Financial Statements
December 31, 2012 and 2011

Brookings Health System

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
Brookings Health System
Brookings, South Dakota

Report on the Financial Statements
We have audited the accompanying balance sheets of Brookings Health System, an enterprise fund of the City of Brookings, South Dakota, as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brookings Health System, an enterprise fund of the City of Brookings, South Dakota, as of December 31, 2012 and 2011, and the results of its operations, changes in net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued a report dated April 4, 2013, on our consideration of Brookings Health System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Other Matters
As discussed in Note 1, the financial statements present only Brookings Health System, an enterprise fund of the City of Brookings, South Dakota, and are not intended to present fairly the financial position of the City of Brookings, South Dakota, and the results of its operations, changes in net position, and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 16 to the financial statements, Brookings Health System early implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

Eide Bailly LLP

Sioux Falls, South Dakota
April 4, 2013

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	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	$ 6,921,193	$ 7,269,797
Restricted cash - by donors	5,500	5,500
Receivables		
Patient and resident, net of estimated uncollectibles of $6,539,000 in 2012 and $5,961,000 in 2011	5,733,052	5,883,201
Other	47,851	27,242
Interest	30,762	35,763
Supplies	691,693	628,569
Prepaid expenses	54,342	87,519
Total current assets	13,484,393	13,937,591
Noncurrent Cash and Investments		
Designated by Board for capital expenditures	9,140,199	9,053,135
Other long-term investments	4,494,080	3,008,680
Total noncurrent cash and investments	13,634,279	12,061,815
Capital Assets		
Land	1,617,996	1,617,996
Depreciable capital and intangible assets, net of accumulated depreciation and amortization	16,943,432	17,459,878
Construction in progress	10,380,987	332,206
Total capital assets, net of accumulated depreciation	28,942,415	19,410,080
Other Assets		
Investment in joint venture	60,625	-
Related party receivables	303,258	319,474
Physician loan receivables	-	25,000
Total other assets	363,883	344,474
Total assets	$ 56,424,970	$ 45,753,960

See Notes to Financial Statements

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	$ 15,355	$ -
Capital lease payable	980,400	-
Accounts payable		
Trade	779,861	690,304
Construction	2,016,725	-
Estimated third-party payor settlements	850,000	730,674
Accrued expenses		
Salaries and wages	941,085	627,485
Compensated absences	959,190	788,832
Payroll taxes and other	274,440	254,090
Deposits	28,517	22,488
Other current liabilities	9,986	4,563
Total current liabilities	6,855,559	3,118,436
Long-Term Debt, Less Current Maturities	3,307,814	-
Other Noncurrent Liabilities		
Compensated absences	162,000	352,000
Amounts due under joint operating agreements	1,560,918	1,486,230
Postretirement benefit liability	262,597	187,891
Total noncurrent liabilities	1,985,515	2,026,121
Total liabilities	12,148,888	5,144,557
Net Position		
Invested in capital assets, net of related debt	22,622,121	19,410,080
Restricted, expendable for staff education	5,500	5,500
Unrestricted	21,648,461	21,193,823
Total net position	44,276,082	40,609,403
Total liabilities and net position	$ 56,424,970	$ 45,753,960

	2012	2011
Operating Revenues		
Net patient and resident service revenue (net of provision for bad debts of $2,557,300 in 2012 and $1,834,199 in 2011)	$ 35,552,288	$ 32,593,104
Other revenue	772,898	618,555
Electronic health record incentive payments	1,453,000	-
Total revenues, gains, and other support	37,778,186	33,211,659
Operating Expenses		
Salaries and wages	16,363,855	15,019,760
Employee benefits	3,369,340	2,953,064
Supplies and other expenses	10,556,123	10,462,564
Depreciation and amortization	3,037,861	2,909,303
Insurance	409,945	379,222
Total operating expenses	33,737,124	31,723,913
Operating Income	4,041,062	1,487,746
Nonoperating Revenues (Expenses)		
Investment income	151,726	477,790
Joint operating agreement partner's share of (income)	(602,185)	(527,497)
Equity interest in income of joint venture	(45,819)	-
Noncapital grants and contributions	105,083	84,057
Gain on disposal of property and equipment	16,812	3,968
Total nonoperating (expenses) revenues, net	(374,383)	38,318
Excess of Revenues over Expenses and Increase in Net Position	3,666,679	1,526,064
Net Position, Beginning of Year	40,609,403	39,083,339
Net Position, End of Year	$ 44,276,082	$ 40,609,403

