



HALIFAX  
HEALTH

August 5, 2015

I, the undersigned, Chief Financial Officer do hereby certify as follows:

- 1) I have reviewed the financial statements, and other financial information included with the financial statements, of Halifax Health and Halifax Medical Center Restricted Group as of and for the nine months ended June 30, 2015.
- 2) To the best of my knowledge, these financial statements and other financial information included with the financial statements do not contain an untrue statement of material fact and fairly present in all material respects the financial condition and results of operations as of, and for, the periods presented.
- 3) I am responsible for establishing and maintaining procedures that ensure that material information relating to the company is made known to us by others, particularly during the periods presented.
- 4) I have disclosed to the external auditors and the Audit Committee of the Board of Commissioners:
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the ability to record, process, summarize and report financial data and have identified for the auditors any material weaknesses in internal controls;
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in internal controls.
- 5) I have determined that there were no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Eric M. Peburn  
Chief Financial Officer

HALIFAX HEALTH  
MEDICAL CENTER

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**Halifax Health**  
**Summary Financial Narrative**  
**For the nine months ended June 30, 2015**

The year-to-date operating performance of Halifax Health (HH) is at or above budgeted targets, except for the debt to capitalization ratio that is expected to move to the budgeted target by fiscal year-end. HH's year-to-date performance compared to budget for key financial indicators is as follows

Financial Indicator	YTD Actual FY15	YTD Budget FY15	YTD Actual vs. Budget
Total Margin	5.1%	4.7%	Favorable
Operating Margin	3.8%	3.2%	Favorable
EBIDA Margin	13.3%	13.2%	Favorable
Days Cash on Hand	278	266	Favorable
Cash to Debt	99.1%	96.6%	Favorable
Debt to Capitalization	58.6%	58.0%	Unfavorable
OG MADS Coverage	2.67	2.39	Favorable
OG Debt to Capitalization	58.8%	58.5%	Unfavorable

**Halifax Health Medical Center**

*Statistical Summary--*

- Admissions for the month are greater than budget and last year; and for the year-to-date are less than budget and last year.
- Patient days for the month are greater than budget and less than last year; and for the year-to-date are greater than budget and last year.
  - Observation patient day equivalent units for the month are less than budget and last year; and for the year-to-date are greater than budget and last year.
- Surgery volumes for the month and year to date are greater than budget and last year.
- Emergency Room visits for the month are greater than budget and less than last year; and for the year-to-date are greater than budget and last year.

*Financial Summary --*

- Net patient service revenue for the year-to-date is 3.9% greater than budget.
- Total operating expenses for the year-to-date are 2.2% greater than budget.
- Income from operations year-to-date of \$12.7 million compares favorably to budget by \$5.0 million.
- Nonoperating gains year-to-date of \$1.8 million, primarily consisting of investment income of \$3.1 million and bond issuance costs of \$1.4 million, is less than the budgeted amount by \$598,000.
- The increase in net position year-to-date of \$14.5 million compares favorably to budget by \$4.4 million.

**Halifax Health Hospice**

*Statistical Summary --*

- Patient days for the month and year-to-date are less than budget and greater than last year.

*Financial Summary --*

- Net patient service revenue for the year-to-date is 13.8% less than budget.
- Loss from operations year-to-date of \$2.6 million compares unfavorably to budget by \$3.5 million.
- Nonoperating gains year-to-date of \$3.5 million, including investment income of \$2.8 million, is less than the budgeted amount by \$51,000.
- The increase in net position year-to-date of \$891,000 compares unfavorably to budget by \$3.6 million.

**Other Component Units** - The year-to-date financial performance is materially consistent with budgeted expectations.

**Halifax Hospital Medical Center  
Historical Utilization**

	Fiscal Year Ended September 30,			Nine-Months Ended
	<u>2012</u>	<u>2013</u>	<u>2014</u>	June 30, <u>2015</u>
<b><u>Inpatient Activity:</u></b>				
Admissions	22,770	22,321	22,381	16,826
Patient Days	117,493	119,833	124,296	98,138
Available Beds	541	533	526	533
Average Percent Occupancy	59.3%	61.6%	64.7%	67.4%
Average Length of Stay (Days)	5.2	5.4	5.6	5.8
Average Daily Census	321	328	341	359
Inpatient Admissions and Observation Patients	32,380	31,468	31,282	23,146
<b><u>Outpatient Activity:</u></b>				
Oncology Visits	48,491	49,684	48,891	37,237
Other Outpatient Visits	83,624	74,766	68,440	48,983
Community Clinic Visits	19,090	17,378	13,470	12,881
Primary Care and Children's Clinic Visits	0	0	16,375	20,668
Emergency Department	<u>116,850</u>	<u>112,576</u>	<u>113,477</u>	<u>86,923</u>
<b>Total</b>	<b>268,055</b>	<b>254,404</b>	<b>260,653</b>	<b>206,692</b>
<b><u>Surgical Activity:</u></b>				
Inpatient	5,408	5,253	4,995	3,811
Outpatient	<u>11,000</u>	<u>10,628</u>	<u>10,065</u>	<u>7,760</u>
<b>Total</b>	<b>16,408</b>	<b>15,881</b>	<b>15,060</b>	<b>11,571</b>

