



Financial Statements

June 30, 2015 and 2014

Hand County Memorial Hospital, Inc.

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Hand County Memorial Hospital, Inc.

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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, 2015 and 2014, 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, 2015 and 2014, 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
October 25, 2015

www.eidebailly.com



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	<u>2015</u>	<u>2014</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 11,638	\$ 16,674
Assets limited as to use	62,013	59,900
Receivables		
Patients and residents, net of allowances	86,970	74,577
Other	1,795	16,451
Supplies	2,241	3,925
Prepaid expenses	10,951	10,200
Total current assets	<u>175,608</u>	<u>181,727</u>
Assets Limited as to Use		
By Board for capital improvements and debt redemption	387,000	476,376
Under bond indenture agreement	8,098	10,235
Under state unemployment agreement	5,155	5,134
Total assets limited as to use	<u>400,253</u>	<u>491,745</u>
Property and Equipment, Net	<u>3,503,603</u>	<u>3,409,491</u>
Other Assets		
Deferred financing costs, net	898	1,572
Interest in net assets of Avera Health Foundation	225,368	215,803
Due from Avera McKennan	796,570	796,570
Total other assets	<u>1,022,836</u>	<u>1,013,945</u>
	<u>\$ 5,102,300</u>	<u>\$ 5,096,908</u>

Hand County Memorial Hospital, Inc.

Balance Sheets

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 102,000	\$ 71,000
Accounts payable		
Trade	20,078	45,202
Accrued expenses		
Salaries and wages	19,666	17,421
Vacation	35,168	41,761
Interest	3,459	5,288
Payroll taxes, withholdings, and other	10,439	13,319
Total current liabilities	<u>190,810</u>	<u>193,991</u>
Long-Term Debt, Less Current Maturities	<u>395,651</u>	<u>382,386</u>
Total liabilities	<u>586,461</u>	<u>576,377</u>
Net Assets		
Unrestricted	4,343,014	4,353,418
Temporarily restricted	133,577	127,865
Permanently restricted	39,248	39,248
Total net assets	<u>4,515,839</u>	<u>4,520,531</u>
	<u>\$ 5,102,300</u>	<u>\$ 5,096,908</u>

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Hand County Memorial Hospital, Inc.
 Statements of Operations
 Years Ended June 30, 2015 and 2014

	2015	2014
Unrestricted Revenue, Gains, and Other Support		
Net patient and resident service revenue		
Assisted living	\$ 470,727	\$ 480,125
Ambulance services	141,959	148,390
Home health	107,409	96,043
Homemaker	86,539	92,446
Community health	82,194	90,185
Total net patient and resident service revenue	888,828	907,189
Dietary revenue	112,558	114,205
Wellness revenue	45,554	43,691
Lease revenue	397,822	430,232
Gain on sales and disposals of property and equipment	3,432	11,644
Other revenue	6,138	1,060
Total revenue, gains, and other support	1,454,332	1,508,021
Expenses		
Salaries and wages	689,451	684,236
Employee benefits	128,117	159,404
Supplies and other expense	302,650	299,292
Depreciation and amortization	188,803	196,245
Lease and rental	281,145	285,831
Interest	19,392	14,833
Provision for bad debts, net	9,477	2,959
Total expenses	1,619,035	1,642,800
Operating Loss	(164,703)	(134,779)
Other Income (Expense)		
Investment (loss) income	(10,585)	46,339
Change in interest in net assets of Avera Health Foundation	6,152	4,270
Total other (expense) income, net	(4,433)	50,609
Revenues Less Than Expenses	(169,136)	(84,170)
Contributions and Grants for Capital	158,732	49,771
Change in Unrestricted Net Assets	\$ (10,404)	\$ (34,399)

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Hand County Memorial Hospital, Inc.
 Statements of Changes in Net Assets
 Years Ended June 30, 2015 and 2014

	2015	2014
Unrestricted Net Assets		
Revenues less than expenses	\$ (169,136)	\$ (84,170)
Contributions and grants for capital	158,732	49,771
Change in unrestricted net assets	(10,404)	(34,399)
Temporarily Restricted Net Assets		
Change in interest in net assets of Avera Health Foundation	5,712	34,758
Change in Net Assets	(4,692)	359
Net Assets, Beginning of Year	4,520,531	4,520,172
Net Assets, End of Year	\$ 4,515,839	\$ 4,520,531



