

**Catawba Valley Medical Center  
and Affiliate**  
(A Component Unit of Catawba County)

Combined Financial Statements,  
Compliance Reports and  
Supplemental Schedules

Years Ended June 30, 2014 and 2013



**DIXON HUGHES GOODMAN<sup>LLP</sup>**  
Certified Public Accountants and Advisors

# Catawba Valley Medical Center and Affiliate

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**DIXON HUGHES GOODMAN** LLP  
Certified Public Accountants and Advisors

## **INDEPENDENT AUDITORS' REPORT**

***Board of Trustees  
Catawba Valley Medical Center and Affiliate  
Hickory, North Carolina***

### ***Report on the Combined Financial Statements***

We have audited the accompanying combined financial statements of Catawba Valley Medical Center and Affiliate (the "Medical Center"), a component unit of Catawba County, which comprise the combined balance sheets as of June 30, 2014 and 2013, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards issued by the Comptroller of the United States*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Medical Center's preparation and fair presentation of the combined 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 Medical Center'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Catawba Valley Medical Center and Affiliate as of June 30, 2014 and 2013, and the results of their combined operations and their combined cash

flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter – New Accounting Pronouncement***

As discussed in Note A to the combined financial statements, during the year ended June 30, 2014, the Medical Center adopted new accounting guidance, Governmental Accounting Standards Board (“GASB”) Statement No. 65. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and employee’s pension plan required supplementary information - schedule of funding progress and notes to the required schedule and the condensed schedule of revenues and expenses information - budget to actual on pages 4 through 8 and 35 through 36, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplemental Schedules Information***

Our audit was conducted for the purpose of forming opinions on the combined financial statements that collectively comprise the Medical Center’s basic financial statements. The supplemental schedules of net patient service revenues, other operating revenues and operating expenses as well as the accompanying schedule of expenditures of federal awards as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. The supplemental schedules of net patient service revenues, other operating revenues and operating expenses and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules of net patient service revenues, other operating revenues and operating expenses and the supplemental schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic combined financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

October 27, 2014

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis of Catawba Valley Medical Center and Affiliate's (the "Medical Center") financial performance provides an overview of the Medical Center's financial position and financial activities for the fiscal years ended June 30, 2014 and 2013. This narrative should be read in conjunction with the combined financial statements and the accompanying notes to those combined financial statements.

The combined balance sheets present all of the Medical Center's assets and liabilities, with the difference between the two reported as "net position." Over time, increases or decreases in the Medical Center's net position may serve as a useful indicator of whether the financial position of the Medical Center is improving or deteriorating. The combined statement of revenues, expenses and changes in net position presents information showing how the Medical Center's net position changed during the most recent fiscal year. It includes operating revenues, operating expenses, nonoperating income, and capital grants and contributions to arrive at the increase in net position.

**Catawba Valley Medical Center and Affiliate  
Combined Balance Sheets**

	June 30, 2014	June 30, 2013	June 30, 2012
<b>ASSETS</b>			
Current assets	\$ 121,887,196	\$ 114,238,777	\$ 125,634,186
Restricted investments	5,474,127	5,418,008	5,517,682
Capital assets, net	119,091,116	120,516,423	104,149,776
Other assets	<u>10,259,661</u>	<u>10,675,775</u>	<u>18,061,268</u>
TOTAL ASSETS	<u>\$ 256,712,100</u>	<u>\$ 250,848,983</u>	<u>\$ 253,362,912</u>
<b>DEFERRED OUTFLOWS</b>			
Deferred loss on defeased debt	<u>399,663</u>	<u>522,675</u>	<u>645,687</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 257,111,763</u>	<u>\$ 251,371,658</u>	<u>\$ 254,008,599</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 41,337,082	\$ 39,909,838	\$ 44,479,411
Long-term liabilities	<u>52,737,872</u>	<u>51,560,000</u>	<u>54,320,082</u>
TOTAL LIABILITIES	<u>94,074,954</u>	<u>91,469,838</u>	<u>98,799,493</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	63,094,989	68,056,937	55,013,990
Restricted:			
Capital projects	5,474,127	5,418,008	5,517,682
Other specific purposes	56,612	38,931	69,059
Unrestricted	<u>94,411,081</u>	<u>86,387,944</u>	<u>94,608,375</u>
TOTAL NET POSITION	<u>163,036,809</u>	<u>159,901,820</u>	<u>155,209,106</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 257,111,763</u>	<u>\$ 251,371,658</u>	<u>\$ 254,008,599</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Catawba Valley Medical Center and Affiliate  
Combined Statements of Revenues, Expenses and Changes in Net Position**

	June 30, 2014	June 30, 2013	June 30, 2012
<b>OPERATING REVENUES</b>			
Patient service revenues	\$ 653,637,852	\$ 645,174,422	\$ 650,739,216
Contractual allowances, adjustments, provision for bad debts, and charity care	<u>451,982,062</u>	<u>446,510,120</u>	<u>444,071,082</u>
Net patient service revenues	201,655,790	198,664,302	206,668,134
Other operating revenues	<u>6,340,620</u>	<u>4,513,713</u>	<u>3,977,796</u>
<b>TOTAL OPERATING REVENUES</b>	<u><b>207,996,410</b></u>	<u><b>203,178,015</b></u>	<u><b>210,645,930</b></u>
<b>OPERATING EXPENSES</b>			
Wages, salaries and benefits	116,541,537	112,226,078	110,027,409
Materials and supplies	37,124,314	38,262,152	38,357,526
Purchased services	20,344,088	19,801,776	20,674,103
Other	12,577,117	13,221,730	14,294,509
Contractual services and professional fees	774,800	684,867	577,467
Insurance	2,301,413	1,727,654	2,285,548
Depreciation	16,919,838	14,994,183	12,525,812
Amortization	1,163	-	60,000
Gain (loss) on disposal of capital assets	<u>39,170</u>	<u>19,420</u>	<u>(214,181)</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><b>206,623,440</b></u>	<u><b>200,937,860</b></u>	<u><b>198,588,193</b></u>
<b>INCOME FROM OPERATIONS</b>	<u><b>1,372,970</b></u>	<u><b>2,240,155</b></u>	<u><b>12,057,737</b></u>
NONOPERATING INCOME, NET	<u>732,263</u>	<u>1,107,075</u>	<u>1,478,067</u>
CAPITAL GRANTS AND CONTRIBUTIONS	<u>1,029,756</u>	<u>1,345,484</u>	<u>9,903</u>
<b>INCREASE IN NET POSITION</b>	<u><b>\$ 3,134,989</b></u>	<u><b>\$ 4,692,714</b></u>	<u><b>\$ 13,545,707</b></u>

**MANAGEMENT DISCUSSION OF FINANCIAL PERFORMANCE**

Patient Services Revenues

Gross patient revenues increased 1.3% during fiscal year 2014, from approximately \$645 million in fiscal year 2013 to approximately \$654 million in fiscal year 2014. Outpatient revenues as a percent of total patient service revenues increased from 60% during fiscal year 2013 to 61% during fiscal year 2014. During fiscal year 2014, the Medical Center experienced increases in the percentages of Self-Pay, Blue Cross, and Managed Care, as demonstrated in the chart below.

<b>FINANCIAL CLASS</b>	<b>Fiscal Year 2014</b>	<b>Fiscal Year 2013</b>	<b>Fiscal Year 2012</b>
Self-Pay	7.6%	7.3%	6.7%
Blue Cross	16.7%	16.0%	15.8%
Workers Compensation	0.9%	1.0%	1.0%
Managed Care	12.1%	11.7%	12.5%
Commercial	1.9%	2.4%	3.2%
Medicare	40.0%	40.6%	40.8%
Medicaid	14.1%	14.3%	14.3%
Other	6.7%	6.7%	5.7%

Adjustments to Gross Revenues

Adjustments to total patient service revenues, which include Medicare and Medicaid contractual adjustments and other adjustments and allowances, amounted to 69.1% and 69.2% of patient service revenues for the years ended June 30, 2014 and 2013, respectively. In 2014, the percentage of self-pay/charity care adjustments as a percentage of total patient service revenues was 8.6% as compared to 8.1% in 2013. There was a 7.9% increase in bad debt and charity care adjustments in 2014 from \$52.2 million in 2013 to \$56.3 million in 2014.

Expenses

Operating expenses increased 2.8% during fiscal year 2014. Growth in the Medical Center's physician clinics along with general inflation accounted for the majority of this increase. In addition, depreciation expense increased by \$1.9 million or 13 percent, largely as a result of the Medical Center's construction project. Overall, expenses increased slightly as a percentage of total patient service revenues from 31.1% in fiscal year 2013 to 31.6% in fiscal year 2014.

Management continues to be committed to expense control through management of the employee workforce and overtime, management of supply utilization, elimination of nonessential expenses and utilization of Premier group purchasing agreements.

Increase in Net Position

The increase in net position decreased from approximately \$4.7 million in fiscal year 2013 to \$3.1 million in fiscal year 2014. The increase in net position represented approximately 2.4% and 1.6% of net patient service revenues in fiscal year 2013 and fiscal year 2014, respectively.

## CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Assets

Total assets and deferred outflows of the Medical Center have increased from \$251.4 million in fiscal year 2013 to \$257.1 million in fiscal year 2014 (2.3% increase). Cash, cash equivalents, and unrestricted investments have increased from \$73.8 million in fiscal year 2013 to \$79.7 million in fiscal year 2014 largely as a result of the Medical Center's construction project.

Net accounts receivable as measured in net days outstanding (net accounts receivable multiplied by the number of days in the period divided by net patient service revenue generated) as of June 30, 2014 equaled 48 days and reflects management's commitment to an aggressive receivables management program.

Net capital assets equaled \$120.5 million in fiscal year 2013 and \$119.1 million in fiscal year 2014. The Medical Center recorded approximately \$16.3 million in capital equipment and facility additions during fiscal year 2014. The most significant capital expenditures during fiscal year 2014 related to the Medical Center's construction project.

### Deferred Outflows

Deferred outflows represent a deferred loss on defeased debt related to the advance refunding of the Series 1992 Bonds and the Series 1999 Bonds.

### Liabilities and Net Position

The Medical Center's long-term debt increased from fiscal year 2013 to fiscal year 2014. As a percentage of net position, long-term debt, excluding current installments, has decreased from 32.2% in fiscal year 2013 to 30.0% in fiscal year 2014.

Net position has grown from \$159.9 million in fiscal year 2013 to \$163.0 million in fiscal year 2014 (2.0% increase) largely due to the profitable performance of the Medical Center over the past year.

