



HALIFAX  
HEALTH

August 11, 2017

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, 2017.
- 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

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**Halifax Health**  
**Summary Financial Narrative**  
**For the nine months ended June 30, 2017**

In October 2016, Halifax Health incurred estimated one-time costs of approximately \$1.8 million related to the impact of Hurricane Matthew. The performance of Halifax Health compared to budget for key financial indicators, including and excluding these one-time costs, is as follows.

Financial Indicator	YTD Actual FY 17	YTD Adjusted Actual FY 17 <sup>1</sup>	YTD Budget FY 17
Total Margin	2.4%	2.8%	1.9%
Operating Margin	0.9%	1.3%	0.9%
EBIDA Margin	9.7%	10.2%	9.5%
Operating EBIDA Margin	8.3%	8.8%	8.6%
Days Cash on Hand	246	249	262
Cash to Debt <sup>2</sup>	95.6%	96.1%	98.9%
Debt to Capitalization <sup>2</sup>	55.6%	55.5%	56.0%

OG MADS Coverage	2.07	2.18	2.09
OG Debt to Capitalization	54.6%	54.5%	55.0%

<sup>1</sup> Financial Indicator computed by excluding estimated Hurricane Matthew related expenses of \$1.8 million.

<sup>2</sup> Financial Indicator is computed including unamortized net premium on long-term debt of \$19.4 million. Excluding the unamortized net premium, Cash to Debt is 100.9% and Debt to Capitalization is 54.3% as of June 30, 2017.

**Halifax Health Medical Center**

*Statistical Summary--*

- Admissions for the fiscal year-to-date are less than budget and greater than last year.
- Patient days for the fiscal year year-to-date are greater than budget and last year.
  - Observation patient days for the fiscal year-to-date are greater than budget and last year.
- Surgery volumes for the fiscal year-to-date are less than budget and last year.
- Emergency room visits for the fiscal year-to-date are less than budget and last year.

*Financial Summary --*

- Net patient service revenue for the fiscal year-to-date is 2.2% greater than budget.
- Total operating expenses for the fiscal year-to-date are 2.6% greater than budget.
- Loss from operations fiscal year-to-date of \$1.7 million compares unfavorably to budget by \$2.8 million.
- Nonoperating gains/(losses) fiscal year-to-date of \$866,000, primarily consisting of net investment income, compare unfavorably to the budgeted amount by \$911,000.
- Decrease in net position fiscal year-to-date of \$812,000 compares unfavorably to budget by \$3.7 million.

**Halifax Health Hospice**

*Statistical Summary --*

- Patient days for fiscal year-to-date are less than budget and last year.

*Financial Summary --*

- Net patient service revenue for the fiscal year-to-date is 5.7% less than budget.
- Loss from operations fiscal year-to-date of \$1 million compares unfavorably to budget by \$1.5 million, due primarily to a Medicare settlement adjustment relating to fiscal year 2015 that reduced net patient service revenue by approximately \$1.2 million.
- Nonoperating gains fiscal year-to-date of \$5.5 million, including investment income of \$4.7 million, is greater than the budgeted amount by \$3.3 million.
- Increase in net position fiscal year-to-date of \$4.5 million compares favorably to budget by \$1.8 million.

**Halifax Hospital Medical Center**  
**Historical Utilization**

	Years Ended September 30,			Nine-Months Ended
	<u>2014</u>	<u>2015</u>	<u>2016</u>	June 30, <u>2017</u>
<b><u>Inpatient Activity:</u></b>				
Admissions	22,381	22,492	23,026	17,335
Patient Days	124,296	131,467	133,895	102,720
Available Beds	526	543	528	556
Average Percent Occupancy	64.7%	66.3%	69.4%	67.7%
Average Length of Stay (Days)	5.6	5.8	5.8	5.9
Average Daily Census	341	360	366	376
Inpatient Admissions and Observation Patients	31,282	30,887	32,027	24,366
<b><u>Outpatient Activity:</u></b>				
Oncology Visits	48,891	50,080	52,188	45,007
Other Outpatient Visits <sup>(1)</sup>	68,440	65,317	64,641	40,286
Community Clinic Visits	13,470	16,828	9,178	5,985
Primary Care and Children's Clinic Visits	16,375	28,180	50,685	41,053
Emergency Department	<u>113,477</u>	<u>115,026</u>	<u>115,580</u>	<u>85,805</u>
<b>Total</b>	<b>260,653</b>	<b>275,431</b>	<b>292,272</b>	<b>218,136</b>
<b><u>Surgical Activity:</u></b>				
Inpatient	4,995	5,148	5,419	4,013
Outpatient	<u>10,065</u>	<u>10,319</u>	<u>10,408</u>	<u>7,659</u>
<b>Total</b>	<b>15,060</b>	<b>15,467</b>	<b>15,827</b>	<b>11,672</b>

