Financial Statements
June 30, 2012 and 2011

Hand County Memorial Hospital, Inc.

Income Statement – June 2012

Avera Hand County Campus
Consolidated Statement of Operations
For the Period Ended June 30, 2012

Month Actual	Month Budget	Month Variance	Variance Favorable / (Unfavorable)	Year to date Actual	Year to date Budget	Year to date Variance
			GROSS PATIENT SERVICE REVENUE			
$ 142,546	$ 161,818	$ (19,272)	Inpatient Revenue	$ 1,902,072	$ 1,892,237	$ 9,835
347,575	375,037	(27,462)	Outpatient Revenue	4,529,862	4,507,062	22,800
70,034	84,667	(14,633)	Clinic Revenue	892,133	1,039,999	(147,866)
$ 560,156	$ 621,522	$ (61,366)	TOTAL GROSS REVENUE	$ 7,324,068	$ 7,439,298	$ (115,231)
			DEDUCTIONS FROM REVENUE			
123,860	131,766	7,906	Contractual Adjustments	1,464,325	1,590,994	126,669
3,362	1,572	(1,790)	Charity Care	15,301	18,811	3,510
8,179	11,791	3,612	Provision for Bad Debt	133,767	141,148	7,381
135,401	145,129	9,728	**TOTAL DEDUCTIONS FROM REVENUE**	1,613,393	1,750,953	137,560
$ 424,755	$ 476,393	$ (51,638)	NET PATIENT SERVICE REVENUE	$ 5,710,675	$ 5,688,345	$ 22,330
			OTHER OPERATING REVENUE			
218,363	24,109	194,254	Other Operating Revenue	285,190	289,308	(4,118)
593	1,538	(945)	Operating Interest Income	19,002	18,456	546
218,956	25,647	193,309	**TOTAL OTHER OPERATING REVENUE**	304,192	307,764	(3,572)
$ 643,711	$ 502,040	$ 141,671	TOTAL OPERATING REVENUE	$ 6,014,866	$ 5,996,109	$ 18,757
			OPERATING EXPENSES			
246,163	228,286	(17,877)	Salaries and Wages	2,751,921	2,816,974	65,053
65,420	82,197	16,777	Employee Benefits	887,466	939,784	52,318
3,323	3,418	95	Medical Fees	56,340	41,814	(14,526)
45,618	30,773	(14,845)	Purchased Services	415,135	371,723	(43,412)
80,005	48,752	(31,253)	Supplies	548,712	579,795	31,083
21,201	7,468	(13,733)	Repairs and Maintenance	135,151	90,599	(44,552)
75,619	53,725	(21,894)	Other Expenses	650,298	596,709	(53,589)
3,577	3,566	(11)	Insurance	38,601	42,606	4,005
(4,500)	10,738	15,238	Utilities and Telephone	154,900	130,989	(23,911)
-	-	-	Interest	-	-	-
16,686	6,622	(10,064)	Depreciation and Amortization	96,508	60,851	(35,657)
$ 553,113	$ 475,545	$ (77,568)	TOTAL OPERATING EXPENSE	$ 5,735,032	$ 5,671,844	$ (63,188)
$ 90,598	$ 26,495	$ 64,103	NET OPERATING INCOME	$ 279,834	$ 324,265	$ (44,431)
			NON OPERATING GAINS / (LOSSES)			
-	-	-	Investment Income / (Loss)	-	-	-
316	254	62	Other Gains / (Losses)	3,160	3,048	112
316	**254**	**62**	**TOTAL NON OPERATING GAINS / (LOSSES)**	**3,160**	**3,048**	**112**
$ 90,914	$ 26,749	$ 64,165	NET INCOME PRIOR TO UNREAL. CHG. IN INVESTMENT	$ 282,994	$ 327,313	$ (44,319)
-	-	-	Unrealized Gains / (Losses) on Investments	-	-	-
$ 90,914	$ 26,749	$ 64,165	INCREASE / (DECREASE) IN NET ASSETS	$ 282,994	$ 327,313	$ (44,319)

Monthly Actual	Monthly Budget	Monthly Variance	KEY OPERATING RATIOS Variance Favorable / (Unfavorable)	Year to date Actual	Year to date Budget	Year to date Variance
22.1%	21.2%	-0.9%	Contractuals as % of Gross Patient Service Revenue	20.0%	21.4%	-1.4%
1.5%	1.9%	0.4%	Charity Care as % of Gross Patient Service Revenue	1.8%	1.9%	-0.1%
48.4%	61.8%	13.4%	Labor Expense as % of Total Revenue	60.5%	62.7%	-2.1%
1.3%	2.3%	1.1%	Bad Debt as % of Total Revenue	2.2%	2.4%	-0.1%
14.1%	5.3%	-8.8%	Operating Income as % of Total Revenue	4.7%	5.4%	0.8%
14.1%	5.3%	-8.8%	Excess Revenues over Expenses as % Total Revenue	4.7%	5.5%	0.8%
52.1	57.3	5.2	Full Time Equivalents (FTE's)	54.4	57.3	2.9