During 2014, the Medical Center adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 further requires that costs associated with the issuance of long-term debt be expensed in the period incurred, rather than deferred and amortized over the term of the related debt. As a result of the retroactive application of this guidance, certain amounts previously reported as of and for the year ended June 30, 2013 and 2012, have been restated and a cumulative effect adjustment has been recorded to net position as of June 30, 2012. Additionally, the deferred loss on defeased debt is no longer presented as a reduction to long-term debt as it is reported as deferred outflows of resources.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The effect of this restatement on previously reported combined financial statement amounts is summarized below:

	<b>2013 As Previously Reported</b>	<b>Adjustment</b>	<b>2013 As Adjusted</b>
<b>Combined Balance Sheets:</b>			
Bond Issuance Costs, net	\$ 932,320	\$ (932,320)	\$ --
Deferred loss on defeased debt	--	522,675	522,675
Total assets and deferred outflows	251,781,303	(409,645)	251,371,658
Long-term debt, excluding current installments	51,037,325	(522,675)	51,560,000
Total net position, June 30, 2013	160,834,140	(932,320)	159,901,820
<b>Combined Statements of Revenues, Expenses and Changes in Net Position:</b>			
Administrative Services	\$ 51,537,659	\$ (91,374)	\$ 51,446,285
Increase in net position	4,601,340	91,374	4,692,714
Total net position, June 30, 2012	156,232,800	(1,023,694)	155,209,106
Total net position, June 30, 2013	160,834,140	(932,320)	159,901,820

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Catawba Valley Medical Center's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to: Finance Department, Catawba Valley Medical Center, 810 Fairgrove Church Road SE, Hickory, North Carolina 28602.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE**  
**COMBINED BALANCE SHEETS**  
**June 30, 2014 and 2013**

<b>ASSETS</b>	<b>2014</b>	<b>2013 As Adjusted</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 45,545,917	\$ 28,655,770
Certificates of deposit	32,971,606	43,896,178
Receivables:		
Patients (net of allowance for uncollectible accounts of approximately \$30,561,000 in 2014 and \$26,867,000 in 2013)	26,385,412	24,620,244
Other receivables	3,957,036	4,137,810
Refundable sales taxes	1,056,336	1,112,950
Accrued interest	35,984	210,581
Inventories	5,318,086	5,437,063
Other current assets	2,565,609	4,808,550
Restricted assets:		
Cash and cash equivalents	4,051,210	38,931
Investments restricted for capital acquisition by bond agreement	-	1,320,700
<b>TOTAL CURRENT ASSETS</b>	<b>121,887,196</b>	<b>114,238,777</b>
<b>RESTRICTED INVESTMENTS</b>		
Held by County for capital projects	5,474,127	5,418,008
<b>CAPITAL ASSETS, at cost</b>		
Land and construction in progress	10,227,164	7,660,904
Other capital assets, net of depreciation	108,863,952	112,855,519
<b>CAPITAL ASSETS, NET</b>	<b>119,091,116</b>	<b>120,516,423</b>
<b>OTHER ASSETS</b>		
Investments, designated by Board of Trustees	1,211,614	1,210,403
Other investments	782,885	821,920
Prepaid pension costs	4,512,588	4,512,588
Cash value of life insurance	3,660,253	4,083,880
Intangible assets, net	92,321	46,984
<b>TOTAL OTHER ASSETS</b>	<b>10,259,661</b>	<b>10,675,775</b>
<b>TOTAL ASSETS</b>	<b>256,712,100</b>	<b>250,848,983</b>
<b>DEFERRED OUTFLOWS</b>		
Deferred loss on defeased debt, net	399,663	522,675
<b>TOTAL DEFERRED OUTFLOWS</b>	<b>399,663</b>	<b>522,675</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>\$ 257,111,763</b>	<b>\$ 251,371,658</b>

The accompanying notes are an integral part of these combined financial statements.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE**  
**COMBINED BALANCE SHEETS**  
**June 30, 2014 and 2013**

<b>LIABILITIES</b>	<b>2014</b>	<b>2013 As Adjusted</b>
<b>CURRENT LIABILITIES</b>		
Current installments of long-term debt	\$ 2,665,000	\$ 2,575,000
Current installments of obligations under capital leases	992,918	167,861
Accounts and contracts payable	5,505,382	4,849,362
Accrued salaries	2,355,859	2,065,627
Accrued compensated absences	4,533,490	4,414,546
Accrued interest	100,950	109,405
Third-party payor settlements payable	19,619,394	20,783,148
Other current liabilities	5,564,089	4,944,889
<b>TOTAL CURRENT LIABILITIES</b>	<b>41,337,082</b>	<b>39,909,838</b>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, excluding current installments	48,895,000	51,560,000
Non-current installments of obligations under capital leases	3,842,872	-
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>52,737,872</b>	<b>51,560,000</b>
<b>TOTAL LIABILITIES</b>	<b>94,074,954</b>	<b>91,469,838</b>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	63,094,989	68,056,937
Restricted:		
Capital projects	5,474,127	5,418,008
Other specific purposes	56,612	38,931
Unrestricted	94,411,081	86,387,944
<b>TOTAL NET POSITION</b>	<b>163,036,809</b>	<b>159,901,820</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 257,111,763</b>	<b>\$ 251,371,658</b>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
COMBINED STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013 As Adjusted</u>
<b>OPERATING REVENUES</b>		
Net patient service revenues (net of provision for bad debts of approximately \$41,590,000 in 2014 and approximately \$36,130,000 in 2013)	\$ 201,655,790	\$ 198,664,302
Other operating revenues	<u>6,340,620</u>	<u>4,513,713</u>
TOTAL OPERATING REVENUES	<u>207,996,410</u>	<u>203,178,015</u>
<b>OPERATING EXPENSES</b>		
Nursing services	53,577,159	55,318,052
Other professional services	51,409,455	52,507,549
Catawba Valley Medical Group	13,710,304	11,748,526
General services	14,661,841	14,410,237
Administrative services	56,304,510	51,939,893
Depreciation	16,919,838	14,994,183
Amortization	1,163	-
Loss on disposal of capital assets	<u>39,170</u>	<u>19,420</u>
TOTAL OPERATING EXPENSES	<u>206,623,440</u>	<u>200,937,860</u>
INCOME FROM OPERATIONS	<u>1,372,970</u>	<u>2,240,155</u>
<b>NONOPERATING INCOME (EXPENSE)</b>		
Interest expense	(1,721,842)	(1,073,023)
Investment income	130,149	284,605
Income from investees	1,225,026	987,443
Noncapital grants and contributions	<u>1,098,930</u>	<u>908,050</u>
NONOPERATING INCOME, NET	<u>732,263</u>	<u>1,107,075</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	2,105,233	3,347,230
CAPITAL GRANTS AND CONTRIBUTIONS	<u>1,029,756</u>	<u>1,345,484</u>
INCREASE IN NET POSITION	3,134,989	4,692,714
NET POSITION, BEGINNING	<u>159,901,820</u>	<u>155,209,106</u>
NET POSITION, ENDING	<u>\$ 163,036,809</u>	<u>\$ 159,901,820</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
COMBINED STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>As Adjusted</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$ 201,635,425	\$ 195,590,742
Cash paid to employees	(116,132,361)	(111,707,207)
Cash paid to suppliers	(71,846,512)	(78,215,961)
Other receipts from operations	6,578,008	3,590,255
	<u>20,234,560</u>	<u>9,257,829</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from noncapital grants and contributions	1,098,930	908,050
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital grants and contributions	1,029,756	1,345,484
Capital expenditures	(16,094,473)	(31,541,674)
Principal payment on revenue bonds	(2,575,000)	(2,460,000)
Interest paid	(1,730,297)	(1,080,926)
Payments of capital lease obligations	(332,072)	(255,607)
Proceeds from issuance of new debt	5,000,000	-
Proceeds from disposal of capital assets	560,772	161,424
	<u>(14,141,314)</u>	<u>(33,831,299)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	304,746	157,529
Sale of investments, net	(2,777,727)	13,807,395
Sale of certificates of deposit, net	10,924,572	9,919,897
Payments received from investees	1,264,061	868,103
	<u>9,715,652</u>	<u>24,752,924</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	16,907,828	1,087,504
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>28,694,701</u>	<u>27,607,197</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 45,602,529</u>	<u>\$ 28,694,701</u>
<b>CLASSIFIED AS:</b>		
Unrestricted	\$ 45,545,917	\$ 28,655,770
Restricted	56,612	38,931
	<u>\$ 45,602,529</u>	<u>\$ 28,694,701</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
COMBINED STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2014 and 2013**

**SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES**

The Medical Center and Affiliate incurred accounts payable to purchase fixed assets having a total cost of \$1,703,679 and \$2,183,285 as of June 30, 2014 and 2013, respectively. Fixed assets acquired under capital lease during the years ended June 30, 2014 and 2013 were \$1,455,885 and \$0, respectively.

	<u>2014</u>	<u>2013</u> <u>As Adjusted</u>
<b>RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Income from operations	\$ 1,372,970	\$ 2,240,155
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	16,919,838	14,994,183
Amortization of intangible assets	1,163	-
Amortization of deferred loss on defeased debt	123,012	123,012
Loss on disposal of capital assets	39,170	19,420
(Increase) decrease in cash value of life insurance	423,627	(256,465)
Bad debt expense	3,693,831	976,536
Change in assets and liabilities:		
Increase in patient receivables	(5,458,999)	(273,482)
(Increase) decrease in other receivables	180,774	(1,171,099)
Decrease in refundable sales taxes	56,614	247,641
Decrease in inventories	118,977	57,011
(Increase) decrease in other current assets	2,242,941	(3,092,938)
Increase (decrease) in accounts and contracts payable	656,020	(3,409,899)
Increase in accrued salaries	290,232	328,959
Increase in accrued compensated absences	118,944	189,912
Decrease in third-party payor settlements payable	(1,163,754)	(666,970)
Increase (decrease) in other current liabilities	619,200	(1,048,147)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 20,234,560</u>	<u>\$ 9,257,829</u>

# CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE NOTES TO COMBINED FINANCIAL STATEMENTS

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## NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization and Reporting Entity

Catawba Valley Medical Center (the "Medical Center") was organized in 1962 by resolution of the Commissioners of Catawba County, North Carolina (the "County"). The governing body of the Medical Center is the Board of Trustees, which is appointed by the Commissioners of Catawba County. At least one member must also be a member of the County Board of Commissioners. The Medical Center is an instrumentality of the County and, as such, is not subject to income tax. The Medical Center is included as a discretely presented component unit in the financial statements of the County.

On October 1, 2011, Catawba Valley Medical Center established a separate 501(c) (3) entity for its medical group called Catawba Valley Medical Group, Inc. ("Medical Group"). The Medical Group was established to conduct health care and related services. Its operations consist of physician practices to provide physician services to the community. The Medical Center's Board of Trustees recommends directors for appointment to the Medical Group's Board of Trustees. All significant intercompany balances and transactions have been eliminated in combination. The combined entities are hereinafter referred to as the "Medical Center."

### Use of Estimates

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

### Basis of Accounting

The accompanying combined financial statements are prepared and presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially, all revenues and expenses are subject to accrual.

In the year ended June 30, 2014, the Medical Center adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This Statement specifically requires certain balances currently being reported as assets and liabilities to be reported as deferred outflows of resources and deferred inflows of resources on the Combined Balance Sheet. Amounts of deferred loss on defeased debt that was previously reported as a reduction in long-term debt was reclassified as a deferred outflow on the combined balance sheet as of June 30, 2013.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

GASB Statement No. 65 further requires that costs associated with the issuance of long-term debt be expensed in the period incurred, rather than deferred and amortized over the term of the related debt. As a result of the retroactive application of this guidance, certain amounts previously reported as of and for the year ended June 30, 2013, have been restated and a cumulative effect adjustment has been recorded to net position as of June 30, 2012. The effect of this restatement on previously reported combined financial statement amounts is summarized below:

	<b>2013 As Previously Reported</b>	<b>Adjustment</b>	<b>2013 As Adjusted</b>
<b>Combined Balance Sheets:</b>			
Bond Issuance Costs, net	\$ 932,320	\$ (932,320)	\$ --
Deferred loss on defeased debt	--	522,675	522,675
Total assets and deferred outflows	251,781,303	(409,645)	251,371,658
Long-term debt, excluding current installments	51,037,325	(522,675)	51,560,000
Total net position, June 30, 2013	160,834,140	(932,320)	159,901,820
<b>Combined Statements of Revenues, Expenses and Changes in Net Position:</b>			
Administrative Services	\$ 51,537,659	\$ (91,374)	\$ 51,446,285
Increase in net position	4,601,340	91,374	4,692,714
Total net position, June 30, 2012	156,232,800	(1,023,694)	155,209,106
Total net position, June 30, 2013	160,834,140	(932,320)	159,901,820

Charity Care

The Medical Center has a charity care policy whereby care to patients meeting certain established criteria is without charge or at amounts less than established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not included in patient service revenues.

