



Financial Statements  
June 30, 2014 and 2013

# Hand County Memorial Hospital, Inc.



# Hand County Memorial Hospital, Inc.

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June 30, 2014 and 2013

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Hand County Memorial Hospital, Inc., which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hand County Memorial Hospital, Inc. as of June 30, 2014 and 2013, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Eide Bailly LLP*

Sioux Falls, South Dakota  
November 19, 2014



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|   | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| Assets  |                     |                     |
| Current Assets  |                     |                     |
| Cash and cash equivalents                             | \$ 16,674           | \$ 15,567           |
| Assets limited as to use                              | 59,900              | 159,450             |
| Receivables   |                     |                     |
| Patients and residents, net of allowances             | 74,577              | 94,500              |
| Construction  | -                   | 408,005             |
| Other   | 16,451              | 5,906               |
| Supplies  | 3,925               | 3,858               |
| Prepaid expenses                                      | 10,200              | 10,511              |
| Total current assets                                  | <u>181,727</u>      | <u>697,797</u>      |
| Assets Limited as to Use                              |                     |                     |
| By Board for capital improvements and debt redemption | 476,376             | 505,801             |
| Under bond indenture agreement                        | 10,235              | 24,041              |
| Under state unemployment agreement                    | 5,134               | 5,108               |
| Total assets limited as to use                        | <u>491,745</u>      | <u>534,950</u>      |
| Property and Equipment, Net                           | <u>3,409,491</u>    | <u>3,463,634</u>    |
| Other Assets  |                     |                     |
| Deferred financing costs, net                         | 1,572               | 2,509               |
| Interest in net assets of Avera Health Foundation     | 215,803             | 172,920             |
| Due from Avera McKennan                               | 796,570             | 796,570             |
| Total other assets                                    | <u>1,013,945</u>    | <u>971,999</u>      |
|   | <u>\$ 5,096,908</u> | <u>\$ 5,668,380</u> |



## Hand County Memorial Hospital, Inc.

Balance Sheets

June 30, 2014 and 2013

|   | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|
| Liabilities and Net Assets              |                     |                     |
| Current Liabilities                     |                     |                     |
| Current maturities of long-term debt    | \$ 71,000           | \$ 150,000          |
| Construction line of credit             | -                   | 203,909             |
| Accounts payable                        |                     |                     |
| Trade                                   | 45,202              | 36,229              |
| Construction                            | -                   | 428,664             |
| Accrued expenses                        |                     |                     |
| Salaries and wages                      | 17,421              | 15,887              |
| Vacation                                | 41,760              | 36,119              |
| Interest                                | 5,286               | 12,170              |
| Payroll taxes, withholdings, and other  | 13,319              | 4,729               |
| Total current liabilities               | 193,988             | 887,707             |
| Long-Term Debt, Less Current Maturities | 382,386             | 260,501             |
| Total liabilities                       | 576,374             | 1,148,208           |
| Net Assets                              |                     |                     |
| Unrestricted                            | 4,353,421           | 4,387,817           |
| Temporarily restricted                  | 127,865             | 93,107              |
| Permanently restricted                  | 39,248              | 39,248              |
| Total net assets                        | 4,520,534           | 4,520,172           |
|   | <u>\$ 5,096,908</u> | <u>\$ 5,668,380</u> |



Hand County Memorial Hospital, Inc.  
Statements of Operations  
Years Ended June 30, 2014 and 2013

|   | 2014        | 2013        |
|---|-------------|-------------|
| Unrestricted Revenue, Gains, and Other Support              |             |             |
| Net patient and resident service revenue                    |             |             |
| Assisted living   | \$ 480,125  | \$ 427,636  |
| Ambulance services  | 148,390     | 178,682     |
| Home health   | 96,043      | 118,231     |
| Homemaker   | 92,446      | 63,397      |
| Community health  | 90,185      | 85,309      |
| Total net patient and resident service revenue              | 907,189     | 873,255     |
| Dietary revenue   | 114,205     | 116,372     |
| Wellness revenue  | 43,691      | 46,190      |
| Lease revenue   | 430,232     | 404,455     |
| Gain on sales and disposals of property and equipment       | 11,644      | 5,259       |
| Other revenue   | 1,060       | 1,788       |
| Total revenue, gains, and other support                     | 1,508,021   | 1,447,319   |
| Expenses  |             |             |
| Salaries and wages  | 684,236     | 687,486     |
| Employee benefits   | 159,404     | 145,874     |
| Supplies and other expense                                  | 299,289     | 316,030     |
| Depreciation and amortization                               | 196,245     | 224,399     |
| Lease and rental  | 285,831     | 231,068     |
| Interest  | 14,833      | 33,827      |
| Provision for bad debts, net                                | 2,959       | 11,253      |
| Total expenses  | 1,642,797   | 1,649,937   |
| Operating Loss  | (134,776)   | (202,618)   |
| Other Income (Expense)                                      |             |             |
| Investment income   | 46,339      | 27,865      |
| Change in interest in net assets of Avera Health Foundation | 4,270       | 9,056       |
| Contribution refunded to foundation                         | -           | (70,637)    |
| Total other income (expense)                                | 50,609      | (33,716)    |
| Revenues Less Than Expenses                                 | (84,167)    | (236,334)   |
| Contributions and Grants for Capital                        | 49,771      | 193,547     |
| Change in Unrestricted Net Assets                           | \$ (34,396) | \$ (42,787) |