	2012	2011
Operating Activities		
Cash received from patient services	$ 35,827,792	$ 32,371,573
Cash payments to suppliers for goods and services	(10,881,458)	(10,937,411)
Cash payments to employees for services	(19,344,181)	(17,862,469)
Other receipts and payments, net	2,221,505	469,584
Net Cash from Operating Activities	7,823,658	4,041,277
Non-Capital Financing Activities		
Noncapital grants and contributions	110,506	72,566
Capital and Related Financing Activities		
Proceeds from long-term debt	3,323,169	-
Capital lease payments	(245,100)	-
Purchase of capital assets	(9,329,861)	(4,259,088)
Proceeds from sale of capital assets	18,702	22,303
Net Cash used for Capital and Related Financing Activities	(6,233,090)	(4,236,785)
Investing Activities		
Interest and dividends received	156,727	488,763
Proceeds from sales and maturities of investments	30,531,295	27,795,885
Purchases of investments	(34,491,965)	(24,975,990)
Investment in joint venture	(106,444)	-
Cash received from joint operating agreement partner	-	26,998
Cash distributed to joint operating agreement partner	(527,497)	(359,832)
Net Cash (used for) from Investing Activities	(4,437,884)	2,975,824
Net (Decrease) Increase in Cash and Cash Equivalents	(2,736,810)	2,852,882
Cash and Cash Equivalents, Beginning of Year	9,811,672	6,958,790
Cash and Cash Equivalents, End of Year	$ 7,074,862	$ 9,811,672
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 6,921,193	$ 7,269,797
Restricted cash in current assets	5,500	5,500
Board designated cash and cash equivalents	148,169	2,536,375
Total cash and cash equivalents	$ 7,074,862	$ 9,811,672

	2012	2011
Supplemental Disclosures of Noncash Financing Activity		
Capital lease incurred	$ 1,225,500	$ -
Accounts payable for capital assets	$ 2,016,725	$ -
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 4,041,062	$ 1,487,746
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	2,999,861	2,871,553
Amortization	38,000	37,750
Forgiveness of physician loan receivable	25,000	50,000
Change in assets and liabilities		
Patient receivables	150,149	(961,436)
Other receivables	(4,393)	(148,971)
Supplies	(63,124)	(19,316)
Prepaid expenses	33,177	(51,341)
Accounts payable	89,557	(74,968)
Estimated third-party payor settlements	119,326	740,674
Accrued expenses	389,014	110,355
Deposits	6,029	(769)
Net Cash from Operating Activities	$ 7,823,658	$ 4,041,277

Note 1 - Organization and Significant Accounting Policies

Reporting Entity

Brookings Health System (Organization) operates a 49-bed hospital, a 79-bed nursing home, a 25-unit congregate living center, and various medical clinics. The Organization is owned and operated as an enterprise fund of the City of Brookings (City), South Dakota. These financial statements present only the operations of the Health System. Financial statements for the City of Brookings are prepared under separate cover.

Enterprise Fund Accounting

The Organization uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Patient and Resident Receivables

Patient and resident receivables are uncollateralized patient, resident and third-party payor obligations. Unpaid patient and resident receivables have interest assessed at 1¼ percent per month at the discretion of the business office. Due to the uncertainty of collecting private pay accounts, these interest charges are recognized as revenue when received.

Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and residents and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

Physician Loan Receivable

Physician loans receivable are uncollateralized notes receivables issued to certain physician employees at market values as part of its physician recruitment process or in physician practice acquisitions. The notes are issued with forgiveness provisions that match the work commitment to encourage retention. Management reviews all notes receivable periodically and estimates a portion, if any, of the balance that will not be collected or earned under the work commitment arrangement. There was no allowance as of December 31, 2012 and 2011, respectively.

Supplies

Supplies are valued at lower of average cost or market.

Investments

Investments are stated at fair value. Interest, dividends, gains and losses, both realized and unrealized, on investments are included in nonoperating revenue when earned.