Cash and Cash Equivalents

The Medical Center considers cash on hand and highly liquid investments with an original maturity of 90 days or less when purchased to be cash and cash equivalents.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value).

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

Receivables from Patients

Patient accounts receivable are recorded at estimated net realizable value. Allowance for uncollectible accounts are computed based on statistical information from current and prior years' experience. The Medical Center grants credit to patients without collateral, substantially, all of whom are from the surrounding area. In evaluating the collectability of patient accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For patient receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for contractual adjustments. For patient receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard charges and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Restricted Assets

Restricted assets include assets that are subject to donor-imposed stipulations and assets held by the County or other trustees under indenture agreements.

Capital Assets

Capital assets are stated at cost, including interest costs incurred during construction. Depreciation is computed using the straight-line method over estimated useful lives of the assets, which range from 18 to 40 years for buildings and land improvements and 3 to 15 years for equipment and leasehold improvements.

Investments

Investments in debt instruments are stated at fair value. The stated amounts for investments approximate their fair values. Gains and losses, both realized and unrealized, are included in nonoperating income (expense).

Other investments and other assets are stated at cost except for the Medical Center's investment in a healthcare alliance and group purchasing organization, 50% ownership in an imaging management company and a 50% ownership in a heart services management company, which are accounted for on the equity method of accounting.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

Intangible Assets

Intangible assets consist of the cost of purchasing a medical practice in excess of the value of the assets acquired. Intangible assets are measured for impairment annually.

Impairment Losses

Impairment losses are recorded on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The Medical Center has evaluated the carrying values of its long-lived assets and has determined that no writedowns for impairment were necessary for 2014 or 2013.

Net Position

Net position is classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted components of net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of governments, or imposed through state statute. Unrestricted components of net position are remaining net position that do not meet the definition of invested in capital assets, net of related debt or restricted.

Accrued Compensated Absences

The vacation policy of the Medical Center provides for the accumulation of up to 40 days earned vacation leave with such leave being fully vested when earned.

Net Patient Service Revenues

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is recorded 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 settlements are determined. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of discounted rates. On the basis of historical experience, a significant portion of the Medical Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

Grants and Contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as nonoperating revenues. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses.

Operating Revenues and Expenses

The Medical Center's combined statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, except for interest, which is a nonoperating expense.

Restricted Resources

Resources restricted by donor-imposed stipulations are used before unrestricted resources. Resources restricted by the County or other trustees are not used unless unrestricted resources are insufficient or unavailable.

Deferred Compensation Plan

The Medical Center offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all Medical Center employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan assets, as required, are placed in trust for the exclusive benefit of the participants and their beneficiaries, and are excluded from the Medical Center's combined financial statements.

Reclassification

Certain 2013 combined financial statement amounts have been reclassified to conform to the 2014 combined financial statement presentation.

## **CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE NOTES TO COMBINED FINANCIAL STATEMENTS**

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### **NOTE B - DEPOSITS**

All deposits of the Medical Center are made in board-designated official depositories and are secured as required by North Carolina General Statute ("G.S.") 159-31. The Medical Center may designate, as an official depository, any bank or savings and loan whose principal office is located in North Carolina. Also, the Medical Center may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts and certificates of deposit.

All of the Medical Center's deposits are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits exceeding the federal depository insurance coverage are collateralized with securities held by the Medical Center's agent in the Medical Center's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Medical Center, these deposits are considered to be held by the Medical Center's agent in the Medical Center's name. The amount of the pledged collateral is based on an approved averaging method for noninterest-bearing deposits and the actual current balance for interest-bearing deposits.

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Medical Center or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Medical Center under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2014, the Medical Center's deposits including certificates of deposit and investments had a carrying amount of \$83,780,347 and a bank balance of \$85,269,002. Of the bank balance, \$1,000,000 was covered by federal depository insurance and \$84,269,002 was covered by collateral held under the Pooling Method.

### **NOTE C - INVESTMENTS**

#### Investments - Held by the Medical Center

G.S. 159-30(c) authorizes the Medical Center to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the state of North Carolina; bonds and notes of any North Carolina local government or public hospital; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust, an SEC-registered mutual fund.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE C – INVESTMENTS (Continued)**

Investments - Held by the Trustee

As of June 30, 2014, the Medical Center had certain investments held by a trustee as discussed in Note E. These investments were held by the trustee in the North Carolina Capital Management Trust.

Investments - Held by the County

The Medical Center also has investments, which are held by the County, and for which the County exercises depository and investment control as discussed in Note E.

These investments are held by the County in a cash and investment pool that is used by substantially all funds of the County. The County’s cash and investment pool is invested in demand deposits, certificates of deposit, money market funds, the North Carolina Capital Management Trust and certain U.S. government agencies. At June 30, 2014 and 2013, approximately 3.0% of the pooled cash and investment balances of the County were Medical Center funds.

At June 30, the Medical Center had the following investments and maturities:

	2014			2013		
	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>	<u>Fair Value</u>	<u>Less than One Year</u>	<u>One to Five Years</u>
Held by Medical Center						
Certificates of deposit	\$ 1,211,614	\$ 1,211,614	\$ -	\$ 2,531,103	\$ 2,531,103	\$ -
Held by County						
Pooled investments	<u>5,474,127</u>	<u>5,474,127</u>	<u>-</u>	<u>5,418,008</u>	<u>5,418,008</u>	<u>-</u>
Total investments	<u>\$ 6,685,741</u>	<u>\$ 6,685,741</u>	<u>\$ -</u>	<u>\$ 7,949,111</u>	<u>\$ 7,949,111</u>	<u>\$ -</u>

Interest Rate Risk

The Medical Center has an investment policy designed to limit its exposure to losses from rising interest rates. Generally, the average time to maturity of Medical Center investments shall not exceed one year and the maximum term of a specific investment shall not exceed two years. However, if extending average maturities permits trading and portfolio advantages, then maturities can exceed these limits.

Investment Return

The Medical Center had \$130,149 and \$284,605 in interest income for the years ended June 30, 2014, and 2013, respectively.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE D - CAPITAL ASSETS**

Capital asset additions, retirements, and balances for the years ended June 30, 2014 and 2013 were as follows:

	Balance June 30, 2013	Additions	Retirements	Transfers	Balance June 30, 2014
Non-depreciable assets:					
Land	\$ 3,455,887	\$ -	\$ (18,371)	\$ -	\$ 3,437,516
Construction-in-progress	4,205,017	11,453,680	(477,361)	(8,391,688)	6,789,648
Depreciable assets:					
Land improvements	3,447,135	101,090	-	17,263	3,565,488
Buildings and fixed equipment	149,974,784	826,933	(330,258)	7,487,436	157,958,895
Movable equipment	129,470,460	3,888,417	(5,686,026)	886,989	128,559,840
Leasehold improvements	<u>2,434,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,434,370</u>
Total at historical cost	<u>292,987,653</u>	<u>16,270,120</u>	<u>(6,512,016)</u>	<u>-</u>	<u>302,745,757</u>
Less accumulated depreciation for:					
Land improvements	2,168,119	114,633	-	-	2,282,752
Buildings and fixed equipment	81,974,327	5,481,870	(288,098)	-	87,168,099
Movable equipment	86,788,139	11,086,750	(5,448,329)	-	92,426,560
Leasehold improvements	<u>1,540,645</u>	<u>236,585</u>	<u>-</u>	<u>-</u>	<u>1,777,230</u>
Total accumulated depreciation	<u>172,471,230</u>	<u>16,919,838</u>	<u>(5,736,427)</u>	<u>-</u>	<u>183,654,641</u>
Capital assets, net	<u>\$ 120,516,423</u>	<u>\$ (649,718)</u>	<u>\$ (775,589)</u>	<u>\$ -</u>	<u>\$ 119,091,116</u>
	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
Non-depreciable assets:					
Land	\$ 3,455,887	\$ -	\$ -	\$ -	\$ 3,455,887
Construction-in-progress	29,401,417	24,735,778	-	(49,932,178)	4,205,017
Depreciable assets:					
Land improvements	3,192,713	28,520	-	225,902	3,447,135
Buildings and fixed equipment	119,527,201	443,183	(2,311)	30,006,711	149,974,784
Movable equipment	105,261,325	6,329,823	(1,960,859)	19,840,166	129,470,455
Leasehold improvements	<u>2,370,601</u>	<u>4,370</u>	<u>-</u>	<u>59,399</u>	<u>2,434,370</u>
Total at historical cost	<u>263,209,144</u>	<u>31,541,674</u>	<u>(1,963,170)</u>	<u>200,000</u>	<u>292,987,648</u>
Less accumulated depreciation for:					
Land improvements	2,067,544	100,575	-	-	2,168,119
Buildings and fixed equipment	77,183,544	4,695,655	(2,311)	97,439	81,974,327
Movable equipment	78,502,547	9,963,041	(1,780,010)	102,561	86,788,139
Leasehold improvements	<u>1,305,733</u>	<u>234,907</u>	<u>-</u>	<u>-</u>	<u>1,540,640</u>
Total accumulated depreciation	<u>159,059,368</u>	<u>14,994,183</u>	<u>(1,782,321)</u>	<u>200,000</u>	<u>172,471,235</u>
Capital assets, net	<u>\$ 104,149,776</u>	<u>\$ 16,547,496</u>	<u>\$ (180,849)</u>	<u>\$ -</u>	<u>\$ 120,516,423</u>

## CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE NOTES TO COMBINED FINANCIAL STATEMENTS

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### NOTE E - RESTRICTED ASSETS

Assets are held in the Medical Center Construction and Operations Fund under an agreement with the County and are utilized only for capital outlay projects with the approval of the County Commissioners. Substantially all of the assets of the fund are invested by the County in interest-bearing cash investments. Total restricted assets amounted to \$5,474,127 and \$5,418,008 at June 30, 2014 and 2013, respectively.

Restricted assets include cash and cash equivalents that are subject to donor-imposed stipulations amounting to \$56,612 and \$38,931 at June 30, 2014 and 2013, respectively. Restricted assets also include cash and cash equivalents that are in escrow amounting to \$3,994,598 at June 30, 2014.

### NOTE F - AGREEMENTS WITH THIRD-PARTY PAYORS

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the significant payment arrangements with major third-party payors follows:

**Medicare** - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services are paid based on a cost reimbursement methodology. The Medicare program pays outpatient services at prospectively determined rates per visit. Under this system, as with inpatient services, rates vary according to a patient classification system that is based upon clinical, diagnostic, and other factors.

**Medicaid** - Inpatient acute care services and nonacute services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid program.

**Other** - The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 57% of the Medical Center's net patient service revenue for the years ended June 30, 2014 and 2013.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE F - AGREEMENTS WITH THIRD-PARTY PAYORS (Continued)**

During 2014 and 2013, the Medical Center received monies under the Medicaid Disproportionate Share Pool Program (the "Program"). Under the Program, the Medical Center received payments totaling approximately \$12,450,000 and \$9,694,000 in 2014 and 2013, respectively. These amounts are reflected as a component of net patient service revenue. The revenue received under the Program is determined by state Medicaid guidelines, which are subject to change, thereby causing volatility in the revenue received under the Program. Payments of disproportionate share funds in the future may be impacted by Medicaid reform initiatives. The Program contains a provision requiring the repayment of disproportionate funds received if the participating hospital is determined to be ineligible.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in estimated retroactive settlement adjustments and the recording of current year estimates increased net patient service revenue by approximately \$1,405,000 in 2014 and decreased net patient service revenue by approximately \$1,605,000 in 2013.