Hand County Memorial Hospital, Inc.  
Statements of Changes in Net Assets  
Years Ended June 30, 2014 and 2013

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|   | <u>2014</u>                | <u>2013</u>                |
|---|----------------------------|----------------------------|
| Unrestricted Net Assets                                     |                            |                            |
| Revenues less than expenses                                 | \$ (84,167)                | \$ (236,334)               |
| Contributions and grants for capital                        | <u>49,771</u>              | <u>193,547</u>             |
| Change in unrestricted net assets                           | (34,396)                   | (42,787)                   |
| Temporarily Restricted Net Assets                           |                            |                            |
| Change in interest in net assets of Avera Health Foundation | <u>34,758</u>              | <u>23,953</u>              |
| Change in Net Assets  | 362                        | (18,834)                   |
| Net Assets, Beginning of Year                               | <u>4,520,172</u>           | <u>4,539,006</u>           |
| Net Assets, End of Year                                     | <u><u>\$ 4,520,534</u></u> | <u><u>\$ 4,520,172</u></u> |

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Hand County Memorial Hospital, Inc.  
Statements of Cash Flows  
Years Ended June 30, 2014 and 2013

|   | 2014                | 2013             |
|---|---------------------|------------------|
| Operating Activities  |                     |                  |
| Change in net assets  | \$ 362              | \$ (18,834)      |
| Adjustments to reconcile change in net assets<br>to net cash from operating activities  |                     |                  |
| Depreciation and amortization   | 196,245             | 224,399          |
| Gain on sales and disposals of property and equipment                                   | (11,644)            | (5,259)          |
| Change in unrealized gains and losses on investments                                    | (30,047)            | (12,911)         |
| Realized gains on investments, net  | (15,683)            | (14,310)         |
| Undistributed portion of change in interest in net assets<br>of Avera Health Foundation | (42,883)            | (41,936)         |
| Restricted contributions  | (49,771)            | (193,547)        |
| Change in assets and liabilities  |                     |                  |
| Receivables   | 9,378               | 9,404            |
| Supplies  | (67)                | 2,089            |
| Prepaid expenses and other assets   | 311                 | 309              |
| Accounts payable  | 8,973               | 18,588           |
| Accrued expenses and other liabilities  | 8,881               | (80,867)         |
| Net Cash from (used for) Operating Activities   | <u>74,055</u>       | <u>(112,875)</u> |
| Investing Activities  |                     |                  |
| Purchase of property and equipment  | (574,835)           | (136,403)        |
| Proceeds on the sale of property and equipment  | 16,650              | 79,816           |
| Change in construction receivable   | 408,005             | (33,332)         |
| Sale of assets limited as to use  | 188,485             | 104,210          |
| Net Cash from Investing Activities  | <u>38,305</u>       | <u>14,291</u>    |
| Financing Activities  |                     |                  |
| Proceeds from issuance of long-term debt  | 325,000             | -                |
| Principal payments on long-term debt  | (282,115)           | (157,330)        |
| Change in short-term line of credit   | (203,909)           | 50,000           |
| Restricted contributions  | 49,771              | 193,547          |
| Net Cash (used for) from Financing Activities   | <u>(111,253)</u>    | <u>86,217</u>    |
| Net Increase (Decrease) in Cash and Cash Equivalents                                    | 1,107               | (12,367)         |
| Cash and Cash Equivalents, Beginning of Year  | <u>15,567</u>       | <u>27,934</u>    |
| Cash and Cash Equivalents, End of Year  | <u>\$ 16,674</u>    | <u>\$ 15,567</u> |
| Supplemental Disclosure of Cash Flow Information  |                     |                  |
| Cash paid during the year for interest  | <u>\$ 21,717</u>    | <u>\$ 94,361</u> |
| Supplemental Disclosure of Noncash Investing Activities                                 |                     |                  |
| Change in accounts payable for purchases of property                                    | <u>\$ (428,664)</u> | <u>\$ 53,991</u> |

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

### **Organization**

Hand County Memorial Hospital, Inc. (the Organization) operates a health care organization and a 26-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 hospital property and equipment which is 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.