Hand County Memorial Hospital, Inc.
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Activities		
Change in net assets	\$ (4,692)	\$ 359
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	188,803	196,245
Gain on sales and disposals of property and equipment	(3,432)	(11,644)
Change in unrealized gains and losses on investments	22,415	(30,047)
Realized gains on investments, net	(11,280)	(15,683)
Undistributed portion of change in interest in net assets of Avera Health Foundation	(9,565)	(42,883)
Restricted contributions	(158,732)	(49,771)
Change in assets and liabilities		
Receivables	2,263	9,378
Supplies	1,684	(67)
Prepaid expenses and other assets	(751)	311
Accounts payable	(25,124)	8,973
Accrued expenses and other liabilities	(9,057)	8,884
Net Cash (used for) from Operating Activities	(7,468)	74,055
Investing Activities		
Purchase of property and equipment	(282,241)	(574,835)
Proceeds on the sale of property and equipment	3,432	16,650
Change in construction receivable	-	408,005
Sale of assets limited as to use	78,244	188,485
Net Cash (used for) from Investing Activities	(200,565)	38,305
Financing Activities		
Proceeds from issuance of long-term debt	127,241	325,000
Principal payments on long-term debt	(82,976)	(282,115)
Change in short-term line of credit	-	(203,909)
Restricted contributions	158,732	49,771
Net Cash from (used for) Financing Activities	202,997	(111,253)
Net (Decrease) Increase in Cash and Cash Equivalents	(5,036)	1,107
Cash and Cash Equivalents, Beginning of Year	16,674	15,567
Cash and Cash Equivalents, End of Year	\$ 11,638	\$ 16,674
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 21,221	\$ 21,717
Supplemental Disclosure of Noncash Investing Activities		
Change in accounts payable for purchases of property	\$ -	\$ (428,664)

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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 critical access 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, 2015 and 2014, was \$14,000 and \$10,500, 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, 2015 and 2014. Management considers historical write off and recovery information in determining the estimated bad debt provision.

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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 \$62,013 and \$59,283 for the years ended June 30, 2015 and 2014, 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.

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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

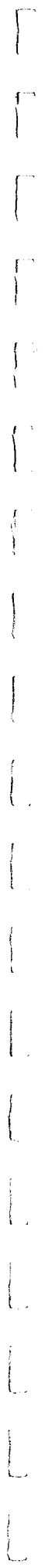
Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

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 2012.

Advertising Costs

The Organization expenses advertising costs as incurred.

Reclassification

Reclassifications have been made to the June 30, 2014 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, 2015 and 2014, follows:

	2015		2014	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 355,603	\$ -	\$ 352,110	\$ -
Land improvements	65,478	63,997	65,478	61,086
Leasehold improvements	1,476,901	899,453	1,479,401	871,561
Building equipment	3,580,505	1,221,328	3,472,123	1,108,184
Equipment	586,825	376,931	588,837	507,627
	<u>\$ 6,065,312</u>	<u>\$ 2,561,709</u>	<u>\$ 5,957,949</u>	<u>\$ 2,548,458</u>
Net leasehold improvements and equipment		<u>\$ 3,503,603</u>		<u>\$ 3,409,491</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, 2015 and 2014, is shown in the following table.

	2015	2014
Under bond indenture agreement		
Cash and cash equivalents	\$ 20,111	\$ 20,135
Certificates of deposit	50,000	50,000
Less amount shown as current assets	(62,013)	(59,900)
	\$ 8,098	\$ 10,235
By board for capital improvements and debt redemption		
Cash and cash equivalents	\$ 234,824	\$ 267,047
Pooled Investment Fund *	152,098	209,247
Interest receivable	78	82
	\$ 387,000	\$ 476,376
Under state unemployment agreement		
Certificate of deposit	\$ 5,155	\$ 5,134

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Hand County Memorial Hospital, Inc.