The Medical Center's Medicare and Medicaid cost reports have been audited by the fiscal intermediary through June 30, 2011.

The Hospital receives payments for serving a high volume of Medicaid patients. These payments require regulatory approval prior to disbursement. The payments under the plan each year are subject to cost settlement. These payments were recorded as a liability pending final settlement by Medicaid. During the current year, certain amounts that were classified as a liability for the fiscal year June 30, 2013 were reclassified into net patient service revenue. The total amount reclassified during the years ended June 30, 2014 and 2013 related to these future years was \$8,863,000 and \$7,216,000, respectively. Of the total funds of \$41,039,000 received for 2011 through 2014, approximately \$16,712,000 has been reserved and is included in the estimated third-party payor settlements payable on the combined balance sheet at June 30, 2014. Of the total funds of \$37,114,000 received for 2010 through 2013, approximately \$17,229,000 has been reserved and is included in the estimated third-party payor settlements payable on the combined balance sheet at June 30, 2013.

In April 2012, the Centers for Medicare and Medicaid Services ("CMS") approved a North Carolina Medicaid Assessment Plan ("MAP") to reduce the gap between Medicaid/uninsured costs and payments retroactive to January 1, 2011. Hospitals that participate in the program pay an assessment fee and in turn receive a payment from the MAP. The Medical Center paid approximately \$1,860,000 and \$1,712,000 and recognized approximately \$3,541,000 and \$4,202,000 for the years ended June 30, 2014 and 2013, respectively, for the MAP program. For the years ended June 30, 2014 and 2013, respectively, the net impact of approximately \$1,681,000 and \$2,490,000 is included in income from operations on the combined statement of revenues, expenses and changes in net position.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE G - ACCOUNTS RECEIVABLE AND PAYABLE**

Patient Accounts Receivable

The Medical Center provides services primarily to the residents of Catawba and surrounding counties without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to the large number of patients served and the formalized agreements with third-party payors. The Medical Center has significant accounts receivable whose collectibility is dependent upon the performance of certain governmental programs, primarily Medicare and Medicaid. Management does not believe there are significant credit risks associated with these governmental programs. An allowance for uncollectible accounts is provided in an amount equal to the estimated losses to be incurred in collection of patient receivables. The allowance is based on historical collection experience and a review of the current status of the existing receivables. The mix of receivables from patients and third-party payors at June 30 is as follows:

	<u>2014</u>	<u>2013</u>
Medicare	22%	24%
Medicaid	14	9
Blue Cross	17	13
Other third-party payors	11	16
Patients	<u>36</u>	<u>38</u>
	<u>100%</u>	<u>100%</u>

Accounts Payable and Accrued Expenses

Accounts payable (including accrued expenses) reported as current liabilities by the Medical Center at June 30 are as follows:

	<u>2014</u>	<u>2013</u>
Payable to employees (including payroll taxes)	\$ 6,889,349	\$ 6,480,173
Payable to suppliers	<u>5,505,382</u>	<u>4,849,362</u>
Total accounts payable and accrued expenses	<u>\$ 12,394,731</u>	<u>\$11,329,535</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE H - LONG-TERM DEBT**

A summary of long-term debt at June 30, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Series 2009 Taxable Variable Rate Hospital Revenue Bonds, due in varying annual installments starting October 1, 2018 through October 1, 2039, from the general revenues of the Medical Center.	\$ 25,000,000	\$ 25,000,000
Series 2010 Hospital Revenue Bonds, bearing interest at 4.96%, due in varying annual installments through December 1, 2030, from the general revenues of the Medical Center.	20,140,000	20,920,000
Series 2011 Hospital Refunding Revenue Bonds, bearing interest at 3.23%, due in varying annual installments through October 1, 2017, from the general revenues of the Medical Center.	<u>6,420,000</u>	<u>8,215,000</u>
Total long-term debt	51,560,000	54,135,000
Total long-term debt	51,560,000	54,135,000
Less current installments of long-term debt	<u>(2,665,000)</u>	<u>(2,575,000)</u>
Long-term debt, excluding current installments	<u>\$ 48,895,000</u>	<u>\$ 51,560,000</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE H - LONG-TERM DEBT (Continued)**

The following is a summary of changes in the Medical Center's long-term debt for the years ended June 30, 2014 and 2013:

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2014</u>	<u>Amounts due within one year</u>
Series 2009 Hospital Revenue Bonds	\$ 25,000,000	\$ -	\$ -	\$ 25,000,000	\$ -
Series 2010 Hospital Revenue Bonds	20,920,000	-	780,000	20,140,000	810,000
Series 2011 Hospital Revenue Bonds	<u>8,215,000</u>	<u>-</u>	<u>1,795,000</u>	<u>6,420,000</u>	<u>1,855,000</u>
	<u>\$ 54,135,000</u>	<u>\$ -</u>	<u>\$ 2,575,000</u>	<u>\$ 51,560,000</u>	<u>\$ 2,665,000</u>
	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2013</u>	<u>Amounts due within one year</u>
Series 2009 Hospital Revenue Bonds	25,000,000	-	-	25,000,000	-
Series 2010 Hospital Revenue Bonds	21,640,000	-	720,000	20,920,000	780,000
Series 2011 Hospital Revenue Bonds	<u>9,955,000</u>	<u>-</u>	<u>1,740,000</u>	<u>8,215,000</u>	<u>1,795,000</u>
	<u>\$ 56,595,000</u>	<u>\$ -</u>	<u>\$ 2,460,000</u>	<u>\$ 54,135,000</u>	<u>\$ 2,575,000</u>

On August 12, 2009, the County issued County of Catawba, North Carolina Taxable Variable Rate Demand Hospital Revenue Bonds (Catawba Valley Medical Center Project) Series 2009 (the "Series 2009 Bonds") through a commercial lender totaling \$25,000,000 for the purpose of funding a construction project that will renovate and retrofit the current facilities while providing a utilities substructure that will allow for possible future expansion. Payments of principal begin October 1, 2018 and continue through October 1, 2039. The bonds are secured by an irrevocable letter of credit with an initial term ending August 2015.

On December 6, 2010, the County approved issuance of County of Catawba, North Carolina Hospital Revenue Bonds (Catawba Valley Medical Center Project) Series 2010 (the "Series 2010 Bonds") through a commercial lender totaling \$22,000,000 with a fixed rate of interest at 4.96% for the purpose of funding a construction project that will provide additional healthcare facilities and the acquisition and installation of health care equipment.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE H - LONG-TERM DEBT (Continued)**

On August 4, 2011, the County issued County of Catawba, North Carolina Refunding Revenue Bonds (Catawba Memorial Hospital Project) Series 2011 (the "Series 2011 Bonds") through a commercial lender totaling \$11,340,000 for the purpose of refunding the Series 1999 Hospital Revenue Bonds ("Series 1999 Bonds") which had previously refunded the Series 1992 bonds ("Series 1992 Bonds"). Losses totaling \$2,286,075 and \$62,800 were deferred on the refunding of the Series 1992 Bonds and the Series 1999 Bonds, respectively.

The Series 2011 Bonds current refunding of the Series 1999 bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$62,800. This difference, reported in the combined balance sheets as a deferred outflow of resources, is being charged as interest expense through October 1, 2017, using the straight line method. The Medical Center completed the current refunding to reduce its total debt service payments over the next five years by approximately \$1,100,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately \$493,000.

The following table summarizes the annual requirements to amortize the bonds payable at prevailing interest rates:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>
2015	2,665,000	1,247,140
2016	2,750,000	1,146,670
2017	2,880,000	1,036,510
2018	2,255,000	936,175
2019	1,660,000	881,330
2020-2024	9,655,000	3,563,464
2025-2029	12,380,000	1,864,227
2030-2034	9,040,000	258,265
2035-2039	<u>8,275,000</u>	<u>48,650</u>
	<u>\$ 51,560,000</u>	<u>\$ 10,982,431</u>

Interest expense and letter of credit fees was approximately \$1,236,000 in 2014 and approximately \$1,021,000 in 2013.

Interest cost incurred on borrowed funds during the period of construction of capital assets of \$112,954 and \$826,719 was capitalized during the years ended June 30, 2014 and 2013, respectively.

The 2009, 2010 and 2011 bond series have various financial covenants, the most restrictive of which require the Medical Center to maintain a Long-Term Debt Service Coverage Ratio (as defined) of 1.20 or higher, a Debt to Capitalization ratio of no greater than 65% and the Days Cash on Hand must not be less than 80 days. The Medical Center was in compliance with all applicable covenants as of and for the years ended June 30, 2014 and 2013.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE I - CAPITAL LEASE OBLIGATIONS**

The Medical Center leases certain medical equipment that requires monthly payments. Title passes to the Medical Center at the end of the lease terms. The assets held under these capital leasing arrangements and accumulated amortization are included in equipment within the total capital assets and accumulated depreciation reported by the Medical Center. At June 30, 2014, assets under capital leases had a cost of \$1,620,663 and accumulated amortization of \$281,793. At June 30, 2013, assets under capital lease had a cost of \$1,501,558 and accumulated amortization of \$1,376,428. During 2014 and 2013, amortization expense related to capital leases was approximately \$330,000 and \$250,000, respectively, and is included in depreciation expense on the combined statement of revenues, expenses, and changes in net assets.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of June 30, 2014, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 1,051,021
2016	1,051,021
2017	1,051,021
2018	1,051,021
2019	788,266
Less: amount representing interest at 1.37%	<u>(156,560)</u>
Present value of minimum lease payments	4,835,790
Less: current installments of obligations under capital lease	<u>(992,918)</u>
Long-term capital lease obligations	<u>\$ 3,842,872</u>

**NOTE J - OPERATING LEASES**

The Medical Center is party to certain building and equipment leases that are classified as noncancelable operating leases, which require annual rentals of approximately \$1,114,867 in 2015, \$670,369 in 2016, \$504,305 in 2017, \$99,863 in 2018, and \$49,764 in 2019. Total rent expense in connection with such leases was \$1,535,719 and \$1,746,683 for the years ended June 30, 2014 and 2013, respectively.

**NOTE K - PENSION PLAN**

Catawba Valley Medical Center Employees' Pension Plan is a single-employer noncontributory defined benefit plan which provides retirement, disability, termination and death benefits to plan members. The Medical Center is required to contribute based on an actuarially determined amount. The Plan issues a stand-alone financial report that may be obtained from the Medical Center.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE K - PENSION PLAN (Continued)**

The Medical Center's annual pension cost and prepaid pension costs for the current and prior year were as follows:

	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 4,911,482	\$ 4,671,615
Interest on prepaid pension costs	(338,444)	(338,444)
Adjustment to annual required contribution	<u>442,650</u>	<u>442,650</u>
Annual pension cost	5,015,688	4,775,821
Contributions made	<u>5,015,688</u>	<u>4,775,821</u>
Change in prepaid pension costs	-	-
Prepaid pension costs, beginning of year	<u>4,512,558</u>	<u>4,512,558</u>
Prepaid pension costs, end of year	<u>\$ 4,512,588</u>	<u>\$ 4,512,588</u>

The annual required contribution for the current year was determined as part of the July 1, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 7.5% investment rate of return and (b) projected salary increases of 5.0% per year. Both (a) and (b) included an inflation component of 3.0%. The unfunded actuarial accrued liability is being amortized over a rolling 20-year period. For purposes of minimum funding requirements under the Employee Retirement Income Security Act of 1974 (ERISA), any changes in the actuarial accrued liability from changes in the actuarial assumptions or changes from plan amendments are amortized over a set period of years as required by IRS minimum rules.