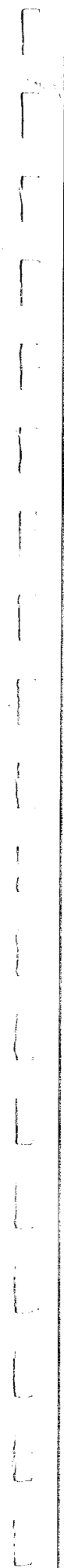
### **Patient, Resident, and Other Receivables**

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 5, 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 and other financing sources.

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, 2014 and 2013, was \$10,500 and \$26,500, 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.

The estimated uncollectible allowance for student loan receivables was \$1,375 for the years ended June 30, 2014 and 2013. 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 \$59,283 and \$58,346 for the years ended June 30, 2014 and 2013, 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. 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 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 less than 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 Less Than Expenses**

Revenues less than 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 has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under the Internal Revenue Code Section 501(c)(3). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that unrelated to its exempt purpose. The Organization files an Exempt Organization Business Income Tax Return (Form 990T) with the IRS to report its unrelated business taxable income.

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. The Organization's federal Form 990T filings are no longer subject to federal tax examinations by tax authorities for years before 2010.

### Advertising Costs

The Organization expenses advertising costs as incurred.

### Reclassification

Reclassifications have been made to the June 30, 2013 financial information to make it conform to the current year presentation. The reclassification has no effect on previously reported operating results or changes in net assets.

### Note 2 - Property and Equipment

A summary of leasehold improvements and equipment at June 30, 2014 and 2013, follows:

|  | 2014                |                             | 2013                |                             |
|--|---------------------|-----------------------------|---------------------|-----------------------------|
|  | Cost                | Accumulated<br>Depreciation | Cost                | Accumulated<br>Depreciation |
| Land                                     | \$ 352,110          | \$ -                        | \$ 348,084          | \$ -                        |
| Land improvements                        | 65,478              | 61,086                      | 65,478              | 58,176                      |
| Leasehold improvements                   | 1,479,401           | 871,561                     | 1,549,255           | 899,017                     |
| Building equipment                       | 3,472,123           | 1,108,184                   | 3,378,942           | 1,063,163                   |
| Equipment                                | 588,837             | 507,627                     | 811,639             | 696,045                     |
| Construction in process                  | -                   | -                           | 26,637              | -                           |
|  | <u>\$ 5,957,949</u> | <u>\$ 2,548,458</u>         | <u>\$ 6,180,035</u> | <u>\$ 2,716,401</u>         |
| Net leasehold improvements and equipment |                     | <u>\$ 3,409,491</u>         |                     | <u>\$ 3,463,634</u>         |

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### 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. A summary of the payment arrangements with major third-party payors follows:

**Medicare:** 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.

**Medicaid:** The Organization is reimbursed for assisted living resident services at established daily rates as prescribed by the South Dakota Department of Human Services.

The Organization has also entered into payment agreements with certain commercial and other insurance carriers. The basis for payment to the Organization under these agreements includes prospectively determined rates, 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, 2014 and 2013, is shown in the following table.

|   | 2014              | 2013              |
|---|-------------------|-------------------|
| Under bond indenture agreement                        |                   |                   |
| Cash and cash equivalents                             | \$ 20,135         | \$ 35,491         |
| Certificates of deposit                               | 50,000            | 148,000           |
| Less amount shown as current assets                   | (59,900)          | (159,450)         |
|   | <u>\$ 10,235</u>  | <u>\$ 24,041</u>  |
| By board for capital improvements and debt redemption |                   |                   |
| Cash and cash equivalents                             | \$ 267,047        | \$ 138,487        |
| Pooled Investment Fund *                              | 209,247           | 367,000           |
| Interest receivable                                   | 82                | 314               |
|   | <u>\$ 476,376</u> | <u>\$ 505,801</u> |
| Under state unemployment agreement                    |                   |                   |
| Certificate of deposit                                | <u>\$ 5,134</u>   | <u>\$ 5,108</u>   |