**Halifax Hospital Medical Center  
Sources of Payment**

	Fiscal Year Ended September 30,			Nine-Months Ended
	<u>2012</u>	<u>2013</u>	<u>2014</u>	June 30, <u>2015</u>
<b><u>Payment Source:</u></b>				
HMO/PPO	18.8%	18.8%	21.1%	23.2%
Medicare <sup>(1)</sup>	44.0%	42.2%	39.9%	39.7%
Commercial/Other	23.5%	23.4%	22.1%	23.3%
Medicaid <sup>(2)</sup>	13.0%	14.9%	16.4%	13.3%
Uninsured	<u>0.7%</u>	<u>0.7%</u>	<u>0.5%</u>	<u>0.5%</u>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>(1)</sup> Includes Medicare/Medicare HMO reimbursement

<sup>(2)</sup> Includes Medicaid/Medicaid HMO reimbursement

**Halifax Hospital Medical Center (Obligated Group)**  
**Statements of Net Position**  
(\$ in thousands)

	<u>2012</u>	<u>September 30, 2013</u>	<u>2014</u>	<u>June 30, 2015</u>
<b>Assets and Deferred Outflows</b>				
Current Assets				
Cash and cash equivalents	\$30,417	\$35,765	\$52,509	\$42,230
Investments	161,105	161,209	163,769	174,273
Current assests whose use is limited, trustee-held self insurance funds	881	806	734	716
Accounts receivable-patients, net	40,967	43,514	48,528	55,168
Inventories	11,312	11,365	11,439	12,424
Other current assets	11,574	16,140	15,076	10,861
Total current assets	256,256	268,799	292,055	295,672
Restricted funds under indenture agreements for debt service	20,452	20,196	20,196	20,058
Noncurrent assets whose use is limited:				
Board-designated funded depreciation	167,172	147,258	41,105	41,480
Capital assets, at cost, net	337,792	340,918	332,502	325,682
Investment in affiliates	95,277	113,077	114,647	119,857
Other assets	11,006	13,482	13,846	13,160
Total assets	887,955	903,730	814,351	815,909
Deferred outflows:				
Interest rate swap	33,398	19,262	24,531	27,744
Pension contribution after measurement <sup>(1)</sup>	0	0	18,970	12,816
Bond issue costs <sup>(1)</sup>	9,630	9,282	0	0
Loss on refunding of debt	5,028	4,664	2,078	6,790
Total deferred outflows	48,056	33,208	45,579	47,350
Total assets and deferred outflows	\$936,011	\$936,938	\$859,930	\$863,259
<b>Liabilities, Deferred Inflows and Net Position</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$58,140	\$61,496	\$65,617	\$69,750
Current portion of accrued self-insurance liability	5,233	5,001	4,786	4,198
Current portion of long-term debt	1,830	1,855	3,155	3,205
Other current liabilities	6,167	8,858	7,892	7,520
Total current liabilities	71,370	77,210	81,450	84,673
Long-term debt, less current portion	346,762	344,922	341,784	347,161
Accrued self-insurance liability, less current portion	7,647	8,268	8,792	8,490
Deferred inflows related to pension <sup>(1)</sup>	0	0	40,176	23,589
Net pension liability <sup>(1)</sup>	0	0	113,647	105,160
Other long-term liabilities	11,866	11,535	23,065	20,248
Long-term value of swap	33,398	19,262	24,531	27,744
Net position <sup>(1)</sup>	464,968	475,741	226,485	246,194
Total liabilities, deferred inflows and net position	\$936,011	\$936,938	\$859,930	\$863,259

Note :

<sup>(1)</sup> Halifax Health implemented GASB 65 and GASB 68 as of October 1, 2013.