Balance Sheet – June 2012

Avera Hand County Campus Comparative Balance Sheets For the Period Ended June 30, 2012	Current Month June 30, 2012	Prior Month May 31, 2012	Prior Year June 30, 2011
CURRENT ASSETS			
Cash and Cash Equivalents	$ 61,616	$ 169,507	$ 123,168
Accounts Receivable, Patients	1,057,083	1,106,386	1,212,388
Less: Allowances and Uncollectibles, Patients	(411,319)	(432,422)	(413,083)
Net accounts receivable, patients	645,764	673,964	799,305
Other Receivables	206,260	42,840	15,126
Inventories	131,281	118,061	114,210
Prepaid Expenses	64,416	58,579	23,047
Current Portion of Assets Whose Use Is Limited	591,447	1,056,779	760,062
TOTAL CURRENT ASSETS	**$ 1,700,784**	**$ 2,119,731**	**$ 1,834,917**
PROPERTY, PLANT AND EQUIPMENT			
Fixed and Moveable Equipment	787,404	803,685	402,962
Less: Accumulated Depreciation	(240,730)	(224,044)	(144,222)
Net Property, Plant and Equipment	546,674	579,641	258,740
OTHER ASSETS			
Goodwill	59,388	59,976	66,444
TOTAL ASSETS	**$ 2,306,846**	**$ 2,759,348**	**$ 2,160,102**
CURRENT LIABILITIES			
Accounts Payable	26,812	81,327	25,856
Due to McKennan	232,128	662,057	(355,614)
Accrued Payroll, Payroll Taxes and Vacation Pay	199,852	212,120	189,713
Due to Third Party Payors	(17,050)	33,404	654,787
Deferred Revenue	11,750	8,000	-
TOTAL CURRENT LIABILITIES	**$ 453,492**	**$ 996,908**	**$ 514,741**
Unrestricted Net Assets	1,853,354	1,762,440	1,645,360
TOTAL LIABILITIES AND NET ASSETS	**$ 2,306,846**	**$ 2,759,348**	**$ 2,160,102**

	Year to date June 30, 2012	FY12 Budget	Variance Fav / (Unfav)
Return on Assets	12.27%	11.86%	0.41%
Gross Days in Accounts Receivable	56.00	62.00	6.00

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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, 2012 and 2011, 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, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Sioux Falls, South Dakota
October 26, 2012

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	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 27,934	$ 99,338
Assets limited as to use	155,566	151,253
Receivables		
Patients and residents, net	87,399	67,394
Construction	374,673	-
Other	22,411	17,802
Supplies	5,947	5,357
Prepaid expenses	10,820	8,142
Total current assets	684,750	349,286
Assets Limited as to Use		
By Board for capital improvements and debt redemption	578,195	1,193,110
Under bond indenture agreement	26,222	29,620
Under state unemployment agreement	5,088	5,034
Total assets limited as to use	609,505	1,227,764
Property and Equipment, Net	3,570,918	3,472,738
Other Assets		
Deferred financing costs, net	3,787	5,382
Interest in net assets of Avera Health Foundation	137,302	116,639
Due from Avera McKennan	796,570	796,570
Total other assets	937,659	918,591
	$ 5,802,832	$ 5,968,379

See Notes to Financial Statements

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	$ 157,000	$ 147,000
Construction line of credit	153,909	-
Accounts payable		
Trade	17,641	20,075
Construction	374,673	646,194
Accrued expenses		
Salaries and wages	15,603	39,635
Vacation	47,633	44,617
Interest	72,704	16,221
Payroll taxes, withholdings, and other	13,832	11,405
Total current liabilities	852,995	925,147
Long-Term Debt, Less Current Maturities	410,831	567,504
Total liabilities	1,263,826	1,492,651
Net Assets		
Unrestricted	4,430,604	4,384,605
Temporarily restricted	69,154	51,875
Permanently restricted	39,248	39,248
Total net assets	4,539,006	4,475,728
	$ 5,802,832	$ 5,968,379