Notes to Financial Statements

June 30, 2015 and 2014

***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.

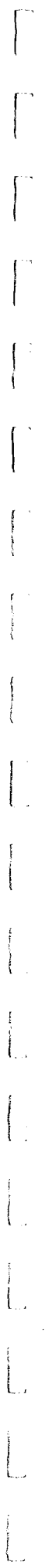
As of June 30, 2015 and 2014, the Avera Pooled Investment Fund assets were comprised of the following types of investments:

	<u>2015</u>	<u>2014</u>
Equity mutual funds	31.0%	32.7%
Fixed income mutual funds	18.1%	18.4%
Non-publicly traded alternative investments		
Hedge fund	14.1%	12.5%
Real asset	2.3%	2.2%
Publicly traded equity securities	7.9%	8.1%
Foreign equities	5.9%	6.2%
Corporate bonds	5.5%	6.2%
Balanced mutual funds	4.9%	5.0%
U.S. government issues	2.5%	3.4%
Cash and short-term investments	5.5%	3.1%
Other fixed income	2.3%	2.2%
	<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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest income	\$ 550	\$ 609
Realized gains on investments, net	11,280	15,683
Change in unrealized gains and losses on investments	<u>(22,415)</u>	<u>30,047</u>
	<u>\$ (10,585)</u>	<u>\$ 46,339</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 are assets of Hand County and are leased from Hand County under the Organization's existing lessor lease arrangement. A portion of the newly constructed facilities are used for the Organization's operations, with the majority of the assets being leased by the current lessor of hospital operations.

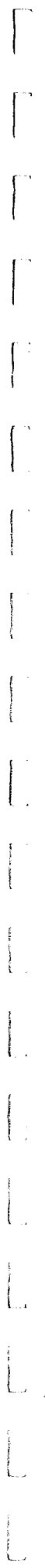
Lessor Leases

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.



Note 6 - Long-Term Debt

Long-term debt consists of:

	2015	2014
5.50% City of Miller, Economic Development Revenue Bonds, Series 1997, serial bonds due in varying semi-annual installments through January 2018, secured by leased assets	\$ 155,000	\$ 205,000
3.85% Rural Electric Economic Development Loan, due in monthly installments of \$1,944 through November 2023	176,742	192,925
2.50% American Bank and Trust note, due in monthly installments of \$1,612 through March 2020	86,499	-
Non interest bearing Stryker Financing note, due in annual installments of \$7,299 payable on March 26, through 2019	29,190	-
4.00% Contract for deed, due in annual installments of \$7,460 payable on April 15 through 2023	50,220	55,461
	497,651	453,386
Less current maturities	(102,000)	(71,000)
	\$ 395,651	\$ 382,386

Long-term debt maturities are as follows:

Years Ending June 30,

2016	\$ 102,000
2017	103,000
2018	95,000
2019	51,000
2020	40,000
Thereafter	106,651
	\$ 497,651

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, 2015. 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.



Note 7 - Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2015 and 2014:

	2015	2014
Interest in Foundation, consisting of investments held to support various health care related programs and services	\$ 133,577	\$ 127,865

Permanently restricted net assets at June 30, 2015 and 2014, are restricted to:

	2015	2014
Interest in Foundation, consisting of investments to be held in perpetuity, the income from which is expandable to support various health care services	\$ 39,248	\$ 39,248

Note 8 - Pension Plan

The Organization sponsors a SIMPLE IRA (Savings Incentive Match Plan for Employees Individual Retirement Account) plan under which employees become participants upon reaching age 21 and completing one year of service. Matching employer contributions of up to 3 percent of annual compensation are deposited with the plan trustee who invests the plan assets. The total pension expense for this plan was \$13,899 and \$12,442, respectively, for the years ended June 30, 2015 and 2014.

Note 9 - 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 \$39,979 that are restricted for the use of the Organization at June 30, 2015.

During the years ended June 30, 2015 and 2014, the Organization received contributions from HCHWC Foundation, totaling \$146,572 and \$49,446 respectively.



Note 10 - Functional Expenses

The Organization provides health care services to residents within its geographic location. Expenses related to providing these services by functional class for the years ended June 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 1,529,995	\$ 1,553,172
General and administrative	89,040	89,628
	<u>\$ 1,619,035</u>	<u>\$ 1,642,800</u>

Note 11 - Contingency

Malpractice Insurance

The Organization has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1-million per claim and an annual aggregate limit of \$3-million. The Organization is also insured under an excess umbrella liability policy with a limit of \$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 12 - Subsequent Events

The Organization has evaluated subsequent events through September 25, 2015, the date which the financial statements were available to be issued.