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Prepaid Pension Costs</u>
June 30, 2012	4,659,609	174.5	4,512,588
June 30, 2013	4,775,821	102.2	4,512,588
June 30, 2014	5,015,688	102.1	4,512,588

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 87.4% funded. The actuarial accrued liability for benefits was \$91,457,321, and the actuarial value of assets was \$79,905,061, resulting in an unfunded actuarial accrued liability (UAAL) of \$11,552,260. The covered payroll (annual payroll of active employees covered by the plan) was \$82,034,172, and the ratio of the UAAL to the covered payroll was 14.1%.

The schedule of funding progress, presented as required supplementary information following the notes to the combined financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE L - DEFERRED COMPENSATION PLAN**

The Medical Center offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by an unrelated insurance company under the direction of the Medical Center. The plan, available to all Medical Center employees, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, disability, retirement, death, or financial hardship. The plan provides for Medical Center matching contributions, ranging from 15% to 25% for the years ended June 30, 2014 and 2013, of employee contributions based upon length of employment. Contributions are invested in participant-directed investment fund options, which include growth, income and stable funds. The Medical Center's contributions to this plan were \$755,684 and \$757,647 for the years ended June 30, 2014 and 2013, respectively.

**NOTE M - COMMITMENTS AND CONTINGENCIES**

As of June 30, 2014, the Medical Center has entered into construction and equipment purchase contracts on various projects. The total commitment for these contracts is approximately \$19,240,000 of which approximately \$10,878,000 had either been paid or accrued as of June 30, 2014.

The Medical Center has numerous other contracts for physician and other professional services for terms of one year or more.

**NOTE N - RISK MANAGEMENT**

The Medical Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; injuries to employees; natural disasters; employee health, dental and accident benefits; and medical malpractice. The Medical Center carries commercial insurance for these risks of loss.

The Medical Center's employee health insurance program is self-insured with stop-loss coverage provided by a commercial insurance company. At June 30, 2014 and 2013, the Medical Center has a liability of \$1,443,355 and \$804,657, respectively, for unpaid health insurance claims and health insurance claims incurred, but not reported. The following is a summary of changes in the claims liability for the year ended June 30:

	<u>2014</u>	<u>2013</u>
Claims liability at beginning of fiscal year	\$ 804,657	\$ 1,833,056
Incurred claims and IBNR expenses	17,753,504	12,624,283
Payments	<u>(17,114,806)</u>	<u>(15,261,996)</u>
Claims liability at end of fiscal year	<u>\$ 1,443,355</u>	<u>\$ 804,657</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE N - RISK MANAGEMENT (Continued)**

The Medical Center is aware of potential or threatened claims alleging malpractice liability of the Medical Center with respect to certain incidents arising in the normal course of operations. The Medical Center purchases malpractice insurance coverage on an occurrence basis from a commercial insurance company. The limit for claims paid applicable to the Medical Center's coverage is \$1,000,000 for any one claim subject to a \$250,000 deductible per claim. The annual aggregate limit for claims paid applicable to the Medical Center's coverage is \$3,000,000. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Medical Center has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. In management's opinion, the accrued malpractice losses provide an adequate reserve for loss contingencies. The Medical Center also purchases an Umbrella Policy on a claims-made basis that provides additional coverage over the Healthcare Professional Liability, Commercial General Liability, Automobile Liability and Workers' Compensation/ Employers Liability Insurance.

The Medical Center maintains an employee dishonesty bond that covers all employees with a range in amounts from \$15,000 to \$1,000,000, depending on the type of dishonesty.

**NOTE O - RELATED PARTIES**

Catawba Medical Foundation, Inc. (the "Foundation") was established for charitable, scientific and educational purposes primarily for the benefit of the citizens of Catawba County, North Carolina and the vicinity thereof. These objectives are to be achieved by (1) supporting, supplementing, enhancing and enriching the facilities, programs and services provided by Catawba Valley Medical Center; (2) promoting and assisting in the establishment, expansion, maintenance and operation of facilities to provide medical research, training, education and services; and (3) making distributions, grants or donations to exempt organizations. The Foundation is supported primarily from public contributions. The Foundation made contributions of \$1,015,802 and \$1,337,172 to the Medical Center during the years ended June 30, 2014 and 2013, respectively.

A summary of assets and net position of Catawba Medical Foundation, Inc. as of June 30, 2014 and 2013, and of revenues and other support, and changes in net position for the years ended June 30, 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Total assets	<u>\$ 2,008,412</u>	<u>\$ 3,141,132</u>
Net position	<u>\$ 2,008,334</u>	<u>\$ 2,712,160</u>
Revenues and other support	<u>\$ 356,925</u>	<u>\$ 418,476</u>
Decrease in net position	<u>\$ (703,825)</u>	<u>\$ (970,436)</u>

The above information is summarized from the audited financial statements of the Foundation for the years ended June 30, 2014 and 2013.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE O - RELATED PARTIES (Continued)**

The Medical Center transacts business with trustee-related banks as allowed by North Carolina General Statutes provided that such trustee abstains from voting on these matters. The Medical Center maintains its general operating bank accounts and significant investment balances at a bank in which a member of the Board of Trustees is an officer. The cash balance was approximately \$48,300,000 and \$24,400,000 as of June 30, 2014 and 2013, respectively. The investment balances are approximately \$17,900,000 and \$53,000,000 as of June 30, 2014 and 2013, respectively.

**NOTE P - CHARITY CARE**

The Medical Center maintains records to identify and monitor the level of charity care it provides. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, estimated costs have been incurred, but associated charges have not been reflected in net patient service revenues. The Medical Center created the estimate of costs incurred by multiplying the cost to charge ratio by the charges forgone by the Medical Center. The following information relates to the level of charity care provided during the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Estimated costs incurred for charity care patients	\$ 4,679,000	\$ 5,021,000
Equivalent percentage of charity care patients to all patients served	4.2%	4.3%

**NOTE Q - ADJUSTMENTS TO GROSS REVENUES**

Patient service revenue, net of contractual adjustments and discounts, but before the provision for bad debts, recognized in the period from these major payor sources is as follows for the year ended June 30, 2014:

	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
Patient service revenue (net of contractual adjustments and discounts)	\$ 178,912,339	\$ 64,387,542	\$ 243,299,881

Contractual adjustments related to Medicare and Medicaid programs and other deductions as well as the provision for bad debts were deducted from gross patient service charges to arrive at net patient service revenue as follows:

	<u>2014</u>	<u>2013</u>
Gross patient service charges	\$ 653,637,852	\$ 645,174,422
Deductions from gross patient service charges:		
Contractual adjustments	358,094,139	358,787,484
Charity Care	14,740,004	16,065,382
Provision for bad debts	41,589,908	36,129,846
Other deductions	<u>37,558,011</u>	<u>35,527,408</u>
Net patient service revenue	<u>\$ 201,655,790</u>	<u>\$ 198,664,302</u>

## CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE NOTES TO COMBINED FINANCIAL STATEMENTS

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### NOTE R - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Medical Center in estimating the fair value of its financial instruments:

#### Cash and Cash Equivalents

The carrying amount reported in the combined balance sheet for cash and cash equivalents approximates fair value.

#### Certificates of Deposit

The carrying amount reported in the combined balance sheet for certificates of deposit approximates fair value.

#### Investments

These assets consist primarily of cash equivalents, certificates of deposit, money rate savings accounts and interest receivable. The carrying amounts approximate their fair values.

#### Accounts Receivable

Accounts receivable are recorded on the combined balance sheet at net realizable value and approximate fair value.

#### Accounts and Contracts Payable

The carrying amount reported in the combined balance sheet for accounts and contracts payable approximates fair value.

#### Third-Party Settlements

The carrying amount reported in the combined balance sheet for estimated third-party payor settlements approximates fair value.

#### Long-Term Debt

Fair values of the Medical Center's bonds are based on the current traded value. The fair value of the Medical Center's remaining long-term debt is estimated using discounted cash flow analyses, based on the Medical Center's current incremental borrowing rates for similar types of borrowing arrangements.

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS**

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**NOTE R - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

The carrying amounts and fair values of the Medical Center's financial instruments at June 30, 2014 and 2013 are as follows:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 49,597,127	\$ 49,597,127	\$ 28,694,701	\$ 28,694,701
Certificates of deposit	32,971,606	32,971,606	43,896,178	43,896,178
Accounts receivable	26,385,412	26,385,412	24,620,244	24,620,244
Investments	6,685,741	6,685,741	7,949,111	7,949,111
Accounts and contracts payable	5,505,382	5,505,382	4,849,362	4,849,362
Third-party settlements	19,619,394	19,619,394	20,783,148	20,783,148
Long-term debt	51,560,000	51,560,934	54,135,000	54,135,418
Capital lease obligations	4,835,790	4,835,790	167,861	167,861

**NOTE S - DESIGNATIONS**

The Medical Center has total investments designated by the Board of Trustees as a depreciation fund for the future replacement and expansion of capital assets in the amount of \$8,992,178 and \$8,990,967 at June 30, 2014 and 2013, respectively.

**NOTE T - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 27, 2014, which is the date these combined financial statements were available to be issued.

***REQUIRED SUPPLEMENTARY INFORMATION***

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
EMPLOYEES' PENSION PLAN REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
Year Ended June 30, 2013**

<b>Actuarial Valuation Date</b>	<b>Plan Assets at Fair Value (a)</b>	<b>Accrued Liability (b)</b>	<b>Unfunded Liability (b) - (a)</b>	<b>Funded Ratio (a) ÷ (b)</b>	<b>Payroll (c)</b>	<b>Unfunded % Payroll ((b) - (a)) ÷ (c)</b>
07/01/04	35,313,763	39,086,955	3,773,192	90.3%	46,908,589	8.0%
07/01/05	37,603,002	44,567,746	6,964,744	84.4%	53,564,890	13.0%
07/01/06	41,587,609	49,263,387	7,675,778	84.4%	55,926,307	13.7%
07/01/07	47,419,226	54,313,573	6,894,347	87.3%	61,911,029	11.1%
07/01/08	53,258,358	59,917,467	6,659,109	88.9%	65,746,396	10.1%
07/01/09	55,359,594	64,943,418	9,583,824	85.2%	71,835,260	13.3%
07/01/10	60,805,230	72,130,190	11,324,960	84.3%	73,872,981	15.3%
07/01/11	66,127,780	77,868,022	11,740,242	84.9%	73,157,309	16.0%
07/01/12	73,925,370	84,334,618	10,409,248	87.7%	77,042,610	13.5%
07/01/13	79,905,061	91,457,321	11,552,260	87.4%	82,034,172	14.1%

**NOTES TO THE REQUIRED SCHEDULE**

The information presented in the required supplementary schedule was determined as part of

Valuation date:	July 1, 2013
Actuarial cost method:	Projected unit credit
Amortization method:	Rolling 20-year period
Remaining amortization period:	20 years
Asset valuation method:	Five-year smoothing method
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	5.0%
* Includes inflation at	3.0%
Cost of living adjustments	N/A

**CATAWBA VALLEY MEDICAL CENTER**  
**CONDENSED SCHEDULE OF REVENUES AND EXPENSES INFORMATION -**  
**BUDGET TO ACTUAL**  
**Year Ended June 30, 2014**

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	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Total operating revenues	\$ 210,824,505	\$ 207,996,410	\$ (2,828,095)
Total operating expenses	<u>220,086,884</u>	<u>206,623,440</u>	<u>13,463,444</u>
Income from operations	(9,262,379)	1,372,970	10,635,349
Nonoperating income, net, capital grants and contributions	<u>9,262,379</u>	<u>1,762,019</u>	<u>(7,500,360)</u>
Increase (decrease) in net position	<u>\$ -</u>	<u>\$ 3,134,989</u>	<u>\$ 3,134,989</u>

***COMPLIANCE SECTION***



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees  
Catawba Valley Medical Center and Affiliate  
Hickory, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Catawba Valley Medical Center and Affiliate (the "Medical Center"), a component unit of Catawba County, which comprise the combined balance sheets as of June 30, 2014 and 2013, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 27, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audits of the combined financial statements, we considered the Medical Center's internal control over financial reporting (internal control) of the combined financial statements as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Medical Center's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Medical Center's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

Charlotte, North Carolina  
October 27, 2014



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133***

To the Board of Trustees  
Catawba Valley Medical Center and Affiliate  
Hickory, North Carolina

**Report on Compliance for Each Major Federal Program**

We have audited Catawba Valley Medical Center and Affiliate's (the "Medical Center") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Medical Center's major federal programs for the year ended June 30, 2014. The Medical Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each of the Medical Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Medical Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Medical Center's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2014.