	2012	2011
Unrestricted Revenue, Gains, and Other Support		
Net patient and resident service revenue		
Assisted living	$ 445,982	$ 443,915
Ambulance services	171,331	156,879
Home health	144,000	131,392
Homemaker	59,876	66,667
Community health	88,517	93,859
Total net patient and resident service revenue	909,706	892,712
Dietary revenue	122,451	130,604
Wellness revenue	48,705	53,463
Lease revenue	239,744	179,335
Other revenue	10,190	36,328
Total revenue, gains, and other support	1,330,796	1,292,442
Expenses		
Salaries and wages	685,349	627,839
Employee benefits	124,050	130,808
Supplies and other expense	315,958	281,212
Depreciation and amortization	186,639	192,501
Lease and rental	83,678	18,150
Interest	-	8,828
Provision for (recoveries of) bad debts, net	9,373	(2,546)
Total expenses	1,405,047	1,256,792
Operating (Loss) Income	(74,251)	35,650
Other Income		
Investment (loss) income	(12,876)	155,649
Loss on sales and disposals of property and equipment	-	(15,195)
Unrestricted contributions	7,911	43,944
Total other income	(4,965)	184,398
Revenues (Less Than) in Excess of Expenses Before Discontinued Operations	(79,216)	220,048
Gain from Discontinued Operations	-	2,500
Revenues (Less Than) in Excess of Expenses	(79,216)	222,548
Contributions and Grants for Capital	125,215	462,622
Increase in Unrestricted Net Assets	$ 45,999	$ 685,170

	2012	2011
Unrestricted Net Assets		
Revenues (less than) in excess of expenses	$ (79,216)	$ 222,548
Contributions and grants for capital	125,215	462,622
Increase in unrestricted net assets	45,999	685,170
Temporarily Restricted Net Assets		
Change in interest in net assets of Avera Health Foundation	17,279	7,089
Permanently Restricted Net Assets		
Change in interest in net assets of Avera Health Foundation	-	(25,464)
Increase in Net Assets	63,278	666,795
Net Assets, Beginning of Year	4,475,728	3,808,933
Net Assets, End of Year	$ 4,539,006	$ 4,475,728

	2012	2011
Operating Activities		
Change in net assets	$ 63,278	$ 666,795
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	186,639	192,501
Loss on sales and disposals of property and equipment	-	15,195
Change in unrealized gains and losses on investments	50,761	(97,166)
Realized gains on investments, net	(11,781)	(36,012)
Undistributed portion of change in interest in net assets of Avera Health Foundation	(24,252)	20,702
Restricted contributions	(125,215)	(462,622)
Change in assets and liabilities		
Receivables	(20,005)	(14,207)
Supplies	(590)	(3,653)
Prepaid expenses and other assets	(2,678)	2,894
Accounts payable	(2,434)	7,005
Accrued expenses and other liabilities	37,894	(1,959)
Net Cash from Operating Activities	151,617	289,473
Investing Activities		
Purchase of property and equipment	(554,745)	(921,351)
Change in construction receivable	(374,673)	-
Sale of assets limited as to use	578,555	353,135
Net Cash used for Investing Activities	(350,863)	(568,216)
Financing Activities		
Decrease in other accounts receivable	(4,609)	(12,814)
Proceeds from issuance of short-term line of credit	153,909	-
Principal payments on long-term debt	(146,673)	(136,550)
Principal payments under capital lease obligations	-	(11,416)
Restricted contributions	125,215	462,622
Proceeds from surrender of life insurance policy	-	9,701
Net Cash from Financing Activities	127,842	311,543
Net (Decrease) Increase in Cash and Cash Equivalents	(71,404)	32,800
Cash and Cash Equivalents, Beginning of Year	99,338	66,538
Cash and Cash Equivalents, End of Year	$ 27,934	$ 99,338
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest, net of interest capitalized of $48,250 in 2012 and $24,000 in 2011	$ -	$ 11,886
Supplemental Disclosure of Noncash Investing and Financing Activities		
Change in accounts payable for purchases of property	$ (271,521)	$ 497,444
Purchase of property financed with contract for deed	$ -	$ 70,000

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. Interest is not charged on delinquent patient accounts.

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. In connection with the construction project discussed in Note 2, the Organization receives funds under general obligation bonds with Hand County and the United States Department of Agriculture (USDA) to reimburse construction costs associated with a master project that involves the remodeling and new construction of the Organization's owned and leased facilities. The Organization records construction receivables for the construction expenditures related to the project that are owned by the County and will be paid with the proceeds of the general obligation bonds.

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, 2012 and 2011, was $10,900 and $28,000, 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.

The estimated uncollectible allowance for student loan receivables was $1,375 and $10,565 for the years ended June 30, 2012 and 2011, respectively. 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 $57,068 and $55,473 for the years ended June 30, 2012 and 2011, 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. Certificates of deposit are recorded at historical cost, plus accrued interest. The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 825. ASC 825 permits entities to choose to measure many financial instruments and certain other items at fair value. All investments are classified as trading securities, 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, through its affiliation with Avera Health, 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. Many of these alternative investments have fair values that are determined using the net asset value (NAV) provided by the investment manager. NAV is a practical expedient to determine the fair value of investments that do not have readily determinable fair values and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. Investment income, including interest, dividends, realized gains and losses, and unrealized gains and losses are allocated to participants of the Avera Pooled Investment Fund based upon their pro rata share of the investments.