# Hand County Memorial Hospital, Inc.

Notes to Financial Statements

June 30, 2014 and 2013

## \*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, 2014 and 2013, the Avera Pooled Investment Fund assets were comprised of the following types of investments:

|   | 2014          | 2013          |
|---|---------------|---------------|
| Equity mutual funds                         | 32.7%         | 28.7%         |
| Fixed income mutual funds                   | 18.4%         | 17.2%         |
| Non-publicly traded alternative investments |               |               |
| Hedge fund                                  | 12.5%         | 11.8%         |
| Real asset                                  | 2.2%          | 2.5%          |
| Publicly traded equity securities           | 8.1%          | 10.7%         |
| Corporate bonds                             | 6.2%          | 6.1%          |
| Foreign equities                            | 6.2%          | 5.7%          |
| Balanced mutual funds                       | 5.0%          | 4.9%          |
| U.S. government issues                      | 3.4%          | 4.4%          |
| Cash and short-term investments             | 3.1%          | 5.6%          |
| Other fixed income                          | 2.2%          | 2.4%          |
|   | <u>100.0%</u> | <u>100.0%</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, 2014 and 2013:

|  | 2014             | 2013             |
|--|------------------|------------------|
| Interest income                                      | \$ 609           | \$ 644           |
| Realized gains on investments, net                   | 15,683           | 14,310           |
| Change in unrealized gains and losses on investments | <u>30,047</u>    | <u>12,911</u>    |
|  | <u>\$ 46,339</u> | <u>\$ 27,865</u> |



## **Note 5 - Leases**

### **Construction Project Affecting Lessor Lease and Lessee Lease**

During the year ended June 30, 2013, the Organization and Hand County completed a joint construction project. The Organization handled all of the construction period financing during the course of the project for both itself and Hand County. The construction project was 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. A portion of the newly constructed facilities will be used for the Organization's operations, with the majority of the assets being leased by the current lessor of hospital operations.

### **Lessor Leases**

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.

Effective April, 6, 2010, the Organization signed a 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.

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 finished in 2013.

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**Note 6 - Long-Term Debt**

Long-term debt consists of:

|   | <u>2014</u>       | <u>2013</u>       |
|---|-------------------|-------------------|
| 3.88% City of Miller, Economic Development Revenue Bonds, Series 1993, serial bonds matured in January 2014   | \$ -              | \$ 100,000        |
| 5.50% City of Miller, Economic Development Revenue Bonds, Series 1997, serial bonds due in varying semi-annual installments to January 2018, secured by leased assets | 205,000           | 250,000           |
| 3.85% Rural Electric Economic Development Loan, due in monthly installments of \$1,944 through November 2023  | 192,925           | -                 |
| 4.00% Contract for deed, due in annual installments of \$7,460 payable on April 15 through 2023   | <u>55,461</u>     | <u>60,501</u>     |
|   | 453,386           | 410,501           |
| Less current maturities   | <u>(71,000)</u>   | <u>(150,000)</u>  |
|   | <u>\$ 382,386</u> | <u>\$ 260,501</u> |

Long-term debt maturities are as follows:

Years Ending June 30,

|            |                   |
|------------|-------------------|
| 2015       | \$ 71,000         |
| 2016       | 77,000            |
| 2017       | 78,000            |
| 2018       | 69,000            |
| 2019       | 25,000            |
| Thereafter | <u>133,386</u>    |
|            | <u>\$ 453,386</u> |

Under the terms of the revenue bond and rural electric economic development (REED) 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 Organization was out of compliance with a loan covenant collateralization requirement as of June 30, 2014. The Organization's management was able to obtain a loan covenant waiver from the lender.

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.

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**Note 7 - Construction Line-of-Credit**

The Organization had a line-of-credit agreement providing maximum borrowing of \$350,000 which expired on September 30, 2013. Interest on unpaid principal is payable quarterly at 5.50%. As of June 30, 2014 and 2013, the Organization had an outstanding principle balance of \$-0- and \$203,909, respectively. The interest payable as of June 30, 2014 and 2013 was \$-0- and \$2,804, respectively.

**Note 8 - Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at June 30, 2014 and 2013:

|   | <u>2014</u>       | <u>2013</u>      |
|---|-------------------|------------------|
| Interest in Foundation, consisting of investments held to support various health care related programs and services | <u>\$ 127,865</u> | <u>\$ 93,107</u> |

Permanently restricted net assets at June 30, 2014 and 2013, are restricted to:

|   | <u>2014</u>      | <u>2013</u>      |
|---|------------------|------------------|
| Interest in Foundation, consisting of investments to be held in perpetuity, the income from which is expandable to support various health care services | <u>\$ 39,248</u> | <u>\$ 39,248</u> |

**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 \$12,442 and \$10,731, respectively, for the years ended June 30, 2014 and 2013.

**Note 10 - Beneficial Interest in Assets Held by Community Foundation**

During 2009, Hand County Health, Wellness and Community Foundation, Inc. (HCHWC Foundation) was established as a community foundation for the public benefit, charitable, educational, religious, health, wellness, or scientific purposes. HCHWC Foundation's activities include fundraising for the Organization. In accordance with legal practice for community foundations, the HCHWC Foundation has been granted variance power to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of the Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. HCHWC Foundation has assets totaling \$134,347 that are restricted for the use of the Organization at June 30, 2014.