## **Report on Internal Control Over Compliance**

Management of the Medical Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Medical Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

*Dixon Hughes Goodman LLP*

Charlotte, North Carolina  
October 27, 2014

**CATAWBA VALLEY MEDICAL CENTER**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2014**

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<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Federal (Pass-Through) Expenditures</u>
<b>FEDERAL AWARDS: Full accrual basis</b>			
U.S. Department of Health and Human Services Ryan White Early Intervention Services for HIV Disease	93.918		\$ 362,930
Passed through North Carolina Department of Health and Human Services, Division of Public Health and Service Administration:			
HRSA HIV Formula Care Grant	93.917	56-0789196	408,368
Secretary's Minority AIDS Initiative Funding for Care and Prevention in the U.S. (CAPUS) Demonstration Project	93.940		18,145
Total U.S. Department of Health and Human Services			<u>789,443</u>
Total federal awards			<u>\$ 789,443</u>

Notes to the Schedule of Expenditures of Federal Financial Awards:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Catawba Valley Medical Center and is presented on the full accrual basis of accounting.

**CATAWBA VALLEY MEDICAL CENTER  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Fiscal Year Ended June 30, 2014**

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**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Noncompliance material to combined financial statements noted?  Yes  No

**Federal Awards**

Internal control over major federal programs:

- Material weaknesses identified?  Yes  No
- Significant deficiencies identified that are not considered to be material weaknesses?  Yes  None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  Yes  No

Identification of major federal programs:

<u>CFDA #</u>	<u>Names of Federal Program or Cluster</u>
93.917	HRSA HIV Formula Care Grant

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

**CATAWBA VALLEY MEDICAL CENTER  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Fiscal Year Ended June 30, 2014**

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**SECTION II - COMBINED FINANCIAL STATEMENT FINDINGS**

**Findings**

No significant deficiencies or material weaknesses were noted for the years ended June 30, 2014 or 2013.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

***SUPPLEMENTAL SCHEDULES INFORMATION***

**CATAWBA VALLEY MEDICAL CENTER**  
**SUPPLEMENTAL SCHEDULES OF NET PATIENT SERVICE**  
**REVENUES INFORMATION**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>INPATIENT CHARGES AT ESTABLISHED RATES</b>		
Birthing center	\$ 4,984,193	\$ 3,818,981
Surgical unit	1,467,128	1,917,115
Medical unit	3,065,143	3,257,412
Pediatrics	324,814	462,102
Behavioral health	5,868,676	5,629,197
Oncology unit	1,300,519	782,044
Critical care unit	4,984,504	5,241,479
Inpatient rehab unit	1,371,832	1,895,367
Nursery	8,090,553	7,625,035
Surgical suite	37,985,498	37,160,696
Post-anesthesia recovery	4,410,506	4,842,109
Emergency center	8,977,141	8,536,992
Laboratory	17,929,946	22,757,287
Respiratory EKG	1,120,587	1,217,892
Neurodiagnostic lab	178,190	203,541
Cardiovascular lab	4,036,634	4,161,711
Anesthesiology	15,366,638	15,857,545
Radiology	3,430,434	4,262,296
Lithotripsy	63,612	63,612
Endoscopy	899,433	986,367
Heart and vascular services	9,803,081	8,980,106
CT scan	8,232,967	8,207,970
Radiation therapy	850,241	803,753
Nuclear medicine	672,179	783,438
Magnetic resonance imaging	4,092,408	4,667,782
Radiology - sonics lab	1,469,931	1,634,226
Pharmacy	49,231,468	50,975,824
Central supply	1,756,843	2,821,861
Respiratory care	11,555,996	11,379,091
Cardiac rehabilitation	126,610	149,783
Ortho/neuro unit	1,043,422	1,159,832
Wound healing	-	40,940
Hospitalists	3,079,089	2,958,971
	<u>217,770,216</u>	<u>225,242,357</u>
Total inpatient charges at established rates		

**CATAWBA VALLEY MEDICAL CENTER**  
**SUPPLEMENTAL SCHEDULES OF NET PATIENT SERVICE**  
**REVENUES INFORMATION**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
OUTPATIENT CHARGES AT ESTABLISHED RATES		
Surgical suite	62,233,835	60,034,116
Post-anesthesia recovery	10,222,122	10,609,943
Birthing center	4,227,483	3,080,956
Emergency center	38,432,955	34,206,028
Day surgery	184,153	408,574
Catawba Valley Psychiatric Services	2,505,476	2,244,415
Occupational health	1,059,363	1,089,191
Health first center	29,724	33,575
Laboratory	26,239,988	28,494,404
Respiratory EKG	2,488,463	2,332,253
Neurodiagnostic lab	225,375	412,191
Cardiovascular lab	7,608,519	6,265,446
Anesthesiology	28,455,317	29,083,990
Radiology	49,874,228	52,387,856
Lithotripsy	5,244,653	5,330,761
Endoscopy	4,065,493	4,452,572
Heart and vascular services	14,102,266	12,586,299
CT scan	26,699,187	23,805,006
Radiation therapy	26,935,615	26,903,607
Nuclear medicine	5,061,749	4,816,919
Outpatient imaging center	7,502,430	7,888,153
Radiology - sonics lab	5,165,392	4,671,921
Pharmacy	51,254,116	47,509,686
Central supply	590,357	1,199,291
Respiratory care	1,547,685	2,067,839
Diabetes education	134,058	136,253
Mobile wellness unit	779,958	763,070
Fairgrove Primary Health	468,982	513,312
Cardiac rehabilitation	1,290,350	815,080
Pain management	-	459,164
Employee Health Connection	14,909	143,215
Hickory Infectious Disease Consultants	509,918	472,285
Infusion center	3,286,765	2,435,330
Sleep disorder center	2,491,025	2,219,569
Surgical weight management	17,956	14,223
Outpatient therapies	5,241,611	5,259,772
Wound healing	4,670,697	3,135,106
Hospitalists	-	231,974
Palliative care	83,939	104,330
Total outpatient charges at established rates	<u>400,946,112</u>	<u>388,617,675</u>

**CATAWBA VALLEY MEDICAL CENTER  
SUPPLEMENTAL SCHEDULES OF NET PATIENT SERVICE  
REVENUES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
CATAWBA VALLEY MEDICAL GROUP		
CVFM - Maiden	2,956,653	2,886,204
CVFM - Southeast Catawba	1,744,064	1,554,243
CVFM - Catawba	1,009,372	940,676
CVFM - Claremont	1,454,764	1,506,180
CVFM - Viewmont	1,189,394	2,435,145
CVFM - North Hickory	1,280,299	1,174,678
CVFM - Northeast	2,969,274	2,742,431
CVFM - Taylorsville	3,323,791	3,075,277
Employee Health Connection	14,885	-
CVFM - West Mountain View	352,281	-
CVFM - Mountain View	1,386,220	-
Catawba Valley Cardiology	2,868,771	2,568,653
Catawba Valley Vascular Surgery	697,539	-
Catawba Valley Urgent Care	172,316	143,435
Catawba Valley Family Medicine	1,097,896	869,890
	<u>22,517,519</u>	<u>19,896,812</u>
Total Catawba Valley Medical Group charges at established rates		
	<u>22,517,519</u>	<u>19,896,812</u>
MEDICAID REIMBURSEMENT	<u>12,404,005</u>	<u>11,417,578</u>
	<u>653,637,852</u>	<u>645,174,422</u>
TOTAL		
	<u>653,637,852</u>	<u>645,174,422</u>
CONTRACTUAL ALLOWANCES, ADJUSTMENTS AND CHARITY CARE		
Medicare	190,629,733	188,756,015
Medicaid	75,974,863	80,639,870
Managed care	91,435,360	89,391,599
Charity care	14,740,004	16,065,382
Miscellaneous adjustments	1,442,182	923,812
Provision for bad debts	41,589,908	36,129,846
Other	36,170,012	34,603,596
	<u>451,982,062</u>	<u>446,510,120</u>
Total contractual allowances, adjustments, provision for bad debts, and charity care		
	<u>451,982,062</u>	<u>446,510,120</u>
NET PATIENT SERVICE REVENUES	<u>\$ 201,655,790</u>	<u>\$ 198,664,302</u>
Adjustments as a percent of gross charges	69.15%	69.21%

**CATAWBA VALLEY MEDICAL CENTER  
 SUPPLEMENTAL SCHEDULES OF OTHER OPERATING  
 REVENUES INFORMATION  
 Years Ended June 30, 2014 and 2013**