Capital Assets

Capital asset acquisitions in excess of $1,000 are capitalized and recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Intangible assets are amortized over their estimated economic life. All capital assets other than land are depreciated using the straight-line method of depreciation. The estimated useful lives of capital assets are as follows:

Land improvements	8-25 years
Buildings and improvements	10-40 years
Equipment	3-20 years
Intangible assets	4 years

Impairment of Long-Lived Assets

The Organization considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended December 31, 2012 and 2011.

Investment in Joint Ventures

The Organization records its interest in investments where the Organization has a twenty to fifty percent interest in a corporation under the equity method of accounting. Under the equity method, original investments are recorded at cost and adjusted for the Organization's share of undistributed earnings or losses and distributions.

Post-Employment Benefits

The Organization provides post-employment health insurance benefits. The Organization provides access to its health insurance program for certain retired employees that meet participation requirements based on age and employment tenure. Benefits are provided until the retiree reaches age 65. The benefit plan provides access to health benefits, but the premium payments are the responsibility of the retiree. In accordance with GASB No. 45, an actuarial determined net post-employment benefit obligation liability has been recorded to account for the implicit subsidy provided under the benefit plan (Note 12).

Grants and Contributions

From time to time, the Organization 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 to specific operating purposes are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

When the Organization has both restricted and unrestricted resources available to finance a particular program, it's the Organization's policy to use restricted resources before unrestricted resources.

Net Position

Net position is presented in the following components:

Invested in Capital Assets, Net of Related Debt – Invested in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation.

Restricted, Expendable for Staff Education – These are noncapital amounts that must be used for specific purposes as specified by creditors, grantors, or contributors external to the Organization. In this case, the net asset restrictions are for staff education.

Unrestricted – Unrestricted net position is the remaining net position that does not meet the definition of "invested in capital assets" or "restricted."

Operating Revenues and Expenses

The Organization's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Organization's principal activity. Nonexchange revenues, including 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, other than financing costs.

Advertising Costs

The Organization expenses advertising costs as incurred. The Organization incurred approximately $242,000 and $231,000 for advertising costs for the years ended December 31, 2012 and 2011.

Net Patient and Resident Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Medical malpractice insurance is discussed in Note 14.

Charity Care

The Organization provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue.

Compensated Absences

The Organization's employees earn vacation at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. Sick leave benefits are not paid upon termination or leaving employment, thus are not accrued as liabilities in the financial statements.

Electronic Health Record (EHR) Incentive Payments

The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR "meaningful use" criteria that become more stringent over three stages as determined by the Centers for Medicare & Medicaid Services (CMS).

During the year ended December 31, 2012, the Organization recorded $1,320,600 related to the Medicare program and $132,400 related to the Medicaid program in other operating revenue for meaningful use incentives. These incentives have been recognized into income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria. The Organization demonstrated meaningful use and attested to the compliance requirements for the Medicare and Medicaid programs during 2012. As the Hospital has continued to use EHR technology in a meaningful way under the Medicare program criteria, management has concluded there is reasonable assurance that the Hospital will successfully demonstrate meaningful use for the full reporting period and earn a Year 2 incentive payment as well.

Amounts recognized represent management’s best estimates for payments ultimately expected to be received based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates will be recognized in other operating revenue in the period in which additional information is available. Such estimates are subject to audit by the federal government or its designee.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to make them conform to the 2012 presentation. The reclassifications had no effect on excess of revenues over expenses or changes in net position.

Subsequent Events

The Organization has evaluated subsequent events through April 4, 2013, the date which the financial statement were available to be issued.

Note 2 - Charity Care

The Organization maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone, based on established rates, were $298,750 and $289,152 for the years ended December 31, 2012 and 2011, respectively.

Note 3 - Restricted Net Position

The Organization has received support from donors that have limited the use of the donated assets for specific purposes. The composition of these restricted expendable assets at December 31, 2012 and 2011, is set forth in the following table. These assets are stated at fair value.

	2012	2011
Restricted to support out-of-state staff education	$ 5,500	$ 5,500

Note 4 - Net Patient and Resident Service Revenue

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

Medicare - During 2009, the Organization began participation in the Centers for Medicare and Medicaid Services (CMS) Rural Community Hospital Demonstration Program as mandated under Section 410A of the Medicare Modernization Act. For inpatient services provided to patients after January 1, 2009, the Organization is reimbursed on a cost-based methodology subject to retrospective settlement within prescribed limits compared to their initial year base costs under the program. Prior to 2009, inpatient acute care services rendered to Hospital Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic, and other factors. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare fiscal intermediary. The Organization's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2011.

