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives of leasehold improvements and equipment are as follows:

Leasehold improvements	5-35 years
Equipment	5-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net assets, and are excluded from revenues in excess of expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

### **Temporarily and Permanently Restricted Net Assets**

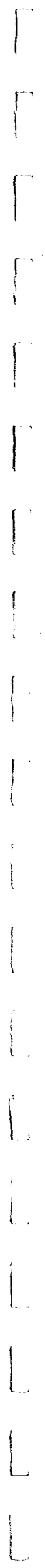
Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

### **Revenues in Excess of Expenses**

Revenues in excess of expenses excludes unrealized gains and losses on investments other than trading securities, transfers of assets to and from related parties for other than goods and services, and contributions of long-lived assets, including assets acquired using contributions which were restricted by donors.

### **Net Patient and Resident Service Revenue**

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per service, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.



### Income Taxes

The Organization is a South Dakota nonprofit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS, annually.

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

### Advertising Costs

The Organization expenses advertising costs as incurred.

### Subsequent Events

The Organization has evaluated subsequent events through November 16, 2011, the date which the financial statements were available to be issued.

### Note 2 - Leasehold Improvements and Equipment

A summary of leasehold improvements and equipment at June 30, 2011 and 2010, follows:

	2011		2010	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Construction in process	\$ 1,625,591	\$ -	\$ 260,866	\$ -
Land and improvements	335,248	-	331,350	-
Land improvements	65,478	52,356	66,708	50,245
Leasehold improvements	1,871,386	1,131,054	1,876,744	1,079,203
Building equipment	1,456,049	875,913	1,381,743	812,844
Equipment	849,822	671,514	1,038,586	823,689
	<u>\$ 6,203,574</u>	<u>\$ 2,730,837</u>	<u>\$ 4,955,997</u>	<u>\$ 2,765,981</u>
Net leasehold improvements and equipment		<u>\$ 3,472,737</u>		<u>\$ 2,190,016</u>



Construction in progress at June 30, 2011 represents costs incurred for the construction of an addition and remodeling project for the Organization's existing facility. The estimated cost to complete the project is approximately \$5.6 million with the estimated completion date in 2012. The construction will be financed with a combination of \$3.5 million of general obligation bonds issued by Hand County, a USDA Community Development Block Grant (CDBG), a low interest loan from the Rural Electric Economic Development (REED) Fund, and existing investment reserve funds of the Organization.

The portion of the project financed by general obligation bonds, and the CDBG will be the assets of Hand County, and will be leased from Hand County under the Organization's existing lessor lease arrangement described in Note 5. A portion of the new hospital facilities will be used for the Organization's operations, with the majority of the assets being leased by the current lessor of hospital operations as discussed in Note 5. As of June 30, 2011, the portion of the project costs to be funded by the general obligation bonds and CDGB had not been incurred.

### **Note 3 - Net Patient Service Revenue**

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Hospital services provided to patients prior to the lease arrangement were also provided under agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare:** The Organization operated a licensed Critical Access Hospital (CAH) until January 1, 2008. For hospital services, the Organization was reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Organization subject to audits thereof by the Medicare intermediary. Home health services provided to Medicare beneficiaries are reimbursed under a prospectively determine basis. Certain other services provided to Medicare beneficiaries are billed on based on a fixed fee for service. The Organization's Medicare cost reports have been final settled by the Medicare program for all years in which they operated the hospital. Gains of \$2,500 and \$12,500 were recorded to discontinued operations for the years ended June 30, 2011 and 2010, respectively, as a result of changes in estimated settlements on prior year cost reports.

The Organization has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is an ongoing level of uncertainty relative to the estimated liability for prior period cost reports. There is a reasonable possibility that recorded estimates will change by a material amount in the near term.



**Note 4 - Investments and Investment Income**

**Assets Limited as to Use**

The composition of assets limited as to use at June 30, 2011 and 2010, is shown in the following table.