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	<u>2014</u>	<u>2013</u>
Sale of meals	\$ 816,843	\$ 854,890
Rental income - lithotripter	719,100	550,500
Purchase discounts	13,861	9,921
Medical records fees	36,803	47,086
Laundry processing	59,283	42,321
Auxiliary and lifeline	853,668	873,719
Other rental income	1,308,475	916,200
Other, net	<u>2,532,587</u>	<u>1,219,076</u>
TOTAL OTHER OPERATING REVENUES	<u>\$ 6,340,620</u>	<u>\$ 4,513,713</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>PATIENT CARE SERVICES</b>		
Patient care administration:		
Salaries	\$ 1,496,401	\$ 2,110,387
Materials and supplies	1,910	5,122
Purchased services	62,558	31,457
Other	25,046	62,026
Total	<u>1,585,915</u>	<u>2,208,992</u>
Infection prevention:		
Salaries	180,869	170,712
Materials and supplies	18,412	769
Purchased services	5,530	6,073
Other	2,313	3,933
Total	<u>207,124</u>	<u>181,487</u>
Obstetrics and gynecology:		
Salaries	3,884,960	3,852,743
Materials and supplies	265,697	243,477
Purchased services	833,306	870,587
Other	61,766	44,647
Total	<u>5,045,729</u>	<u>5,011,454</u>
Surgical unit:		
Salaries	1,513,584	1,524,669
Materials and supplies	139,420	64,253
Purchased services	3,421	642
Other	15,405	6,061
Total	<u>1,671,830</u>	<u>1,595,625</u>
General medicine:		
Salaries	2,319,707	2,337,937
Materials and supplies	211,396	207,816
Purchased services	4,252	1,133
Other	6,197	16,031
Total	<u>2,541,552</u>	<u>2,562,917</u>
Ortho/neuro unit:		
Salaries	1,031,155	1,186,304
Materials and supplies	80,623	76,433
Purchased services	363	85
Other	7,550	5,066
Total	<u>1,119,691</u>	<u>1,267,888</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Pediatrics:		
Salaries	521,495	623,765
Materials and supplies	28,962	32,246
Purchased services	1,562	120
Other	3,062	4,645
Total	<u>555,081</u>	<u>660,776</u>
Behavioral Health:		
Salaries	3,283,576	3,193,980
Materials and supplies	85,150	72,980
Purchased services	7,256	5,172
Other	21,063	25,671
Total	<u>3,397,045</u>	<u>3,297,803</u>
Oncology:		
Salaries	926,241	789,588
Materials and supplies	72,934	133,667
Purchased services	1,907	413
Other	14,900	14,640
Total	<u>1,015,982</u>	<u>938,308</u>
Critical care center:		
Salaries	3,249,684	3,454,611
Materials and supplies	319,278	319,932
Purchased services	269,301	246,480
Other	18,521	26,865
Total	<u>3,856,784</u>	<u>4,047,888</u>
Nursery:		
Salaries	2,707,122	2,494,408
Materials and supplies	217,523	200,085
Purchased services	136,391	158,019
Other	18,456	25,621
Total	<u>3,079,492</u>	<u>2,878,133</u>
Surgical suite:		
Salaries	3,333,009	3,622,172
Materials and supplies	13,804,678	14,234,327
Purchased services	377,841	413,907
Other	32,263	63,854
Total	<u>17,547,791</u>	<u>18,334,260</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE**  
**SUPPLEMENTAL SCHEDULES OF OPERATING**  
**EXPENSES INFORMATION**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Pre-anesthesia screening:		
Salaries	318,558	283,557
Materials and supplies	8,930	7,096
Total	<u>327,488</u>	<u>290,653</u>
Post-anesthesia recovery unit:		
Salaries	916,298	964,094
Materials and supplies	23,486	27,047
Purchased services	2,025	494
Other	3,745	5,539
Total	<u>945,554</u>	<u>997,174</u>
Day surgery:		
Salaries	799,166	841,446
Materials and supplies	71,065	89,789
Purchased services	4,078	4,581
Other	7,985	9,447
Total	<u>882,294</u>	<u>945,263</u>
Fastrack:		
Materials and supplies	31,844	-
Purchased services	87	-
Total	<u>31,931</u>	<u>-</u>
Endoscopy:		
Salaries	114,489	139,349
Materials and supplies	134,031	114,223
Purchased services	186	51
Other	(621)	48
Total	<u>248,085</u>	<u>253,671</u>
Emergency center:		
Salaries	3,330,926	3,252,098
Materials and supplies	369,964	368,666
Purchased services	287,568	345,406
Other	55,527	63,785
Total	<u>4,043,985</u>	<u>4,029,955</u>
Occupational health:		
Salaries	685,926	775,655
Materials and supplies	163,531	235,755
Purchased services	3,366	6,443
Other	747	(38,399)
Total	<u>853,570</u>	<u>979,454</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE**  
**SUPPLEMENTAL SCHEDULES OF OPERATING**  
**EXPENSES INFORMATION**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Distribution:		
Salaries	384,881	382,669
Materials and supplies	412,078	783,091
Purchased services	132,018	168,983
Other	7,495	4,137
Total	<u>936,472</u>	<u>1,338,880</u>
Organizational learning:		
Salaries	303,567	319,636
Materials and supplies	2,700	3,553
Purchased services	63,221	71,133
Other	(16,708)	(19,819)
Total	<u>352,780</u>	<u>374,503</u>
Neonatal nurse practitioner:		
Salaries	765,757	706,832
Materials and supplies	469	573
Purchased services	-	1,701.00
Other	7,075	3,340
Total	<u>773,301</u>	<u>712,446</u>
Fairgrove Primary Health:		
Salaries	632,485	552,286
Materials and supplies	134,106	148,779
Purchased services	246,718	223,113
Other	184,110	141,009
Total	<u>1,197,419</u>	<u>1,065,187</u>
Pain management:		
Salaries	(1,518)	165,448
Materials and supplies	427	7,443
Purchased services	2,500	42,107
Other	321	6,444
Total	<u>1,730</u>	<u>221,442</u>
Patient clinical information systems:		
Salaries	617,391	431,494
Materials and supplies	953	2,326
Purchased services	11,408	8,164
Other	9,591	5,968
Total	<u>639,343</u>	<u>447,952</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Infusion center:		
Salaries	437,821	388,033
Materials and supplies	41,177	32,401
Purchased services	(170)	38,632
Other	5,562	9,994
Total	<u>484,390</u>	<u>469,060</u>
Pulmonary Physician Practice:		
Purchased services	146	-
Other	140	-
Total	<u>286</u>	<u>-</u>
Research and Evidence-Based Practice:		
Salaries	92,634	108,227
Materials and supplies	2,045	4,378
Other	2,415	10,230
Total	<u>97,094</u>	<u>122,835</u>
Hospital Incident Command System:		
Salaries	74,347	64,265
Materials and supplies	3,592	1,956
Purchased services	18,583	9,552
Other	40,899	8,273
Total	<u>137,421</u>	<u>84,046</u>
TOTAL PATIENT CARE SERVICES	<u>53,577,159</u>	<u>55,318,052</u>
 OTHER PROFESSIONAL SERVICES		
Laboratory:		
Salaries	1,868,989	1,955,784
Materials and supplies	3,221,994	3,148,515
Purchased services	138,492	134,128
Other	33,126	51,161
Total	<u>5,262,601</u>	<u>5,289,588</u>
Neurodiagnostic lab:		
Salaries	90,881	97,472
Materials and supplies	3,659	9,955
Purchased services	27,793	28,136
Other	425	2,951
Total	<u>122,758</u>	<u>138,514</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Health first center:		
Salaries	416,556	386,398
Materials and supplies	10,368	13,121
Purchased services	165,118	187,611
Other	273,638	250,221
Total	<u>865,680</u>	<u>837,351</u>
Cardiovascular lab:		
Salaries	341,949	353,161
Materials and supplies	14,809	10,333
Purchased services	1,181	753
Other	2,891	7,235
Total	<u>360,830</u>	<u>371,482</u>
Clinical nutrition:		
Salaries	1,285	-
Total	<u>1,285</u>	<u>-</u>
CVCC Sim Hospital:		
Salaries	152,854	-
Total	<u>152,854</u>	<u>-</u>
Anesthesiology:		
Salaries	4,202,624	4,352,237
Materials and supplies	384,203	456,020
Purchased services	6,725	13,171
Other	45,906	41,156
Total	<u>4,639,458</u>	<u>4,862,584</u>
Radiology:		
Salaries	2,321,356	2,435,918
Materials and supplies	391,097	467,531
Purchased services	699,494	711,599
Other	1,082,052	1,355,341
Total	<u>4,493,999</u>	<u>4,970,389</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Lithotripsy:		
Salaries	197,776	185,173
Materials and supplies	2,229	1,616
Purchased services	105,928	92,681
Other	44,255	39,667
Total	<u>350,188</u>	<u>319,137</u>
CAT scan:		
Salaries	425,648	437,234
Materials and supplies	123,007	149,694
Purchased services	4,042	2,570
Other	9,735	2,257
Total	<u>562,432</u>	<u>591,755</u>
Radiation therapy:		
Salaries	1,133,745	1,087,386
Materials and supplies	160,181	128,556
Purchased services	47,217	49,236
Other	5,443	12,053
Total	<u>1,346,586</u>	<u>1,277,231</u>
Magnetic resonance imaging:		
Salaries	207,815	209,906
Materials and supplies	8,769	36,535
Purchased services	2,557	2,167
Other	1,359	-
Total	<u>220,500</u>	<u>248,608</u>
Heart and vascular services:		
Salaries	984,645	764,204
Materials and supplies	2,693,748	2,181,066
Purchased services	47,655	43,600
Other	16,874	5,655
Total	<u>3,742,922</u>	<u>2,994,525</u>
Respiratory EKG		
Salaries	287,456	43,240
Total	<u>287,456</u>	<u>43,240</u>
Nuclear medicine:		
Salaries	144,331	139,699
Materials and supplies	345,247	305,375
Purchased services	1,881	1,550
Other	10,680	2,059
Total	<u>502,139</u>	<u>448,683</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Radiology - sonics lab:		
Salaries	422,418	402,677
Materials and supplies	21,493	24,808
Purchased services	88	205
Other	1,684	973
Total	<u>445,683</u>	<u>428,663</u>
Pharmacy:		
Salaries	2,692,727	2,966,916
Materials and supplies	9,741,769	10,048,569
Purchased services	542,557	498,705
Other	15,106	27,917
Total	<u>12,992,159</u>	<u>13,542,107</u>
Clinical business intelligence:		
Salaries	199,771	217,514
Materials and supplies	692	2,489
Purchased services	782,762	745,327
Other	1,254	5,027
Total	<u>984,479</u>	<u>970,357</u>
Respiratory care:		
Salaries	1,641,229	1,656,962
Materials and supplies	845,322	783,992
Purchased services	44,627	42,363
Other	7,936	8,729
Total	<u>2,539,114</u>	<u>2,492,046</u>
Inpatient rehab:		
Salaries	986,259	1,047,141
Materials and supplies	10,678	11,453
Purchased services	9,529	177,197
Other	9,104	10,302
Total	<u>1,015,570</u>	<u>1,246,093</u>
Wound healing:		
Salaries	236,471	215,769
Materials and supplies	186,950	215,411
Purchased services	644,723	507,701
Other	52,364	48,979
Total	<u>1,120,508</u>	<u>987,860</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Physical therapy:		
Salaries	1,917,318	2,037,264
Materials and supplies	55,026	57,755
Purchased services	94,555	96,886
Other	31,402	34,289
Total	<u>2,098,301</u>	<u>2,226,194</u>
Diabetes education:		
Salaries	105,571	106,014
Materials and supplies	4,311	3,343
Purchased services	322	2,133
Other	2,009	2,680
Total	<u>112,213</u>	<u>114,170</u>
Surgical weight management:		
Salaries	148,638	95,497
Materials and supplies	2,303	797
Purchased services	55	495
Other	3,315	15,514
Total	<u>154,311</u>	<u>112,303</u>
Cardiac rehab:		
Salaries	299,457	267,286
Materials and supplies	3,718	5,721
Purchased services	4,464	1,655
Other	2,037	2,818
Total	<u>309,676</u>	<u>277,480</u>
Lifeline:		
Salaries	68,831	66,477
Materials and supplies	9,202	10,414
Purchased services	268,475	277,297
Other	13,193	10,203
Total	<u>359,701</u>	<u>364,391</u>
PRN pool:		
Salaries	5,059	4,337
Other	-	1,576.00
Total	<u>5,059</u>	<u>5,913</u>
Catawba Valley Psychiatric Services:		
Salaries	1,586,408	1,519,081
Materials and supplies	9,918	1,934
Purchased services	266,585	468,045
Other	74,076	71,704
Total	<u>1,936,987</u>	<u>2,060,764</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Center for Women's Specialties:		
Salaries	61,955	66,773
Materials and supplies	-	63.00
Purchased services	<u>75,566</u>	<u>76,032</u>
Total	<u>137,521</u>	<u>142,868</u>
Parenting network:		
Salaries	-	(1,036.00)
Total	<u>-</u>	<u>(1,036.00)</u>
Hickory Infectious Disease Consultants:		
Salaries	519,618	542,295
Materials and supplies	16,246	22,424
Purchased services	1,945	1,813
Other	<u>6,785</u>	<u>18,765</u>
Total	<u>544,594</u>	<u>585,297</u>
Surgical weight management:		
Salaries	143,614	138,059
Materials and supplies	1,079	953
Purchased services	18,531	16,456
Other	<u>8,082</u>	<u>12,136</u>
Total	<u>171,306</u>	<u>167,604</u>
CVMC Palliative Care Services:		
Other	<u>2,171</u>	-
Total	<u>2,171</u>	-
Sleep disorder center:		
Salaries	340,604	360,245
Materials and supplies	52,028	46,488
Purchased services	28,140	32,181
Other	<u>60,789</u>	<u>59,573</u>
Total	<u>481,561</u>	<u>498,487</u>
Childhood obesity prevention:		
Salaries	71,323	223,370
Materials and supplies	1,698	1,995
Purchased services	807	990
Other	<u>20,347</u>	<u>14,404</u>
Total	<u>94,175</u>	<u>240,759</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Physician Specialty Practice		
Purchased services	-	158,804
Total	<u>-</u>	<u>158,804.00</u>
 Catawba Valley Hospitalists		
Salaries	2,617,375	3,128,351
Materials and supplies	390	864
Purchased services	374,913	364,123
Total	<u>2,992,678</u>	<u>3,493,338</u>
 TOTAL OTHER PROFESSIONAL SERVICES	<u>51,409,455</u>	<u>52,507,549</u>