During the years ended June 30, 2014 and 2013, the Organization received contributions from HCHWC Foundation, totaling \$49,446 and \$193,547 respectively.



The Organization refunded contributions to the HCHWC Foundation totaling \$-0- and \$70,637 during the years ended June 30, 2014 and 2013, 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, 2014 and 2013, are as follows:

|                            | 2014                | 2013                |
|----------------------------|---------------------|---------------------|
| Health care services       | \$ 1,553,169        | \$ 1,556,848        |
| General and administrative | 89,628              | 93,089              |
|                            | <u>\$ 1,642,797</u> | <u>\$ 1,649,937</u> |

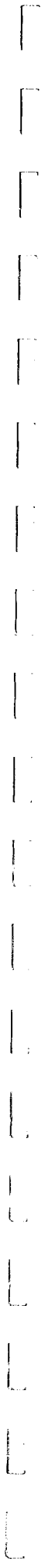
#### **Note 12 - Contingency**

##### **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 \$10-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 - Subsequent Events**

The Organization has evaluated subsequent events through November 19, 2014, the date which the financial statements were available to be issued.



**COMMUNITY OF MILLER**  
**PLANNING AND CONSENSUS BUILDING WORKSHOP**  
**WEDNESDAY, JANUARY 21<sup>ST</sup> 6-10PM**  
**At the new Miller COMMUNITY CENTER**

You are all invited to participate in a planning and consensus building workshop that will result in a strategic document that we can all follow and be accountable for in the coming months and years. The purpose of the meeting is to establish common goals and initiatives that we can all work on together to bring development and add value to the community and its residents.

Your responsibility will be to bring your ideas for improving the community and any goals the county already has to the meeting so we can all get on the same page to establish, develop, and support goals and their development in unison.

The event will start at 6pm, hors d'oeuvres and refreshments will be available throughout the evening. You will be expected to stay the full four hours to bring the best value to the end product. By 10pm, we will have a strategic document that will lay out common goals with some very high level implementation strategies as well as a focused leadership group for each goal to oversee the development progress.

As with most of these events, there will be both large group and small group exercises, so expect this to be a fast paced, fun, exciting, and educational evening. This is not just a 'spill out the ideas then rank them' event, it will be so much more, so your participation in this event will make the outcome so much more valuable end product.



# Financial Scorecard – June 2014

| VOLUMES  |                 |        |      |               |        |        |       |
|----------|-----------------|--------|------|---------------|--------|--------|-------|
|          | June 2014       |        |      | June 2014 YTD |        |        |       |
|          | Actual          | Budget | Var. | Actual        | Budget | Var.   |       |
| IP ACUTE | Admissions      | 15     | 19   | (4)           | 195    | 215    | (20)  |
|          | Discharges      | 15     | 19   | (4)           | 192    | 215    | (23)  |
|          | Patient Days    | 51     | 47   | 4             | 567    | 585    | (18)  |
| IP SWING | Admissions      | 11     | 6    | 5             | 96     | 93     | 3     |
|          | Discharges      | 7      | 6    | 1             | 97     | 93     | 4     |
|          | Patient Days    | 74     | 60   | 14            | 835    | 715    | 120   |
| IP TOTAL | Admissions      | 26     | 25   | 1             | 291    | 308    | (17)  |
|          | Discharges      | 22     | 25   | (3)           | 289    | 308    | (19)  |
|          | Patient Days    | 125    | 107  | 18            | 1,402  | 1,300  | 102   |
| OP       | Total Op Visits | 970    | 852  | 118           | 11,548 | 10,337 | 1,211 |

| GROSS REVENUE, DEDUCTIONS AND NET REVENUE |             |           |             |               |             |              |     |
|---|-------------|-----------|-------------|---------------|-------------|--------------|-----|
|   | June 2014   |           |             | June 2014 YTD |             |              | Var |
|   | Actual      | Budget    | Var         | Actual        | Budget      | Var          |     |
| GROSS                                     |             |           |             |               |             |              |     |
| Inpatient                                 | \$171,524   | \$140,496 | \$31,028    | \$2,143,150   | \$1,717,854 | \$425,296    |     |
| Outpatient                                | \$450,977   | \$498,506 | \$ (47,529) | \$5,357,906   | \$6,117,742 | \$ (759,836) |     |
| Clinic                                    | \$55,628    | \$91,357  | \$ (35,729) | \$971,010     | \$1,036,452 | \$ (65,442)  |     |
| Total Gross                               | \$678,128   | \$730,359 | \$ (52,231) | \$8,472,067   | \$8,872,048 | \$ (399,981) |     |
| DEDUCT                                    |             |           |             |               |             |              |     |
| Contractuals                              | \$39,349    | \$151,291 | \$111,942   | \$1,516,431   | \$1,827,558 | \$ (311,127) |     |
| Charity Care                              | \$171       | \$3,072   | \$2,901     | \$42,312      | \$37,282    | \$5,030      |     |
| Bad Debt                                  | \$ (23,619) | \$9,915   | \$33,534    | \$49,147      | \$118,434   | \$ (69,287)  |     |
| Total Net                                 | \$662,228   | \$566,081 | \$96,147    | \$6,864,177   | \$6,888,774 | \$ (24,597)  |     |
| Other Revenue                             | \$79,292    | \$53,669  | \$25,623    | \$627,557     | \$668,028   | \$ (40,471)  |     |
| Total Revenue                             | \$741,519   | \$619,750 | \$121,769   | \$7,491,734   | \$7,556,802 | \$ (65,068)  |     |