<sup>(1)</sup> Effective October 1, 2016, certain outpatient rehabilitation activity was included in a joint venture with a third-party. Visits totaling 9,000 were experienced by the joint venture for the three months ended June 30, 2017, which would have been previously included in other outpatient visits above.

**Halifax Hospital Medical Center**  
**Sources of Payment**

	Years Ended September 30,			Nine-Months Ended
	<u>2014</u>	<u>2015</u>	<u>2016</u>	June 30, <u>2017</u>
<b><u>Payment Source:</u></b>				
HMO/PPO	21.1%	23.4%	24.7%	24.1%
Medicare <sup>(1)</sup>	39.9%	39.7%	39.8%	42.4%
Commercial/Other	22.1%	23.1%	22.8%	22.1%
Medicaid <sup>(2)</sup>	16.4%	13.3%	12.2%	10.9%
Uninsured	<u>0.5%</u>	<u>0.5%</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)

	September 30,			June 30,
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Assets and Deferred Outflows</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$52,509	\$53,896	\$57,343	\$36,539
Investments	163,769	166,340	171,636	165,564
Current assets whose use is limited, trustee-held self insurance funds	734	686	612	570
Accounts receivable-patients, net	48,528	54,027	58,820	67,294
Inventories	11,439	12,258	11,224	12,896
Other current assets	15,076	13,759	14,468	15,822
Total current assets	292,055	300,966	314,103	298,685
Restricted funds under indenture agreements	20,196	20,176	12,687	7,248
<b>Noncurrent assets whose use is limited:</b>				
Board-designated funded depreciation	41,105	41,842	42,403	42,381
Capital assets, at cost, net	332,502	324,824	320,101	317,893
Investment in affiliates	114,647	111,310	125,355	134,150
Other assets	7,363	6,788	6,348	4,712
Total assets	807,868	805,906	820,997	805,069
<b>Deferred outflows:</b>				
Interest rate swap	24,531	33,267	39,431	30,898
Pension plan	18,970	14,434	36,390	26,190
Goodwill, net	6,483	5,098	3,823	2,867
Loss on refunding of debt	2,078	6,705	17,351	16,672
Total deferred outflows	52,062	59,504	96,995	76,628
Total assets and deferred outflows	\$859,930	\$865,410	\$917,992	\$881,696
<b>Liabilities, Deferred Inflows and Net Position</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued liabilities	\$65,617	\$66,948	\$64,580	\$61,598
Current portion of accrued self-insurance liability	4,786	4,833	4,898	4,510
Current portion of long-term debt	3,155	3,205	5,160	5,310
Other current liabilities	7,892	7,235	6,637	5,452
Total current liabilities	81,450	82,221	81,275	76,870
Long-term debt, less current portion	341,446	337,435	345,475	340,165
Premium on LTD, net	338	9,662	19,932	19,429
Accrued self-insurance liability, less current portion	8,792	7,876	8,077	8,240
Net pension liability	113,647	107,009	122,492	99,566
Other long-term liabilities	23,065	22,514	23,226	19,723
Long-term value of swap	24,531	33,267	39,431	30,898
Deferred inflows related to pension	40,176	19,102	1,262	-
Net position	226,485	246,324	276,822	286,805
Total liabilities, deferred inflows and net position	\$859,930	\$865,410	\$917,992	\$881,696