**CATAWBA VALLEY MEDICAL GROUP**

Employee Health Connection - Hickory:		
Salaries	105,575	125,855
Materials and supplies	3,537	3,280
Purchased services	435	-
Other	5,471	1,594
Total	<u>115,018</u>	<u>130,729</u>
 Employee Health Connection - Newton:		
Salaries	50,072	-
Materials and supplies	2,286	-
Purchased services	380	-
Other	4,923	-
Total	<u>57,661</u>	<u>-</u>
 CVFM- Maiden:		
Salaries	1,109,401	1,109,119
Materials and supplies	106,017	110,423
Purchased services	73,963	86,570
Other	264,329	294,316
Total	<u>1,553,710</u>	<u>1,600,428</u>
 CVFM- Southeast Catawba:		
Salaries	579,006	563,116
Materials and supplies	68,076	61,396
Purchased services	49,730	48,836
Other	173,701	174,268
Total	<u>870,513</u>	<u>847,616</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
CVFM- Catawba:		
Salaries	231,291	251,427
Materials and supplies	25,466	20,642
Purchased services	28,676	27,085
Other	115,987	126,911
Total	<u>401,420</u>	<u>426,065</u>
CVFM- Claremont:		
Salaries	438,608	433,612
Materials and supplies	45,027	44,712
Purchased services	40,535	40,198
Other	186,834	197,198
Total	<u>711,004</u>	<u>715,720</u>
CVFM- Viewmont:		
Salaries	478,093	988,871
Materials and supplies	42,514	63,397
Purchased services	33,028	45,768
Other	195,747	331,188
Total	<u>749,382</u>	<u>1,429,224</u>
CVFM- North Hickory:		
Salaries	549,916	559,789
Materials and supplies	54,352	61,424
Purchased services	55,217	62,446
Other	125,556	149,474
Total	<u>785,041</u>	<u>833,133</u>
CVFM- Northeast:		
Salaries	1,031,348	1,064,370
Materials and supplies	79,730	90,867
Purchased services	64,180	57,657
Other	258,102	286,410
Total	<u>1,433,360</u>	<u>1,499,304</u>
CVFM- Taylorsville:		
Salaries	1,057,285	1,016,599
Materials and supplies	118,291	123,673
Purchased services	100,818	108,882
Other	283,180	295,327
Total	<u>1,559,574</u>	<u>1,544,481</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Catawba Valley Cardiology:		
Salaries	2,254,730	1,904,871
Materials and supplies	22,466	22,690
Purchased services	53,614	73,629
Other	351,110	273,508
Total	<u>2,681,920</u>	<u>2,274,698</u>
Catawba Valley Urgent Care:		
Salaries	36,850	24,859
Materials and supplies	3,589	3,192
Purchased services	312	672
Other	11,731	12,003
Total	<u>52,482</u>	<u>40,726</u>
Catawba Valley Family Care:		
Salaries	333,110	274,162
Materials and supplies	58,566	56,602
Purchased services	55,757	51,681
Other	94,340	99,424
Total	<u>541,773</u>	<u>481,869</u>
CVFM - Mountain View:		
Salaries	682,225	779
Materials and supplies	43,869	11,411
Purchased services	58,099	10,416
Other	150,783	15,292
Total	<u>934,976</u>	<u>37,898</u>
CVFM - West Mountain View:		
Salaries	231,148	59
Materials and supplies	43,851	-
Purchased services	21,989	-
Other	84,172	-
Total	<u>381,160</u>	<u>59</u>
Catawba Valley Pulmonology:		
Salaries	101,533	-
Materials and supplies	2,274	-
Purchased services	674	-
Other	3,309	-
Total	<u>107,790</u>	<u>-</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Catawba Valley Vascular Surgery:		
Salaries	591,635	-
Materials and supplies	13,245	-
Purchased services	1,633	-
Other	241,952	-
Total	<u>848,465</u>	<u>-</u>
Practice management:		
Salaries	664,997	556,183
Materials and supplies	5,021	4,398
Purchased services	34,235	75,067
Other	(779,198)	(749,072)
Total	<u>(74,945)</u>	<u>(113,424)</u>
TOTAL CATAWBA VALLEY MEDICAL GROUP	<u>13,710,304</u>	<u>11,748,526</u>
 GENERAL SERVICES		
Nutrition care:		
Salaries	1,449,567	1,428,827
Materials and supplies	1,259,519	1,303,917
Purchased services	31,875	26,014
Other	24,408	45,544
Total	<u>2,765,369</u>	<u>2,804,302</u>
Plant operations:		
Salaries	1,298,466	1,475,907
Materials and supplies	127,497	176,668
Purchased services	2,473,815	2,206,493
Other	1,131,046	1,015,936
Total	<u>5,030,824</u>	<u>4,875,004</u>
Clinical technology services:		
Salaries	405,362	389,966
Materials and supplies	1,842	3,863
Purchased services	2,373,770	1,969,071
Other	295,688	290,316
Total	<u>3,076,662</u>	<u>2,653,216</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE**  
**SUPPLEMENTAL SCHEDULES OF OPERATING**  
**EXPENSES INFORMATION**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Laundry:		
Salaries	30,255	28,750
Materials and supplies	-	284.00
Purchased services	6,509	4,926
Other	-	-
Total	<u>36,764</u>	<u>33,960</u>
Environmental services:		
Salaries	1,344,050	1,389,687
Materials and supplies	195,526	214,885
Purchased services	548,804	578,107
Other	680,000	686,061
Total	<u>2,768,380</u>	<u>2,868,740</u>
Print shop:		
Salaries	51,892	53,038
Materials and supplies	17,885	41,962
Purchased services	477,894	463,097
Other	121,840	155,354
Total	<u>669,511</u>	<u>713,451</u>
Auxiliary units:		
Salaries	96,018	226,699
Materials and supplies	127,902	147,606
Purchased services	8,242	10,860
Other	82,169	76,399
Total	<u>314,331</u>	<u>461,564</u>
TOTAL GENERAL SERVICES	<u>14,661,841</u>	<u>14,410,237</u>
 ADMINISTRATIVE SERVICES		
Administration:		
Salaries	3,751,369	3,104,346
Materials and supplies	(388,012)	54,379
Purchased services	3,211,193	2,739,861
Other	1,232,099	1,458,473
Total	<u>7,806,649</u>	<u>7,357,059</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE  
SUPPLEMENTAL SCHEDULES OF OPERATING  
EXPENSES INFORMATION  
Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Salaries	239,071	240,153
Materials and supplies	1,174	1,783
Purchased services	2,254	8,345
Other	221,595	281,747
Total	<u>464,094</u>	<u>532,028</u>
Finance:		
Salaries	431,647	420,882
Other	(21,320)	(21,539)
Total	<u>412,222</u>	<u>403,040</u>
Corporate communications:		
Purchased services	2,102	40
Other	693,491	1,191,905
Total	<u>695,593</u>	<u>1,191,945</u>
Business services:		
Salaries	1,960,025	2,062,246
Materials and supplies	39,962	56,559
Purchased services	1,039,315	1,026,141
Other	(13,513)	(15,583)
Total	<u>3,025,789</u>	<u>3,129,363</u>
Communications:		
Salaries	254,434	245,075
Materials and supplies	1,275	479
Purchased services	3,030	582
Other	9,229	3,449
Total	<u>267,968</u>	<u>249,585</u>
Administrative services:		
Salaries	399,144	393,308
Materials and supplies	1,792	3,479
Purchased services	4,380	3,413
Other	8,594	(78,749)
Total	<u>413,910</u>	<u>321,451</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE**  
**SUPPLEMENTAL SCHEDULES OF OPERATING**  
**EXPENSES INFORMATION**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Information systems:		
Salaries	2,432,247	1,802,081
Materials and supplies	2,424	11,033
Purchased services	1,362,918	1,272,534
Other	3,655,078	3,291,708
Total	<u>7,452,667</u>	<u>6,377,356</u>
Human resources:		
Salaries	491,250	451,432
Materials and supplies	4,249	4,619
Purchased services	559	726
Other	(37,286)	(31,799)
Total	<u>458,772</u>	<u>424,978</u>
Employee benefits	<u>27,818,927</u>	<u>25,213,229</u>
Supply chain management:		
Salaries	350,045	353,492
Materials and supplies	3,615	(15,577)
Purchased services	35,631	36,754
Other	254,130	271,879
Total	<u>643,421</u>	<u>646,548</u>
Risk management:		
Salaries	142,443	142,547
Materials and supplies	297	364
Purchased services	11,670	11,929
Other	(64,380)	(55,675)
Total	<u>90,030</u>	<u>99,165</u>
Health information services:		
Salaries	1,241,333	1,179,727
Materials and supplies	16,912	17,633
Purchased services	1,193,348	1,197,486
Other	(1,914)	(2,681)
Total	<u>2,449,679</u>	<u>2,392,165</u>
Professional buildings:		
Other	139,448	148,948
Total	<u>139,448</u>	<u>148,948</u>

**CATAWBA VALLEY MEDICAL CENTER AND AFFILIATE**  
**SUPPLEMENTAL SCHEDULES OF OPERATING**  
**EXPENSES INFORMATION**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Case management:		
Salaries	983,653	963,170
Materials and supplies	582	24
Purchased services	1,162	4,000
Other	29,288	2,375
Total	<u>1,014,685</u>	<u>969,569</u>
Payroll:		
Salaries	80,429	74,961
Materials and supplies	1,479	1,877
Other	(7,465)	(5,925)
Total	<u>74,443</u>	<u>70,913</u>
Professional fees	<u>774,800</u>	<u>684,867</u>
Insurance	<u>2,301,413</u>	<u>1,727,654</u>
Other	<u>-</u>	<u>30.00</u>
TOTAL ADMINISTRATIVE SERVICES	<u>56,304,510</u>	<u>51,939,893</u>
DEPRECIATION	<u>16,919,838</u>	<u>14,994,183</u>
AMORTIZATION	<u>1,163</u>	<u>-</u>
LOSS ON DISPOSAL OF CAPITAL ASSETS	<u>39,170</u>	<u>19,420</u>
TOTAL OPERATING EXPENSES	<u>\$ 206,623,440</u>	<u>\$ 200,937,860</u>
<b>SUMMARY OF EXPENSES</b>		
Salaries and employee benefits	\$ 116,541,537	\$ 112,758,363
Materials and supplies	37,124,314	38,273,563
Purchased services	20,344,088	19,639,395
Other	12,577,117	12,840,415
Professional fees	774,800	684,867
Insurance (including medical malpractice)	2,301,413	1,727,654
Depreciation	16,919,838	14,994,183
Amortization	1,163	-
Gain on disposal of capital assets	<u>39,170</u>	<u>19,420</u>
TOTAL OPERATING EXPENSES	<u>\$ 206,623,440</u>	<u>\$ 200,937,860</u>