| KEY RATIOS |                   |           |        |        |               |        |       |
|------------|-------------------|-----------|--------|--------|---------------|--------|-------|
|            |                   | June 2014 |        |        | June 2014 YTD |        |       |
|            |                   | Actual    | Budget | Var.   | Actual        | Budget | Var.  |
| IP MIX %   | Inpatient         | 25.3%     | 19.2%  | 6.1%   | 25.3%         | 19.4%  | 5.9%  |
|            | Outpatient        | 66.5%     | 68.3%  | -1.8%  | 63.2%         | 69.0%  | -5.7% |
|            | Clinic            | 8.2%      | 12.5%  | -4.3%  | 11.5%         | 11.7%  | -0.2% |
| DEDUCT     | Contractual       | 5.8%      | 20.7%  | -14.9% | 17.9%         | 20.6%  | 2.7%  |
|            | Charity           | 0.0%      | 0.4%   | 0.4%   | 0.5%          | 0.4%   | -0.1% |
|            | Bad Debt % Gross  | -3.5%     | 1.4%   | 4.8%   | 0.6%          | 1.3%   | 0.8%  |
| EXP        | Labor % Revenue   | 47.5%     | 59.9%  | -12.4% | 55.1%         | 58.8%  | 3.7%  |
|            | Benefits % Salary | 42.8%     | 34.7%  | 8.1%   | 33.2%         | 33.3%  | 0.1%  |
|            | Op. Margin %      | 20.6%     | 5.5%   | 15.1%  | 9.3%          | 6.3%   | 3.0%  |
| MARG       | Net Margin %      | 20.7%     | 5.6%   | 15.1%  | 9.4%          | 6.3%   | 3.1%  |
|            | FTE Count         | 56.9      | 60.8   | 4.0    | 57.4          | 60.8   | 3.4   |

| EXPENSES AND OPERATING MARGIN |           |           |           |               |             |           |     |
|-------------------------------|-----------|-----------|-----------|---------------|-------------|-----------|-----|
|                               | June 2014 |           |           | June 2014 YTD |             |           | Var |
|                               | Actual    | Budget    | Var       | Actual        | Budget      | Var       |     |
| LABOR                         |           |           |           |               |             |           |     |
| Salaries                      | \$246,866 | \$275,512 | \$28,646  | \$3,098,249   | \$3,335,414 | \$237,165 |     |
| Benefits                      | \$105,601 | \$95,660  | \$9,941   | \$1,027,504   | \$1,109,069 | \$81,565  |     |
| Total Labor                   | \$352,467 | \$371,172 | \$18,705  | \$4,125,753   | \$4,444,483 | \$318,730 |     |
| EXPENSES                      |           |           |           |               |             |           |     |
| Medical Fees                  | \$ (32)   | \$3,772   | \$3,804   | \$35,573      | \$45,800    | \$10,227  |     |
| Purch Svcs                    | \$57,364  | \$47,426  | \$9,938   | \$630,557     | \$576,713   | \$53,844  |     |
| Supplies                      | \$53,219  | \$52,186  | \$1,033   | \$630,158     | \$638,967   | \$8,809   |     |
| Total Supplies                | \$110,551 | \$103,384 | \$7,167   | \$1,296,288   | \$1,261,480 | \$34,808  |     |
| OTHER                         |           |           |           |               |             |           |     |
| Other                         | \$112,753 | \$96,459  | \$16,294  | \$1,194,551   | \$1,214,011 | \$19,460  |     |
| Depreciation                  | \$12,913  | \$14,533  | \$1,620   | \$175,417     | \$161,350   | \$14,067  |     |
| Total Expenses                | \$588,684 | \$585,548 | \$3,136   | \$6,792,009   | \$7,081,324 | \$289,316 |     |
| Oper. Margin                  | \$152,835 | \$34,202  | \$118,632 | \$699,725     | \$475,478   | \$224,247 |     |