	2011	2010
Under bond indenture agreement		
Cash and cash equivalents	\$ 32,873	\$ 33,720
Certificates of deposit	148,000	148,000
Less amount shown as current assets	(151,253)	(151,650)
	<u>\$ 29,620</u>	<u>\$ 30,070</u>
By board for capital improvements and debt redemption		
Cash and cash equivalents	\$ 387,739	\$ 166,190
Certificates of deposit	-	265,389
Pooled Investment Fund *	804,460	983,198
Interest receivable	911	1,388
	<u>\$ 1,193,110</u>	<u>\$ 1,416,165</u>
Under state unemployment agreement		
Certificate of deposit	<u>\$ 5,034</u>	<u>\$ 13,004</u>

**\*Pooled Investment Fund**

The Organization is a participant in the Avera Pooled Investment Fund, a fund administered by Avera Health that is maintained for the benefit of facilities that are sponsored, operated, or managed by Avera Health. Investments are made in conformity with the objectives and guidelines of the Avera Health Pooled Investment Committee. Within the fund, facilities share in a pool of investments that are managed by various fund managers. Asset valuation and income and losses of the fund are allocated to participating members based on the carrying amount of their investment in the fund. The Pooled Investment Fund includes investments in securities that are measured at fair value using inputs under the guidance provided by FASB ASC 820-10. The Pooled Investment Fund also contains investments that are recorded at historical cost or under the equity method as described in the Fund's investment policy.

As of June 30, 2011 and 2010, the valuations of investments within the Avera Pooled Investment Fund were as follows:

	2011	2010
Fair value - Level 1 inputs	56.7%	49.0%
Fair value - Level 2 inputs	27.9%	34.4%
Fair value - Level 3 inputs	0.0%	0.0%
Cost basis or equity method	15.4%	16.6%
	<u>100.0%</u>	<u>100.0%</u>





Hand County Memorial Hospital, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010

As of June 30, 2011 and 2010, the Avera Pooled Investment Fund assets were comprised of the following types of investments:

	2011	2010
Publicly traded equity mutual funds	21.0%	12.1%
US Treasury and Agency obligations	13.4%	18.9%
Publicly traded equity securities	13.2%	12.9%
Non-publicly traded alternative investments		
Hedge fund	10.1%	9.9%
Real asset	5.4%	6.7%
Foreign stocks	8.5%	7.5%
Publicly traded fixed income mutual funds	7.3%	6.2%
Cash and short-term investments	6.7%	10.3%
Corporate bonds	5.2%	5.8%
Institutional equity mutual funds	3.8%	3.6%
Institutional fixed income mutual funds	2.7%	3.2%
Other fixed income	2.7%	2.9%
	<u>100%</u>	<u>100%</u>

#### Investment Income

Investment income and gains and losses on assets limited as to use, cash equivalents, and other investments consisted of the following for the years ended June 30, 2011 and 2010:

	2011	2010
Interest income	\$ 22,471	\$ 30,347
Realized gains on investments, net	36,012	13,156
Change in unrealized gains and losses on investments	97,166	49,077
	<u>\$ 155,649</u>	<u>\$ 92,580</u>

#### Note 5 - Leases

##### Lessor Leases

As mentioned in Note 2, the Organization leases real and personal property from Hand County. The agreement is for the period April 6, 2010 through April 5, 2030. The assets and liabilities existing at the end of the lease period are to be returned to the County.



### Lessee Leases

As mentioned in Note 1, a portion of the Organization's business consists of the leasing of its hospital facilities and operations to a third party. As discussed in Note 12 to the financial statements, the Organization began leasing its hospital real and personal property to a third party effective January 1, 2008.

Effective April, 6, 2010, the Organization signed a new lease agreement with the lessor of the hospital operations. Under the agreement, the Organization's hospital and clinic property, plant, and equipment are leased under a long-term lease contract which expires April 5, 2030. The lease is accounted for as an operating lease. The contract calls for reimbursement of principal and interest debt payments on the Series 1993 and Series 1997 bonds, including any lender-required fees or charges paid with any debt payments. The Organization will receive lease revenue ranging from approximately \$150,000 to \$200,000 annually during the term of the lease.

In addition, the lessor has also agreed to make payments equal to the principal and interest on \$3.5 million general obligation bonds issued by Hand County in connection with the construction and remodeling project described in Note 2.