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Financial Scorecard – June 2015

		VOLUMES			June 2015			June 2015 YTD		
		Actual	Budget	Var	Actual	Budget	Var	Actual	Budget	Var
INPATIENT	Admissions	19	19	-	194	220	(26)	\$180,615	\$178,918	\$ 1,697
	Discharges	20	18	2	189	215	(26)	\$594,804	\$420,778	\$ 174,026
	Patient Days	49	53	(4)	555	630	(75)	\$ 73,537	\$ -	\$ 73,537
OUTPATIENT	Admissions	6	8	(2)	75	100	(25)	\$848,956	\$599,696	\$ 249,260
	Discharges	3	8	(5)	79	95	(16)	\$207,341	125,519	\$ (81,822)
	Patient Days	18	63	(45)	571	750	(179)	\$ 11,985	3,539	\$ (8,446)
TOTAL	Admissions	25	27	(2)	269	320	(51)	\$ 15,914	\$ 11,003	\$ (4,911)
	Discharges	23	26	(3)	268	310	(42)	\$613,716	\$459,635	\$ 154,081
	Patient Days	67	116	(49)	1,126	1,380	(254)	\$ 27,465	\$ 56,683	\$ (29,218)
	Total OP Visits	1,423	936	487	14,694	11,355	3,339	\$641,181	\$516,318	\$ 124,863

		GROSS REVENUE, DEDUCTIONS AND NET REVENUE			June 2015			June 2015 YTD		
		Actual	Budget	Var	Actual	Budget	Var	Actual	Budget	Var
INPATIENT	Inpatient	\$180,615	\$178,918	\$ 1,697	\$2,143,484	\$2,145,501	\$ (2,017)	\$2,143,484	\$2,145,501	\$ (2,017)
	Outpatient	\$594,804	\$420,778	\$ 174,026	\$6,785,537	\$5,221,292	\$ 1,564,245	\$6,785,537	\$5,221,292	\$ 1,564,245
	Clinic	\$ 73,537	\$ -	\$ 73,537	\$ 999,093	\$ 238,797	\$ 760,296	\$ 999,093	\$ 238,797	\$ 760,296
	Total Gross	\$848,956	\$599,696	\$ 249,260	\$9,928,113	\$7,605,590	\$ 2,322,523	\$9,928,113	\$7,605,590	\$ 2,322,523
CONTRACTUAL	Contractuals	\$207,341	125,519	\$ (81,822)	\$2,718,578	1,589,364	\$ (1,129,214)	\$2,718,578	1,589,364	\$ (1,129,214)
CHARITY CARE	Charity Care	\$ 11,985	3,539	\$ (8,446)	\$ 20,351	42,831	\$ 22,480	\$ 20,351	42,831	\$ 22,480
BAD DEBT	Bad Debt	\$ 15,914	\$ 11,003	\$ (4,911)	\$ 140,611	\$ 132,023	\$ (8,588)	\$ 140,611	\$ 132,023	\$ (8,588)
TOTAL NET	Total Net	\$613,716	\$459,635	\$ 154,081	\$7,049,573	\$5,341,372	\$ 1,708,201	\$7,049,573	\$5,341,372	\$ 1,708,201
OTHER REVENUE	Other Revenue	\$ 27,465	\$ 56,683	\$ (29,218)	\$ 399,298	\$ 691,853	\$ (292,555)	\$ 399,298	\$ 691,853	\$ (292,555)
TOTAL REVENUE	Total Revenue	\$641,181	\$516,318	\$ 124,863	\$7,447,871	\$6,533,225	\$ 914,646	\$7,447,871	\$6,533,225	\$ 914,646