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.

Property and Equipment

Property 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, if any, 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 property and equipment are as follows:

Land improvements	5-25 years
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.

Reclassification

Certain reclassifications have been made to the prior year financial information to make it conform to the current year presentation. The reclassification had no effect on reported operating results

Subsequent Events

The Organization has evaluated subsequent events through October 26, 2012, the date which the financial statements were available to be issued.

Note 2 - Property and Equipment

A summary of leasehold improvements and equipment at June 30, 2012 and 2011, follows:

	2012		2011	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 348,084	$ -	$ 335,248	$ -
Land improvements	65,478	55,266	65,478	52,356
Leasehold improvements	1,871,386	1,174,442	1,871,386	1,131,054
Building equipment	3,232,413	964,723	1,456,049	875,913
Equipment	924,322	721,448	849,822	671,513
Construction in process	45,114	-	1,625,591	-
	$ 6,486,797	$ 2,915,879	$ 6,203,574	$ 2,730,836
Net leasehold improvements and equipment		$ 3,570,918		$ 3,472,738

Construction in progress at June 30, 2012 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 2013. 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.

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 when these operations were leased to a third party. 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 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 $-0- and $2,500 were recorded to discontinued operations for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, is shown in the following table.

	2012	2011
Under bond indenture agreement		
Cash and cash equivalents	$ 33,788	$ 32,873
Certificates of deposit	148,000	148,000
Less amount shown as current assets	(155,566)	(151,253)
	$ 26,222	$ 29,620
By board for capital improvements and debt redemption		
Cash and cash equivalents	$ 187,920	$ 387,739
Pooled Investment Fund *	389,779	804,460
Interest receivable	496	911
	$ 578,195	$ 1,193,110
Under state unemployment agreement		
Certificate of deposit	$ 5,088	$ 5,034

***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.

As of June 30, 2012 and 2011, the Avera Pooled Investment Fund assets were comprised of the following types of investments:

	2012	2011
Equity mutual funds	23.6%	24.9%
Fixed income mutual funds	15.9%	10.1%
Publicly traded equity securities	12.0%	13.2%
Cash and short-term investments	11.9%	6.7%
Non-publicly traded alternative investments		
Hedge fund	11.3%	12.7%
Real asset	2.6%	2.4%
US Agency obligations	6.8%	12.1%
Foreign equities	5.9%	8.5%
Corporate bonds	5.7%	5.3%
Other fixed income	2.4%	2.7%
US Treasury obligations	1.9%	1.4%
	100.0%	100.0%

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, 2012 and 2011:

	2012	2011
Interest income	$ 26,104	$ 22,471
Realized gains on investments, net	11,781	36,012
Change in unrealized gains and losses on investments	(50,761)	97,166
	$ (12,876)	$ 155,649

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 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:

	2012	2011
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	$ 195,000	$ 280,000
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	290,000	330,000
2.85% Contract for deed, due in annual installments of $18,000 payable on December 31 through 2012	17,483	34,504
4.0% Contract for deed, due in annual installments of $7,460 payable on April 15 through 2023	65,348	70,000
	567,831	714,504
Less current maturities	(157,000)	(147,000)
	$ 410,831	$ 567,504

Long-term debt maturities are as follows:

Years Ending June 30,		
2013	$	157,000
2014		150,000
2015		55,000
2016		60,000
2017		61,000
Thereafter		84,831
	$	567,831

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 - Construction Line of Credit

The Organization has entered into a line-of-credit agreement providing maximum borrowing of $350,000. The line of credit expires on June 30, 2013. Interest on unpaid principal is payable quarterly at 5.50%. As of June 30, 2012, the Organization had an outstanding principle balance of $153,909. The interest payable as of June 30, 2012 was $2,116.

Note 8 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2012 and 2011:

	2012	2011
Various health care related programs and services	$ 69,154	$ 51,875

Permanently restricted net assets at June 30, 2012 and 2011, are restricted to:

	2012	2011
Investments to be held in perpetuity, the income from which is expandable to support various health care services	$ 39,248	$ 39,248

Note 9 - 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 $14,572 and $14,159, respectively for the years ended June 30, 2012 and 2011.

Note 10 - Related Party

During the years ended June 30, 2012 and 2011, the Organization received contributions from Hand County Health, Wellness and Community Foundation, Inc., a related entity, in the amount of $125,215 and $462,622, respectively.

Note 11 - 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, 2012 and 2011, are as follows:

	2012	2011
Patient health care services	$ 1,288,094	$ 1,127,189
General and administrative	116,953	129,603
	$ 1,405,047	$ 1,256,792

Note 12 - 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 13 - 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. The organization had a gain from discontinued operations of $-0- and $2,500 for the years ended June 30, 2012 and 2011, respectively.