### Note 6 - Long-Term Debt

Long-term debt consists of:

	2011	2010
3.875% City of Miller, Economic Development Revenue Bonds, Series 1993, serial bonds due in varying semi-annual installments to January 2014, secured by leased assets	\$ 280,000	\$ 360,000
5.5% City of Miller, Economic Development Revenue Bonds, Series 1997, serial bonds due in varying semi-annual installments to January 2018, secured by leased assets	330,000	370,000
2.85% Contract for deed, due in annual installments of \$18,000 payable on December 31 through 2012	34,504	51,054
4.0% Contract for deed, due in annual installments of \$7,460 payable on April 15 through 2023	70,000	-
Capitalized lease obligations	-	11,416
	714,504	792,470
Less current maturities	(147,000)	(149,000)
	\$ 567,504	\$ 643,470



Long-term debt maturities are as follows:

Year Ending June 30,

2012	\$ 147,000
2013	157,000
2014	150,000
2015	55,000
2016	60,000
Thereafter	145,504
	<u>\$ 714,504</u>

Under the terms of the revenue bonds loan agreements, the Organization is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the financial statements. The loan agreements also places limits on the incurrence of additional borrowings and requires that the Organization satisfy certain measures of financial performance as long as the bonds are outstanding.

The revenue bonds are secured by a mortgage on substantially all leasehold improvements and equipment. The Organization has made certain covenants in connection with the revenue bonds.

**Note 7 - Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at June 30, 2011 and 2010:

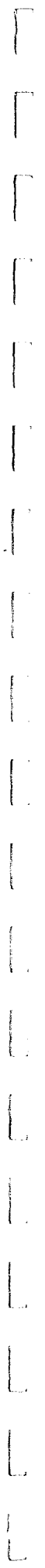
	<u>2011</u>	<u>2010</u>
Various health care related programs and services	<u>\$ 51,875</u>	<u>\$ 44,786</u>

Permanently restricted net assets at June 30, 2011 and 2010, are restricted to:

	<u>2011</u>	<u>2010</u>
Investments to be held in perpetuity, the income from which is expandable to support various health care services	<u>\$ 39,248</u>	<u>\$ 64,712</u>

**Note 8 - Pension Plan**

The Organization sponsors a SIMPLE IRA (Savings Incentive Match Plan for Employees Individual Retirement Account) plan under which employees become participants upon reaching age 21 and completing one year of service. Matching employer contributions of up to 3 percent of annual compensation are deposited with the plan trustee who invests the plan assets. The total pension expense for this plan was \$14,159 and \$13,194, respectively for the years ended June 30, 2011 and 2010.



**Note 9 - Related Party**

During the years ended June 30, 2011 and 2010, the Organization received contributions from the Hand County Health, Wellness and Community Foundation, Inc., a related entity, in the amount of \$462,622 and \$0, respectively.

**Note 10 - Functional Expenses**

The Organization provides health care services to residents within its geographic location. Expenses related to providing these services by functional class for the years ended June 30, 2011 and 2010, are as follows:

	2011	2010
Patient health care services	\$ 1,127,189	\$ 1,154,378
General and administrative	129,603	133,118
	<u>\$ 1,256,792</u>	<u>\$ 1,287,496</u>

**Note 11 - Contingency**

**Malpractice Insurance**

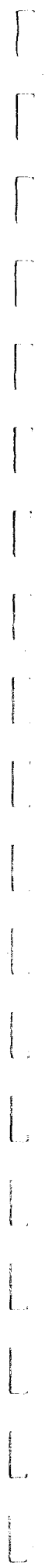
The Organization has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. The Organization is also insured under an excess umbrella liability policy with a limit of \$35 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

**Note 12 - Discontinued Operations**

During the year ended June 30, 2008, the Organization made the decision to discontinue its hospital operations effective December 31, 2007. Effective January 1, 2008, the Organization entered into a lease arrangement with a third party for all of the hospital operations of the entity.

Summary financial statements related to the discontinued operations consist of the following for the years ended June 30, 2011 and 2010:

	2011	2010
Unrestricted Revenue, Gains and Other Support		
Net patient and resident service revenue	\$ 2,500	\$ 12,500
Gain from Discontinued Operations	<u>\$ 2,500</u>	<u>\$ 12,500</u>





**Note 13 - Subsequent Events**

On September 1, 2011, the organization entered into 5.5% fixed rate \$350,000 line-of-credit maturing June 30, 2013. The line-of-credit will be used for the construction project described in note 2.

On September 20, 2011, the Organization contracted to purchase real estate adjacent to the hospital campus for \$85,000. The transaction closed on October 31, 2011. The purchase was funded with the aforementioned line-of-credit.