Medicaid - Inpatient acute care services rendered to Hospital 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. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a reimbursement methodology based on historical cost. Retroactive settlements are not carried out by the Medicaid program.

Blue Cross - Services rendered to Hospital Blue Cross subscribers are reimbursed under a prospectively determined methodology.

Nursing Home - The Organization is reimbursed for resident services at established billing rates which are determined on a cost-related basis subject to certain limitations as prescribed by South Dakota Department of Social Services regulations. These rates are subject to retroactive adjustment by field audit. The Organization also participates in the Medicare program for which payment for resident services is made on a prospectively determined per diem rate which varies based on a case-mix resident classification system.

The Organization has also entered into payments with certain commercial insurance carriers and other organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 29% and 9%, respectively, of the Organization's net patient service revenue for the year ended December 31, 2012 and 35% and 9%, respectively, for the year ended December 31, 2011. Laws and regulations governing the Medicare, Medicaid, and other 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.

A summary of patient and resident service revenues and contractual adjustments for the years ended December 31, 2012 and 2011, is as follows:

	2012	2011
Total patient and resident service revenue	$ 67,953,488	$ 57,298,166
Contractual adjustments and bad debts		
Medicare	(18,102,764)	(13,423,632)
Medicaid	(3,409,701)	(2,590,751)
Blue Cross	(4,794,208)	(3,760,067)
Other	(3,537,227)	(3,096,413)
Provision for bad debts	(2,557,300)	(1,834,199)
Total contractual adjustments and provision for bad debts	(32,401,200)	(24,705,062)
Net patient and resident service revenue	$ 35,552,288	$ 32,593,104

Note 5 - Deposits, Investments, and Investment Income

South Dakota statutes require that all municipal deposits are made in qualified public depositories, and that these depositories maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as FDIC and NCUA. As of December 31, 2012 and 2011, all of the Organization’s deposits were secured in accordance with these provisions.

The carrying amounts of deposits and investments are included in the Organization’s balance sheets as follows:

	2012	2011
Carrying amount		
Deposits	$ 7,074,862	$ 9,811,672
Investments	13,486,110	9,525,440
	$ 20,560,972	$ 19,337,112
Included in the following balance sheet captions		
Cash and cash equivalents	$ 6,921,193	$ 7,269,797
Restricted cash	5,500	5,500
Noncurrent cash and investments - Designated by Board	9,140,199	9,053,135
Noncurrent cash and investments - Other long-term investments	4,494,080	3,008,680
	$ 20,560,972	$ 19,337,112

The Organization's investments are reported at fair value, as discussed in Note 1. At December 31, 2012 and 2011, the Organization had the following investments and maturities, all of which were held in the name of the City of Brookings by a custodial bank that is an agent of the City and the Organization:

		Investment in Maturities (in Years)			
	Carrying Amount	Less Than 1	1 - 5	6-10	10 +
December 31, 2012					
Federal Home Loan Bank	$ 6,000,440	$ -	$ 6,000,440	$ -	$ -
Federal Farm Credit Bank	4,497,300	-	4,497,300	-	-
Fed. Home Loan Mortgage Corp	1,000,410	-	1,000,410	-	-
U.S. Treasury Notes	1,987,960	-	1,987,960	-	-
	$ 13,486,110	$ -	$ 13,486,110	$ -	$ -
December 31, 2011					
Federal Home Loan Bank	$ 6,519,860	$ -	$ 6,519,860	$ -	$ -
Fed. National Mortgage Assn.	3,005,580	-	3,005,580	-	-
	$ 9,525,440	$ -	$ 9,525,440	$ -	$ -

Interest Rate Risk

The Organization does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit Risk

Investments - In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). As of December 31, 2012 and 2011, the Organization's investments in Federal Home Loan Bank, Federal National Mortgage Association, and U.S. Treasury Notes were rated AA+ by Standard and Poor's and Aaa by Moody's Investor Services.

Concentration of Credit Risk

The Organization places no limit on the amount it may invest in any one issuer.