# Balance Sheet – June 2014

| Avera Hand County Campus<br>Comparative Balance Sheets<br>For the Period Ended June 30, 2014 |                                       |                             |                                   |
|--|---------------------------------------|-----------------------------|-----------------------------------|
|  | Current Month<br>June 30, 2014        | Prior Month<br>May 31, 2014 | Prior Year<br>June 30, 2013       |
| <b>CURRENT ASSETS</b>  |                                       |                             |                                   |
| Cash and Cash Equivalents  | \$ 71,911                             | \$ 263,626                  | \$ 84,969                         |
| Accounts Receivable, Patients  | 1,206,017                             | 1,187,825                   | 1,392,226                         |
| Less: Allowances and Uncollectibles, Patients  | (349,056)                             | (418,082)                   | (443,243)                         |
| Net accounts receivable, patients  | 856,961                               | 769,743                     | 948,983                           |
| Other Receivables  | 82,105                                | 130,728                     | 104,538                           |
| Inventories  | 125,540                               | 107,701                     | 115,028                           |
| Prepaid Expenses   | 71,760                                | 96,639                      | 50,255                            |
| Current Portion of Assets Whose Use Is Limited   | 843,710                               | 1,024,199                   | 773,574                           |
| <b>TOTAL CURRENT ASSETS</b>  | <b>\$ 2,051,987</b>                   | <b>\$ 2,392,635</b>         | <b>\$ 2,077,347</b>               |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>   |                                       |                             |                                   |
| Fixed and Moveable Equipment   | 1,282,030                             | 1,209,288                   | 951,555                           |
| Less: Accumulated Depreciation   | (547,847)                             | (531,386)                   | (372,430)                         |
| Net Property, Plant and Equipment  | 734,183                               | 677,902                     | 579,124                           |
| <b>OTHER ASSETS</b>  |                                       |                             |                                   |
| Goodwill   | 45,276                                | 45,864                      | 52,332                            |
| <b>TOTAL ASSETS</b>  | <b>\$ 2,831,446</b>                   | <b>\$ 3,116,401</b>         | <b>\$ 2,708,804</b>               |
| <b>CURRENT LIABILITIES</b>   |                                       |                             |                                   |
| Accounts Payable   | 38,356                                | 76,657                      | 59,373                            |
| Due to McKennan  | (177,595)                             | (14,030)                    | 264,030                           |
| Accrued Payroll, Payroll Taxes and Vacation Pay  | 181,914                               | 194,944                     | 189,258                           |
| Due to Third Party Payors  | 142,475                               | 346,620                     | 178,944                           |
| Deferred Revenue   | 31,951                                | 51,239                      | 34,361                            |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>\$ 217,101</b>                     | <b>\$ 655,429</b>           | <b>\$ 725,966</b>                 |
| Unrestricted Net Assets  | 2,614,345                             | 2,460,971                   | 1,982,838                         |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b>\$ 2,831,446</b>                   | <b>\$ 3,116,401</b>         | <b>\$ 2,708,804</b>               |
| <b>Return on Assets</b>  | <b>Year to date<br/>June 30, 2014</b> | <b>FY14<br/>Budget</b>      | <b>Variance<br/>Fav / (Unfav)</b> |
| Gross Days in Accounts Receivable  | 24.95%<br>52.80                       | 15.37%<br>62.00             | 9.58%<br>9.20                     |