		KEY RATIOS			June 2015			June 2015 YTD		
		Actual	Budget	Var	Actual	Budget	Var	Actual	Budget	Var
INPATIENT	Inpatient	21.3%	29.8%	-8.6%	21.6%	28.2%	-6.6%	\$3,180,194	\$3,310,395	\$ (130,201)
	Outpatient	70.1%	70.2%	-0.1%	68.3%	68.7%	-0.3%	\$1,110,376	\$1,102,188	\$ (8,188)
	Clinic	8.7%	0.0%	8.7%	10.1%	3.1%	6.9%	\$4,290,520	\$4,412,583	\$ (122,063)
CONTRACTUAL	Contractual	24.4%	20.9%	-3.5%	27.4%	20.9%	-6.5%	\$ 45,239	\$ 51,500	\$ 6,261
CHARITY CARE	Charity	1.4%	0.6%	-0.8%	0.2%	0.6%	0.4%	\$ 541,349	\$ 654,344	\$ 112,995
BAD DEBT % GROSS	Bad Debt % Gross	1.9%	1.8%	0.0%	1.4%	1.7%	0.3%	\$ 602,755	\$ 656,632	\$ 53,877
LABOR % REVENUE	Labor % Revenue	60.6%	71.0%	10.4%	57.6%	67.5%	9.9%	\$1,189,343	\$1,362,476	\$ 173,133
BENEFITS % SALARY	Benefits % Salary	52.0%	34.6%	-17.3%	34.9%	33.3%	-1.6%	\$1,122,292	\$ (163,553)	\$ (1,285,845)
OP. MARGIN %	Op. Margin %	4.5%	13.9%	-9.4%	8.9%	11.1%	-2.2%	\$ 185,427	\$ 199,720	\$ 14,293
NET MARGIN %	Net Margin %	4.5%	14.0%	-9.5%	8.9%	11.1%	-2.2%	\$6,787,582	\$5,811,226	\$ (976,356)
FTE COUNT	FTE Count	59.2	59.8	0.5	57.8	59.8	2.0	\$ 660,289	\$ 721,999	\$ (61,710)

		EXPENSES AND OPERATING MARGIN			June 2015			June 2015 YTD		
		Actual	Budget	Var	Actual	Budget	Var	Actual	Budget	Var
SALARIES	Salaries	\$255,814	\$272,235	\$ (16,421)	\$3,180,194	\$3,310,395	\$ (130,201)	\$3,180,194	\$3,310,395	\$ (130,201)
BENEFITS	Benefits	\$132,915	\$94,246	\$ (38,669)	\$1,110,376	\$1,102,188	\$ (8,188)	\$1,110,376	\$1,102,188	\$ (8,188)
TOTAL LABOR	Total Labor	\$388,729	\$366,481	\$ (22,248)	\$4,290,520	\$4,412,583	\$ (122,063)	\$4,290,520	\$4,412,583	\$ (122,063)
MEDICAL FEES	Medical Fees	\$ 3,468	\$ 4,233	\$ 765	\$ 45,239	\$ 51,500	\$ 6,261	\$ 45,239	\$ 51,500	\$ 6,261
PURCH SVCS	Purch Svcs	\$ 26,387	\$ 53,784	\$ 27,397	\$ 541,349	\$ 654,344	\$ 112,995	\$ 541,349	\$ 654,344	\$ 112,995
SUPPLIES	Supplies	\$ 59,085	\$ 54,175	\$ (4,910)	\$ 602,755	\$ 656,632	\$ 53,877	\$ 602,755	\$ 656,632	\$ 53,877
TOTAL SUPPLIES	Total Supplies	\$ 88,940	\$112,192	\$ 23,252	\$1,189,343	\$1,362,476	\$ 173,133	\$1,189,343	\$1,362,476	\$ 173,133
OTHER	Other	\$119,076	\$ (52,099)	\$ (171,175)	\$1,122,292	\$ (163,553)	\$ (1,285,845)	\$1,122,292	\$ (163,553)	\$ (1,285,845)
DEPRECIATION	Depreciation	\$ 15,850	\$ 17,945	\$ 2,095	\$ 185,427	\$ 199,720	\$ 14,293	\$ 185,427	\$ 199,720	\$ 14,293
TOTAL EXPENSES	Total Expenses	\$612,595	\$444,519	\$ (168,076)	\$6,787,582	\$5,811,226	\$ (976,356)	\$6,787,582	\$5,811,226	\$ (976,356)
OPER. MARGIN	Oper. Margin	\$ 28,586	\$ 71,799	\$ (43,213)	\$ 660,289	\$ 721,999	\$ (61,710)	\$ 660,289	\$ 721,999	\$ (61,710)