**Halifax Hospital Medical Center (Obligated Group)**  
**Statements of Revenues, Expenses and Changes in Net Position**  
(\$ in thousands)

	Year Ended September 30,			Nine-Months Ended June 30
	2012	2013	2014	2015
Operating revenues:				
Net patient service revenue - before provision for bad debts	\$484,257	\$479,925	\$501,464	\$396,099
Provision for bad debts	(98,128)	(93,727)	(96,815)	(79,705)
Net patient service revenue	386,129	386,198	404,649	316,394
Ad valorem tax revenue	21,934	15,273	12,465	9,862
Other revenue	17,512	17,555	17,386	13,351
Total operating revenues	425,575	419,026	434,500	339,607
Operating expenses:				
Salaries and benefits	222,451	215,744	202,726	158,268
Purchased services <sup>(2)</sup>	41,652	41,761	50,084	45,752
Supplies	79,455	82,235	80,437	63,919
Depreciation and amortization	19,343	19,863	21,119	16,558
Ad valorem tax related expenses	9,091	6,685	6,750	5,150
Leases and rentals	8,297	8,015	7,817	5,581
Other	23,826	25,251	24,809	18,070
Total operating expenses	404,115	399,554	393,742	313,298
Income from operations before Settlements and related costs	21,460	19,472	40,758	26,309
Settlements and related costs <sup>(2)</sup>	(5,698)	(8,545)	(106,435)	0
Income (loss) from operations	15,762	10,927	(65,677)	26,309
Nonoperating revenues, expenses, and gains (losses):				
Interest expense	(18,905)	(18,561)	(18,325)	(14,957)
Investment income, net	13,472	472	5,730	3,126
Donation revenue	607	80	407	45
Nonoperating gains (losses), net	(293)	55	896	(24)
Income from affiliates	18,211	17,800	11,018	5,210
Total nonoperating revenues, expenses, and gains (losses)	13,092	(154)	(274)	(6,600)
Increase (decrease) in net position before other changes in net position	28,854	10,773	(65,951)	19,709
Other changes in net position:				
Change in accounting - pension <sup>(1)</sup>	0	0	(171,281)	0
Change in accounting - bond issue costs <sup>(1)</sup>	0	0	(12,024)	0
Total other changes in net position:	0	0	(183,305)	0
Increase (decrease) in net position	\$28,854	\$10,773	(\$249,256)	\$19,709

<sup>(1)</sup> Halifax Health implemented GASB 65 and GASB 68 as of October 1, 2013.

<sup>(2)</sup> Litigation costs related to the Settlements for the fiscal years ended September 30, 2012 and 2013 have been reclassified from purchased services to Settlements and related costs to conform with the fiscal year 2014 presentation.

**Halifax Health**  
**Statements of Net Position**  
(\$ in thousands)

	September 30, 2012	2013	2014	June 30, 2015
<b>Assets and Deferred Outflows</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$31,290	\$37,238	\$93,366	\$43,682
Investments	226,112	242,784	212,908	266,024
Current assets whose use is limited, trustee-held self insurance funds	881	806	734	716
Accounts receivable-patients, net	45,504	47,186	52,521	59,983
Inventories	11,427	11,459	11,561	12,546
Other current assets	11,722	16,245	15,159	10,989
Total current assets	326,936	355,718	386,249	393,940
Restricted funds under indenture agreements for debt service	20,660	20,404	20,386	25,914
<b>Noncurrent assets whose use is limited:</b>				
Board-designated	169,822	149,908	43,755	38,459
Other	5,675	5,671	5,671	5,671
Capital assets, at cost, net	373,723	376,494	369,118	363,785
Other assets	15,086	17,371	18,105	14,691
Total assets	911,902	925,566	843,284	842,460
<b>Deferred outflows:</b>				
Interest rate swap	33,398	19,262	24,531	27,744
Pension contribution after measurement <sup>(1)</sup>	0	0	20,000	13,512
Bond issue costs <sup>(1)</sup>	9,768	9,395	0	0
Loss on refunding of debt	5,416	4,982	2,143	6,841
Total deferred outflows	48,582	33,639	46,674	48,097
Total assets and deferred outflows	\$960,484	\$959,205	\$889,958	\$890,557
<b>Liabilities, Deferred Inflows and Net Position</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities	\$60,465	\$63,304	\$68,338	\$72,782
Current portion of accrued self-insurance liability	5,233	5,001	4,786	4,198
Current portion of long-term debt	3,912	4,006	5,375	5,470
Other current liabilities	8,467	11,039	9,894	7,554
Total current liabilities	78,077	83,350	88,393	90,004
Long-term debt, less current portion	357,182	353,192	347,834	351,509
Accrued self-insurance liability, less current portion	7,647	8,268	8,792	8,490
Deferred inflows - related to pension <sup>(1)</sup>	0	0	42,357	24,935
Net pension liability <sup>(1)</sup>	0	0	119,818	111,190
Other long-term liabilities	13,358	13,538	25,894	24,636
Long-term value of swap	33,398	19,262	24,531	27,744
Net position <sup>(1)</sup>	470,822	481,595	232,339	252,049
Total liabilities, deferred inflow and net position	\$960,484	\$959,205	\$889,958	\$890,557

Note:

<sup>(1)</sup> Halifax Health implemented GASB 65 and GASB 68 as of October 1, 2013.