# Income Statement – June 2014

| Avera Heart-County Campus<br>Consolidated Statement of Operations<br>For the Period Ended June 30, 2014<br>Variance Favorable / (Unfavorable) |                   |                    |                     |                        |                     |
|---|-------------------|--------------------|---------------------|------------------------|---------------------|
| Actual  | Month<br>Budget   | Variance           | Actual              | Year to date<br>Budget | Variance            |
| \$ 171,524  | \$ 140,496        | \$ 31,028          | \$ 2,143,150        | \$ 1,717,854           | \$ 425,296          |
| 450,977   | 498,506           | (47,529)           | 5,357,906           | 6,117,742              | (759,836)           |
| 55,628  | 91,357            | (35,729)           | 971,010             | 1,036,452              | (65,442)            |
| <b>\$ 678,128</b>   | <b>\$ 730,359</b> | <b>\$ (52,231)</b> | <b>\$ 8,472,067</b> | <b>\$ 8,872,048</b>    | <b>\$ (399,981)</b> |
| 39,349  | 151,291           | 111,942            | 1,516,431           | 1,827,558              | 311,127             |
| 171   | 3,072             | 2,901              | 42,312              | 37,282                 | (5,030)             |
| (23,619)  | 9,915             | 33,534             | 49,147              | 118,434                | 69,287              |
| 15,901  | 164,278           | 148,377            | 1,607,890           | 1,983,274              | 375,384             |
| <b>\$ 662,228</b>   | <b>\$ 586,081</b> | <b>\$ 96,147</b>   | <b>\$ 6,864,177</b> | <b>\$ 6,888,774</b>    | <b>\$ (24,597)</b>  |
| 77,986  | 52,148            | 25,838             | 609,340             | 649,776                | (40,436)            |
| 1,306   | 1,521             | (215)              | 18,217              | 18,252                 | (35)                |
| 79,292  | 53,669            | 25,623             | 627,557             | 668,028                | (40,471)            |
| <b>\$ 741,519</b>   | <b>\$ 619,750</b> | <b>\$ 121,769</b>  | <b>\$ 7,491,734</b> | <b>\$ 7,556,802</b>    | <b>\$ (65,068)</b>  |
| 246,866   | 275,512           | 28,646             | 3,098,249           | 3,335,414              | 237,165             |
| 105,601   | 95,660            | (9,941)            | 1,027,504           | 1,109,069              | 81,565              |
| (32)  | 3,772             | 3,804              | 35,573              | 45,800                 | 10,227              |
| 57,364  | 47,426            | (9,938)            | 630,557             | 576,713                | (53,844)            |
| 53,219  | 52,186            | (1,033)            | 630,158             | 638,967                | 8,809               |
| 31,923  | 9,517             | (22,406)           | 135,398             | 114,883                | (20,515)            |
| 58,774  | 69,524            | 10,750             | 838,267             | 888,638                | 50,371              |
| 8,657   | 3,965             | (4,692)            | 54,688              | 46,872                 | (7,816)             |
| 13,400  | 13,453            | 53                 | 166,199             | 163,618                | (2,581)             |
| 12,913  | 14,533            | 1,620              | 175,417             | 161,350                | (14,067)            |
| <b>\$ 588,684</b>   | <b>\$ 585,548</b> | <b>\$ (3,136)</b>  | <b>\$ 6,792,009</b> | <b>\$ 7,081,324</b>    | <b>\$ 289,315</b>   |
| <b>\$ 152,835</b>   | <b>\$ 34,202</b>  | <b>\$ 118,633</b>  | <b>\$ 699,725</b>   | <b>\$ 475,478</b>      | <b>\$ 224,247</b>   |
| -   | -                 | -                  | -                   | -                      | -                   |
| 538   | 304               | 234                | 6,782               | 3,648                  | 3,134               |
| <b>\$ 153,373</b>   | <b>\$ 34,506</b>  | <b>\$ 118,867</b>  | <b>\$ 706,507</b>   | <b>\$ 479,126</b>      | <b>\$ 227,381</b>   |
| -   | -                 | -                  | -                   | -                      | -                   |
| <b>\$ 153,373</b>   | <b>\$ 34,506</b>  | <b>\$ 118,867</b>  | <b>\$ 706,507</b>   | <b>\$ 479,126</b>      | <b>\$ 227,381</b>   |
| 5.8%  | 20.7%             | 14.9%              | 17.9%               | 20.6%                  | -2.7%               |
| -3.5%   | 1.4%              | 4.8%               | 0.6%                | 1.3%                   | -0.8%               |
| 47.5%   | 59.9%             | 12.4%              | 55.1%               | 58.8%                  | -3.7%               |
| -3.2%   | 1.6%              | 4.8%               | 0.7%                | 1.6%                   | -0.9%               |
| 20.6%   | 5.5%              | 15.1%              | 9.3%                | 6.3%                   | 3.0%                |
| 20.7%   | 5.6%              | 15.1%              | 9.4%                | 6.3%                   | 3.1%                |
| 56.85   | 60.81             | 3.96               | 57.37               | 60.81                  | 3.44                |
| <b>KEY OPERATING RATIOS</b><br>Variance Favorable / (Unfavorable)   |                   |                    |                     |                        |                     |
| Contractuals as % of Gross Patient Service Revenue  |                   |                    |                     |                        |                     |
| Charity Care as % of Gross Patient Service Revenue  |                   |                    |                     |                        |                     |
| Labor Expense as % of Total Revenue   |                   |                    |                     |                        |                     |
| Bad Debt as % of Total Revenue  |                   |                    |                     |                        |                     |
| Operating Income as % of Total Revenue  |                   |                    |                     |                        |                     |
| Excess Revenues over Expenses as % Total Revenue  |                   |                    |                     |                        |                     |
| Full Time Equivalents (FTE's)   |                   |                    |                     |                        |                     |