Income Statement -- June 2015

Avera Heart County Campus Consolidated Statements of Operations For the Period Ended June 30, 2015 <i>(Amounts Expressed in Dollars, Unless Otherwise Indicated)</i>						
	Actual	Month Budget	Variance	Actual	Year to date Budget	Variance
GROSS PATIENT SERVICE REVENUE						
Inpatient Revenue	\$ 180,615	\$ 178,918	\$ 1,697	\$ 2,143,484	\$ 2,145,501	\$ (2,017)
Outpatient Revenue	594,804	420,778	174,026	6,785,537	5,221,292	1,564,245
Clinic Revenue	73,537	-	73,537	999,093	238,797	760,296
TOTAL GROSS REVENUE	\$ 848,956	\$ 599,686	\$ 249,260	\$ 9,928,115	\$ 7,605,590	\$ 2,322,525
DEDUCTIONS FROM REVENUE						
Contractual Adjustments	207,341	125,519	(81,822)	2,718,578	1,589,364	(1,129,214)
Charity Care	11,985	3,539	(8,446)	20,351	42,831	22,480
Provision for Bad Debt	15,914	11,003	(4,911)	140,611	132,023	(8,588)
TOTAL DEDUCTIONS FROM REVENUE	235,240	140,061	(95,179)	2,879,540	1,764,218	(1,115,322)
NET PATIENT SERVICE REVENUE	\$ 613,716	\$ 459,625	\$ 154,091	\$ 7,048,575	\$ 5,841,372	\$ 1,207,203
OTHER OPERATING REVENUE						
Other Operating Revenue	25,781	54,930	(29,149)	379,479	670,817	(291,338)
Operating Interest Income	1,684	1,753	(69)	19,819	21,036	(1,217)
TOTAL OTHER OPERATING REVENUE	27,465	56,683	(29,218)	399,298	691,853	(292,555)
TOTAL OPERATING REVENUE	\$ 641,182	\$ 516,318	\$ 124,862	\$ 7,447,872	\$ 6,533,225	\$ 914,647
OPERATING EXPENSES						
Salaries and Wages	255,814	272,235	16,421	3,180,194	3,310,395	130,201
Employee Benefits	132,915	94,246	(38,669)	1,110,326	1,102,188	(8,138)
Medical Fees	3,468	4,233	765	45,239	51,500	6,261
Purchased Services	26,387	53,784	27,397	541,349	654,344	112,995
Supplies	59,085	54,175	(4,910)	602,755	656,632	53,877
Repairs and Maintenance	14,720	13,306	(1,414)	187,514	161,900	(25,614)
Other Expenses	62,312	(85,345)	(147,657)	714,414	(566,723)	(1,281,137)
Insurance	4,275	4,440	165	47,802	52,692	4,890
Utilities and Telephone	37,771	15,500	(22,271)	172,563	188,578	16,015
Interest	-	-	-	-	-	-
Depreciation and Amortization	15,850	17,945	2,095	185,427	199,720	14,293
TOTAL OPERATING EXPENSE	\$ 612,596	\$ 444,519	(168,078)	\$ 6,737,592	\$ 5,811,228	\$ 926,368
NET OPERATING INCOME	\$ 28,586	\$ 71,799	(43,213)	\$ 680,280	\$ 721,999	\$ (61,709)
NON OPERATING GAINS / (LOSSES)						
Investment Income / (Loss)	356	494	(138)	5,169	5,928	(759)
Other Gains / (Losses)	356	494	(138)	5,169	5,928	(759)
TOTAL NON OPERATING GAINS / (LOSSES)	\$ 712,342	\$ 72,293	(43,351)	\$ 685,459	\$ 727,927	(62,468)
NET INCOME PRIOR TO UNREAL CHG IN INVESTMENTS	\$ 28,942	\$ 72,293	(43,351)	\$ 685,459	\$ 727,927	(62,468)
Unrealized Gains / (Losses) on Investments	-	-	-	-	-	-
INCREASE / (DECREASE) IN NET ASSETS	\$ 28,942	\$ 72,293	(43,351)	\$ 685,459	\$ 727,927	(62,468)
KEY OPERATING RATIOS						
	Actual	Monthly Budget	Variance	Actual	Year to date Budget	Variance
Contractuals as % of Gross Patient Service Revenue	24.4%	20.9%	-3.5%	27.4%	20.9%	6.5%
Charity Care as % of Gross Patient Service Revenue	1.9%	1.8%	0.0%	1.4%	1.7%	-0.3%
Labor Expense as % of Total Revenue	60.6%	71.0%	10.4%	57.6%	67.5%	-9.9%
Bad Debt as % of Total Revenue	2.5%	2.1%	-0.4%	1.9%	2.0%	-0.1%
Operating Income as % of Total Revenue	4.5%	13.9%	-9.4%	8.9%	11.1%	-2.2%
Excess Revenues over Expenses as % Total Revenue	4.5%	14.0%	-9.5%	8.9%	11.1%	-2.2%
Full Time Equivalents (FTEs)	59.22	59.77	0.55	57.81	59.77	1.96