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

	Years Ended September 30,			Nine-Months Ended
	2014	2015	2016	June 30, 2017
Operating revenues:				
Net patient service revenue - before provision for bad debts	\$501,464	\$529,370	\$514,084	\$408,388
Provision for bad debts	(96,815)	(104,540)	(66,409)	(57,355)
Net patient service revenue	404,649	424,830	447,675	351,033
Ad valorem tax revenue	12,465	13,149	13,252	8,439
Other revenue	17,386	17,909	17,706	12,246
Total operating revenues	434,500	455,888	478,633	371,718
Operating expenses:				
Salaries and benefits	202,726	210,520	229,502	190,808
Purchased services	50,084	62,625	67,202	48,779
Supplies	80,437	84,282	90,480	73,315
Depreciation and amortization	21,119	22,136	23,245	16,646
Ad valorem tax related expenses	6,750	6,798	7,460	5,609
Leases and rentals	7,817	7,074	6,816	5,426
Other	24,809	23,960	25,500	18,255
Total operating expenses	393,742	417,395	450,205	358,838
Income from operations before Settlements and related costs	40,758	38,493	28,428	12,880
Settlements and related costs	(106,435)	-	-	-
Income (loss) from operations	(65,677)	38,493	28,428	12,880
Nonoperating revenues, expenses, and gains (losses):				
Interest expense	(18,325)	(17,913)	(17,020)	(12,558)
Bond issue costs	-	(1,359)	(1,774)	-
Investment income, net	5,730	4,126	6,283	810
Donation revenue	407	69	550	38
Nonoperating gains (losses), net	896	(240)	(14)	18
Income (loss) from affiliates	11,018	(3,337)	14,045	8,795
Total nonoperating revenues, expenses, and gains (losses)	(274)	(18,654)	2,070	(2,897)
Increase (decrease) in net position before other changes in net position	(65,951)	19,839	30,498	9,983
Other changes in net position:				
Change in accounting - pension <sup>(1)</sup>	(171,281)	-	-	-
Change in accounting - bond issue costs <sup>(1)</sup>	(12,024)	-	-	-
Total other changes in net position	(183,305)	-	-	-
Increase (decrease) in net position	(\$249,256)	\$19,839	\$30,498	\$9,983

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

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

	<b>September 30,</b>			<b>June 30,</b>
	<b><u>2014</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>
<b>Assets and Deferred Outflows</b>				
Current Assets				
Cash and cash equivalents	\$93,366	\$55,753	\$58,573	\$37,795
Investments	212,908	245,024	266,685	267,908
Current assets whose use is limited, trustee-held self insurance funds	734	686	612	570
Accounts receivable-patients, net	52,521	61,329	60,604	71,026
Inventories	11,561	12,359	11,334	13,007
Other current assets	15,159	13,843	14,365	15,975
Total current assets	386,249	388,994	412,173	406,281
Restricted funds under indenture agreements	20,386	20,365	12,687	7,438
Noncurrent assets whose use is limited:				
Board-designated	43,755	44,492	45,053	45,031
Other	5,671	5,671	5,860	5,671
Capital assets, at cost, net	369,118	362,697	356,341	353,109
Other assets	11,622	11,095	10,150	5,895
Total assets	836,801	833,314	842,264	823,425
Deferred outflows:				
Interest rate swap	24,531	33,267	39,431	30,898
Pension plan	20,000	15,218	38,366	27,613
Goodwill, net	6,483	5,098	3,823	2,867
Loss on refunding of debt	2,143	6,752	17,351	16,686
Total deferred outflows	53,157	60,335	98,971	78,064
Total assets and deferred outflows	\$889,958	\$893,649	\$941,235	\$901,489
<b>Liabilities, Deferred Inflows and Net Position</b>				
Current liabilities:				
Accounts payable and accrued liabilities	\$68,338	\$69,953	\$67,816	\$64,473
Current portion of accrued self-insurance liability	4,786	4,833	4,898	4,510
Current portion of long-term debt	5,375	5,495	7,335	7,307
Other current liabilities	9,894	11,031	8,096	5,617
Total current liabilities	88,393	91,312	88,145	81,907
Long-term debt, less current portion	347,496	341,244	346,770	340,165
Premium on LTD, net	338	9,612	19,932	19,429
Accrued self-insurance liability, less current portion	8,792	7,876	8,077	8,240
Net pension liability	119,818	112,819	129,142	104,972
Other long-term liabilities	25,894	25,202	25,732	23,219
Long-term value of swap	24,531	33,267	39,431	30,898
Deferred inflow - related to pension	42,357	20,139	1,330	-
Net position	232,339	252,178	282,676	292,659
Total liabilities, deferred inflow and net position	\$889,958	\$893,649	\$941,235	\$901,489