Investment Income

Investment income consists of the following for the years ended December 31, 2012 and 2011:

	2012	2011
Interest and dividend income	$ 147,133	$ 222,237
Realized gains, net	37,973	69,023
Net unrealized (loss) gain on investments	(33,380)	186,530
Investment income	$ 151,726	$ 477,790

Note 6 - Investment in Joint Venture

The Organization's ownership percentage and joint venture investment at December 31, 2012 and 2011 for entities recorded under the equity method are as follows:

	Investment		Share of Income (Loss)	
	2012	2011	2012	2011
Avera Home Medical Equipment of Brookings, LLC	$ 60,625	$ -	$ (45,819)	$ -

Note 7 - Joint Operating Agreements

The Organization participates in two joint operating agreements with Avera McKennan; one to provide diagnostic imaging services (MRI Services) in the Brookings Health System market and the other to operate Yorkshire Eye Clinic, an ophthalmology and optometry practice in the City of Brookings. Under the agreements, the joint operations are managed as departments of Brookings Health System and are not considered separate legal entities. Brookings Health System retains 51% of the gains and losses from each of the operations. The assets, liabilities, and operations are included in the Organization’s financial statements as Brookings Health System has title to the specific assets and liabilities of the joint operations and are contractually obligated to operate the departments. A liability is recorded for Avera McKennan's contributions to the joint operations and their allocable share of gains and losses under the joint operating agreements.

During the years ended December 31, 2012 and 2011, the Organization made net distributions of $527,498 and $332,834, respectively, to Avera McKennan.

Below is a summary of the amounts the Organization has recorded for Avera McKennan’s share of gains and (losses) for the years ended December 31, 2012 and 2011:

	2012	2011
Brookings MRI	$ 593,723	$ 516,816
Yorkshire Eye Clinic	8,462	10,681
	$ 602,185	$ 527,497

Note 8 - Capital Assets

A summary of property and equipment at December 31, 2012 and 2011, follows:

	December 31, 2011	Additions	Retirements	December 31, 2012
Land	$ 1,617,996	$ -	$ -	$ 1,617,996
Land improvements	1,826,100	35,897	-	1,861,997
Buildings	25,188,836	600,193	-	25,789,029
Equipment	18,237,651	1,885,324	33,387	20,089,588
Intangible assets	152,000	-	-	152,000
Construction in progress	332,206	10,048,781	-	10,380,987
Total at historical cost	47,354,789	12,570,195	33,387	59,891,597
Less accumulated depreciation for				
Land improvements	1,047,603	131,511	-	1,179,114
Buildings	13,868,831	994,508	-	14,863,339
Equipment	12,939,942	1,871,952	31,498	14,780,396
Intangible assets	88,333	38,000	-	126,333
Total accumulated depreciation	27,944,709	3,035,971	31,498	30,949,182
Capital assets, net	$ 19,410,080	$ 9,534,224	$ 1,889	$ 28,942,415

	December 31, 2010	Additions	Retirements	December 31, 2011
Land	$ 817,899	$ 800,097	$ -	$ 1,617,996
Land improvements	1,640,203	185,897	-	1,826,100
Buildings	19,661,888	5,526,948	-	25,188,836
Equipment	17,736,988	1,690,567	1,189,904	18,237,651
Intangible assets	152,000	-	-	152,000
Construction in progress	4,276,627	(3,944,421)	-	332,206
Total at historical cost	44,285,605	4,259,088	1,189,904	47,354,789
Less accumulated depreciation for				
Land improvements	955,419	92,184	-	1,047,603
Buildings	12,918,760	950,071	-	13,868,831
Equipment	12,282,213	1,829,298	1,171,569	12,939,942
Intangible assets	50,583	37,750	-	88,333
Total accumulated depreciation	26,206,975	2,909,303	1,171,569	27,944,709
Capital assets, net	$ 18,078,630	$ 1,349,785	$ 18,335	$ 19,410,080

Construction in progress at December 31, 2012, represents costs incurred for the construction of the Organization's skilled nursing facility. The estimated cost to complete this project is approximately $12.1 million. The skilled nursing facility construction project is expected to be completed during the year ended December 31, 2013. The project will be financed with proceeds from the City of Brookings Series 2012 certificates of participation and the Organization's investment reserves. The Organization capitalized interest costs of $16,123 and $-0- for the years ended December 31, 2012 and 2011 in connection with the project.