**Halifax Health**  
**Statements of Revenues, Expenses and Changes in Net Position**  
(\$ in thousands)

	Year Ended September 30,			Nine-Months Ended June 31,
	2012	2013	2014	2015
Operating revenues:				
Net patient service revenue - before provision for bad debts	\$531,392	\$527,333	\$543,009	\$428,261
Provision for bad debts	(98,689)	(94,535)	(97,569)	(80,366)
Net patient service revenue	432,703	432,798	445,440	347,895
Ad valorem tax revenue	21,934	15,273	12,465	9,862
Other revenue	29,198	28,854	28,117	21,864
Total operating revenues	483,835	476,925	486,022	379,621
Operating expenses:				
Salaries and benefits	247,626	240,008	225,224	177,371
Purchased services <sup>(2)</sup>	55,343	55,945	64,216	56,678
Supplies	82,316	85,475	83,584	66,610
Depreciation and amortization	20,749	21,257	22,507	17,672
Ad valorem tax related expenses	9,091	6,685	6,750	5,150
Leases and rentals	10,042	9,962	9,788	7,429
Other	27,600	28,448	28,252	20,438
Total operating expenses before Settlements and related costs	452,767	447,780	440,321	351,348
Income from operations before Settlements and related costs	31,068	29,145	45,701	28,273
Settlements and related costs <sup>(2)</sup>	(5,698)	(8,545)	(106,435)	0
Income (loss) from operations	25,370	20,600	(60,734)	28,273
Nonoperating revenues, expenses, and gains (losses)				
Interest expense	(19,416)	(19,004)	(18,650)	(15,161)
Investment income, net	21,182	7,828	10,853	5,877
Donation revenue	2,017	1,306	1,684	743
Nonoperating gains (losses), net	(299)	43	896	(23)
Total nonoperating revenues, expenses, and gains (losses)	3,484	(9,827)	(5,217)	(8,564)
Increase (decrease) in net position before other changes in net position	28,854	10,773	(65,951)	19,709
Other changes in net position:				
Change in accounting - pension <sup>(1)</sup>	0	0	(171,281)	0
Change in accounting - bond issue costs <sup>(1)</sup>	0	0	(12,024)	0
Total other changes in net position	0	0	(183,305)	0
Increase (decrease) in net position	\$28,854	\$10,773	(\$249,256)	\$19,709

<sup>(1)</sup> Halifax Health implemented GASB 65 and GASB 68 as of October 1, 2013.

<sup>(2)</sup> Litigation costs related to the Settlements for the fiscal years ended September 30, 2012 and 2013 have been reclassified from purchased services to Settlements and related costs to conform with the fiscal year 2014 presentation.



**Halifax Health**  
**Statements of Cash Flows**  
(\$ in thousands)

	Fiscal Year Ended September 30,			Nine-Months Ended June 30,
	2012	2013	2014	2015
<b>Cash flows from operating activities:</b>				
Receipts from third party payors and patients	\$429,847	\$441,413	\$440,285	\$362,084
Payments to employees	(248,909)	(244,616)	(240,649)	(186,410)
Payments to suppliers	(144,342)	(159,315)	(153,093)	(142,828)
Receipt of ad valorem taxes	21,934	15,182	18,471	12,893
Other receipts	24,396	29,078	26,895	15,544
Other payments	(45,802)	(44,367)	(144,725)	(33,073)
Net cash provided by (used in) operating activities	37,124	37,375	(52,816)	28,210
<b>Cash flows from noncapital financing activities:</b>				
Payments for acquisition of a business	0	0	(185)	0
Purchase of equity interest	(456)	0	0	0
Proceeds from donations received	2,019	1,306	1,687	740
Payment of interest on notes payable	(28)	0	0	0
Other nonoperating (payments) receipts	(286)	54	18	(26)
Net cash provided by noncapital financing activities	1,249	1,360	1,520	714
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets	(14,632)	(23,715)	(16,137)	(12,609)
Proceeds from disposals	3,228	-	-	-
Payment of long-term debt	(3,730)	(3,912)	(4,001)	(4,811)
Payment of interest on long-term debt	(18,948)	(18,604)	(18,463)	(14,344)
Net cash used in capital financing activities	(34,082)	(46,231)	(38,601)	(31,764)
<b>Cash flows from investing activities:</b>				
Realized investment income	10,191	11,348	6,169	5,369
Purchases of investments/limited use assets	(105,475)	(123,674)	(201,597)	(55,843)
Sales/Maturities of investments/limited use assets	87,297	125,770	341,453	3,630
Net cash provided by (used in) investing activities	(7,987)	13,444	146,025	(46,844)
Net increase (decrease) in cash and cash equivalents	(3,696)	5,948	56,128	(49,684)
Cash and cash equivalents at beginning of period	34,986	31,290	37,238	93,366
Cash and cash equivalents at end of period	<u>\$31,290</u>	<u>\$37,238</u>	<u>\$93,366</u>	<u>\$43,682</u>