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

	Years Ended September 30,			Nine-Months Ended
	<u>2014</u>	<u>2015</u>	<u>2016</u>	June 30, <u>2017</u>
Operating revenues:				
Net patient service revenue - before provision for bad debts	\$543,009	\$573,132	\$557,277	\$439,615
Provision for bad debts	(97,569)	(105,641)	(67,416)	(58,218)
Net patient service revenue	445,440	467,491	489,861	381,397
Ad valorem tax revenue	12,465	13,149	13,252	8,439
Other revenue	28,117	24,122	27,553	20,176
Total operating revenues	486,022	504,762	530,666	410,012
Operating expenses:				
Salaries and benefits	225,224	236,144	254,494	209,666
Purchased services	64,216	77,739	80,896	58,168
Supplies	83,584	87,998	93,347	75,356
Depreciation and amortization	22,507	23,677	24,952	17,861
Ad valorem tax related expenses	6,750	6,798	7,460	5,609
Leases and rentals	9,788	9,560	6,147	6,971
Other	28,252	27,362	28,170	20,113
Total operating expenses before Settlements and related costs	440,321	469,278	495,466	393,744
Income from operations before Settlements and related costs	45,701	35,484	35,200	16,268
Settlements and related costs	(106,435)	-	-	-
Income (loss) from operations	(60,734)	35,484	35,200	16,268
Nonoperating revenues, expenses, and gains (losses)				
Interest expense	(18,650)	(18,168)	(17,199)	(12,648)
Bond issue costs	-	(1,359)	(1,774)	-
Investment income, net	10,853	2,871	12,312	5,534
Donation revenue	1,684	1,250	1,973	811
Nonoperating gains (losses), net	896	(239)	(14)	18
Total nonoperating revenues, expenses, and gains (losses)	(5,217)	(15,645)	(4,702)	(6,285)
Increase (decrease) in net position before other changes in net position	(65,951)	19,839	30,498	9,983
Other changes in net position:				
Change in accounting - pension <sup>(1)</sup>	(171,281)	-	-	-
Change in accounting - bond issue costs <sup>(1)</sup>	(12,024)	-	-	-
Total other changes in net position	(183,305)	-	-	-
Increase (decrease) in net position	(\$249,256)	\$19,839	\$30,498	\$9,983

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

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

	Year Ended September 30,			Nine-Months Ended
	2014	2015	2016	June 30,
				2017
<b>Cash flows from operating activities:</b>				
Receipts from third party payors and patients	\$440,285	\$456,695	\$493,855	\$374,810
Payments to employees	(240,649)	(252,524)	(276,694)	(231,886)
Payments to suppliers	(153,093)	(181,368)	(178,881)	(143,734)
Receipt of ad valorem taxes	18,471	13,151	13,181	11,610
Other receipts	26,895	40,403	30,934	26,472
Other payments	(144,725)	(43,000)	(44,137)	(32,732)
Net cash provided by (used in) operating activities	(52,816)	33,357	38,258	4,540
<b>Cash flows from noncapital financing activities:</b>				
Payments for acquisition of a business	(185)	-	-	-
Proceeds from donations received	1,687	1,250	1,980	810
Other nonoperating (payments) receipts	18	(241)	(14)	16
Net cash provided by noncapital financing activities	1,520	1,009	1,966	826
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets	(16,137)	(17,534)	(23,841)	(14,628)
Proceeds from issuance of long-term debt	-	115,311	165,490	-
Payment for defeasance of bonds	-	(124,086)	(168,728)	-
Payment of long-term debt	(4,001)	(5,409)	(2,295)	(6,923)
Transfers to trustee held funds	-	-	(12,619)	5,474
Premium on issuance of bonds	-	10,643	9,934	-
Payment of bond issue costs	-	(1,359)	(1,774)	-
Payment of interest on long-term debt	(18,463)	(18,013)	(14,761)	(15,810)
Net cash used in capital financing activities	(38,601)	(40,447)	(48,594)	(31,887)
<b>Cash flows from investing activities:</b>				
Realized investment income	6,169	6,820	8,515	4,516
Purchases of investments/limited use assets	(201,597)	(57,583)	(117,614)	(8,489)
Sales/Maturities of investments/limited use assets	341,453	19,231	120,289	9,716
Net cash provided by (used in) investing activities	146,025	(31,532)	11,190	5,743
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>56,128</b>	<b>(37,613)</b>	<b>2,820</b>	<b>(20,778)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>37,238</b>	<b>93,366</b>	<b>55,753</b>	<b>58,573</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$93,366</b>	<b>\$55,753</b>	<b>\$58,573</b>	<b>\$37,795</b>