Note 9 - Leases

The Organization leases clinic office space and equipment under certain non-cancellable and cancellable long-term lease agreements. Total lease expense for the years ended December 31, 2012 and 2011, for all operating leases was $315,420 and $308,060, respectively.

Minimum future lease payments for the operating leases are as follows:

Year Ending December 31,	
2013	$ 119,880
2014	70,775
2015	33,070
	$ 223,725

The Organization leases certain equipment under non-cancellable long-term lease agreements. The capitalized leased assets consist of:

	2012	2011
Construction work in process	$ 1,225,500	$ -
Less accumulated amortization (included as depreciation and amortization on the accompanying financial statements)	-	-
	$ 1,225,500	$ -

Future minimum lease payments for the capital leases are as follows:

Lease payments, year ended December 31, 2013	$ 980,400
Less interest	-
Present value of minimum lease payments - Note 10	$ 980,400

Note 10 - Long Term Debt

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Amounts due within one year
Series 2012 - Certificates of Participation	$ -	$ 3,323,169	$ -	$ 3,323,169	$ 15,355
Capital lease obligations - Note 9	-	1,225,500	(245,100)	980,400	980,400
	$ -	$ 4,548,669	$ (245,100)	$ 4,303,569	$ 995,755

Long-term debt maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2013	995,755	132,262	$ 1,128,017
2014	62,962	130,719	193,681
2015	65,505	128,176	193,681
2016	68,152	125,529	193,681
2017	70,905	122,776	193,681
2018 to 2022	399,876	568,528	968,404
2023 to 2027	487,442	480,962	968,404
2028 to 2032	594,184	374,221	968,405
2033 to 2037	724,299	244,105	968,404
2038 to 2042	834,489	85,496	919,985
Total	$ 4,303,569	$ 2,392,774	$ 6,696,343

Certificates of Participation relate to debt issued by the City of Brookings to facilitate the financing of public capital projects. In October 2012, the City of Brookings issued $10,000,000 in Series 2012 certificates of participation to fund the construction of the Organization’s skilled nursing facility. The certificates bear interest at 3.98% and are due in quarterly installments through October 2042. The City leases the assets acquired with the proceeds from the certificates of participation under a Master Lease Purchase Agreement. For financial reporting purposes the Organization accounts for the certificates of participation as its own debt.

Note 11 - Pension Plan

Eligible employees participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor’s benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by the State to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 9 percent. State statute also requires the employer to contribute an amount equal to the employee's contributions. The Organization's share of contributions to the SDRS for the years ended December 31, 2012, 2011, and 2010 were $961,025, $853,574, and $812,563, respectively.

Note 12 - Post-Employment Health Care Benefit Liability

The Organization has adopted Governmental Accounting Standards Board (GASB) Codification Section P50 (formerly GASB Statement No. 45), *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*. The Organization engaged an actuary to determine the Organization's liability for post-employment health care benefits other than pensions and the actuary determined the only obligation the Organization has to record is the implied subsidy portion as described in the standard.

Plan Description – All employees are allowed upon meeting the eligibility requirements, to participate in the Organization's health insurance plan after retirement. This plan covers active and retired employees. The benefit plan provisions covering retired employees of the Organization provide access for retirees to purchase health insurance under the Organization's group health insurance plan. Retirees are required to reimburse the Organization for all premiums paid, thus there is no explicit cost for the Organization to sponsor this benefit program.

Plan Administration and Reporting – Brookings Health System administers the plan under a commercial insurance agreement with a private insurer. No separate financial reporting is done by the plan.

Authority for Establishment of Benefit Provisions – Under the authority of SDCL 6-1-16, Brookings Health System, through the Authority of the City Of Brookings as a South Dakota municipality, may provide for health insurance for retiring employees as the governing body deems appropriate subject to the limitations as described in SDCL 9-14-35.

Obligations of Plan Members and Sponsoring Organization – The governing board of the Organization determines the contribution amounts for the plan, which currently requires participating members to pay 100% of the group rate premium. Future amendments to the funding mechanism of the benefit plan are determined by the governing board.

Funding Policy – The Organization has elected to fund the plan on a pay-as-you-go method.

Annual OPEB Cost and Net OPEB Obligation – The Organization's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the Organization, an amount actuarially determined in accordance with the parameters of GASB Codification Section P50. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years.