Statement of Cash Flow – June 2015

Avera Hand County Campus Statement of Cash Flows For the Period Ended June 30, 2015		
	Month June 30, 2015	Year to Date June 30, 2015

OPERATING ACTIVITIES		
Increase in Net Assets	\$ 28,942	\$ 665,459
Adjustments to Reconcile Net Assets:		
Gain on Disposal of Equipment	15,850	185,427
Depreciation and Amortization		
Change in Assets and Liabilities:		
Receivables	(109,849)	(79,231)
Supplies	550	321
Prepaid Expenses	9,881	2,731
Accounts Payable	(70,729)	2,398
Due to McKennan	10,556	490,789
Accrued Expenses	(5,112)	5,488
Goodwill	588	7,056
Deferred Income and Other	(59,040)	(334,928)
NET OPERATING ACTIVITIES	\$ (178,363)	\$ 945,511
INVESTING ACTIVITIES		
Purchase of Fixed Assets, Net of Retirements	-	(182,414)
Use of Investments for Funding of Capital	-	-
Investment Income/(Loss)	85,336	83,062
Investments in Avera Foundation	(1,670)	(1,670)
Transfer to/from Building Equipment Fund	-	(800,142)
NET INVESTING ACTIVITIES	\$ 83,666	\$ (901,165)
FINANCING ACTIVITIES		
Capital Transfers	-	(75,000)
Repayment of Debt	-	-
Other Liabilities	-	-
NET FINANCING ACTIVITIES	\$ -	\$ (75,000)
Net change in cash and equivalents	\$ (94,697)	\$ (30,654)
Cash at beginning of period	\$ 135,956	\$ 71,911
Cash at end of period	\$ 41,256	\$ 41,256

Balance Sheet -- June 2015

Avera, Hand County Campus Comparative Balance Sheets For the Period Ended June 30, 2015			
	Current Month June 30, 2015	Prior Month May 31, 2015	Prior Year June 30, 2014

	Current Month June 30, 2015	Prior Month May 31, 2015	Prior Year June 30, 2014
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 41,256	\$ 135,956	\$ 71,911
Accounts Receivable, Patients	1,443,043	1,308,801	1,206,017
Less: Allowances and Uncollectibles, Patients	(526,200)	(504,730)	(349,056)
Net accounts receivable, patients	916,843	804,070	856,961
Other Receivables	101,455	104,379	82,105
Inventories	125,219	125,769	125,540
Prepaid Expenses	69,028	78,909	71,760
Current Portion of Assets Whose Use Is Limited	1,560,790	1,646,127	843,710
TOTAL CURRENT ASSETS	\$ 2,814,592	\$ 2,895,209	\$ 2,051,987

PROPERTY, PLANT AND EQUIPMENT			
Fixed and Moveable Equipment	1,464,444	1,464,444	1,282,030
Less: Accumulated Depreciation	(733,274)	(717,424)	(547,847)
Net Property, Plant and Equipment	731,170	747,020	734,183

OTHER ASSETS			
Goodwill	38,220	38,808	45,276
TOTAL ASSETS	\$ 3,583,982	\$ 3,681,037	\$ 2,831,446

CURRENT LIABILITIES			
Accounts Payable	40,754	111,483	38,356
Due to McKennan	313,194	302,638	(177,595)
Accrued Payroll, Payroll Taxes and Vacation Pay	187,403	192,514	181,914
Due to Third Party Payors	(178,063)	(119,023)	142,475
Deferred Revenue	17,561	17,561	31,951
TOTAL CURRENT LIABILITIES	\$ 380,849	\$ 505,173	\$ 217,101

Unrestricted Net Assets	3,204,803	3,175,864	2,614,345
TOTAL LIABILITIES AND NET ASSETS	\$ 3,585,651	\$ 3,681,037	\$ 2,831,446

	Year to date June 30, 2015	FY15 Budget	Variance Fav/(Unfav)
Return on Assets	18.57%	19.78%	-1.21%
Gross Days in Accounts Receivable	51.10	62.00	10.90