The following table shows the components of the Organization's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Organization's net OPEB obligation:

	December 31, 2012	December 31, 2011
Present value of employer normal costs	$ 68,458	$ 31,262
Amortization of unfunded actuarial liability	34,524	13,637
Annual required contribution and annual OPEB cost	102,982	44,899
Contributions made	(28,276)	(8,404)
Increase in OPEB obligation	74,706	36,495
Net OPEB obligation, beginning of year	187,891	151,396
Net OPEB obligation, end of year	$ 262,597	$ 187,891

The Organization's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended December 31, 2012 and 2011, are as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributed	OPEB Obligation
12/31/2012	$ 102,982	27.46%	$ 74,706
12/31/2011	$ 44,899	18.72%	$ 36,495

Funded Status and Funding Progress – As of January 1, 2012, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $1,088,282, and the actuarial value of assets was $-0- resulting in an unfunded actuarial accrued liability (UAAL) of $1,088,282. As noted above, unfunded actuarial liabilities are being amortized over a period of thirty years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to the continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.25 percent investment rate of return (net of administrative expense), which is a blended rate of the expected long-term investment returns on the employer's own investments, and an annual healthcare cost trend rate of 7.1 percent initially, reduced by decrements to an ultimate rate of 5.7 percent after 10 years. Both rates include an inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years. The remaining amortization period at December 31, 2012, was 28 years.

Note 13 - Concentration of Credit Risk

The Organization grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at December 31, 2012 and 2011, was as follows:

	2012	2011
Medicare	33%	33%
Medicaid	6%	5%
Blue Cross	15%	16%
Dakotacare	6%	5%
Commercial	8%	9%
Other third-party payors, patients, and residents	32%	32%
	100%	100%

Note 14 - Contingencies

Malpractice Insurance

The Organization has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an annual aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Unemployment Benefits

The Organization provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

Litigations, Claims, and Disputes

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position of the Organization.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes that the Organization is in substantial compliance with current laws and regulations.

Other Insurance

The Organization purchases liability insurance for workers' compensation from a commercial carrier.

The Organization insures the healthcare benefits of its employees under an indemnity plan.

Note 15 - Related Party Transactions

As discussed in Note 1, the Organization is an enterprise fund of the City of Brookings, SD. The Organization purchased services, equipment, supplies, and insurance from the City of Brookings for the years ended December 31, 2012 and 2011 for $554,316 and $508,213, respectively. As of December 31, 2012 and 2011, accounts payable to related parties was $23,593 and $20,935, respectively.

During the year ended December 31, 2010, the Brookings Health System Foundation (Foundation) was formed to solicit contributions for the benefit of the Organization. The entity is governed by an independent board of directors, but certain initial costs of establishing the Foundation were funded by assets and services contributed by the Organization. In addition, the Foundation contracts for the services of its development director and certain other operational costs from the Organization. As of December 31, 2012 and 2011, the Organization had receivables of $303,258 and $319,474, respectively, from the Foundation for initial start-up costs and accumulated operational costs.

During the year ended December 31, 2012, Brookings Health System entered into an agreement with Avera Home Medical Equipment of Brookings, LLC for the lease of office space. Brookings Health System received rent revenue of $31,950 for the year ended December 31, 2012 under the terms of the lease agreement.

Note 16 - New Accounting Pronouncements

Newly Implemented Standards

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* That Statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.* Statement 62 was effective for the Organization's December 31, 2012 financial statements; however, the adoption of this statement did not have a material impact on the financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. That Statement amends Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement 63 was effective for financial statements for the Organization's December 31, 2012 financial statements; however, the adoption of this statement did not have a material impact.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. That Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Statement 65 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged. The Organization has elected to implement this statement early for the year ended December 31, 2012. The implementation of the standard did not have a material impact on the financial statements. As a result of the standard, financing costs of approximately $30,000 were charged to expense for the year ended December 31, 2012. Under previous guidance, the amounts would have been recorded as assets and amortized to expense of the term of the financing arrangement.

Standards Not Yet Implemented

In December 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity*, which amends GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments.* Changes under Statement No. 61 include an increased emphasis on financial relationships between primary governments and other organizations, clarification of the requirements to blend component units, and clarification of reporting equity interests in legally separate organizations. Statement No. 61 is effective for periods beginning after June 15, 2012. The Organization is currently evaluating the impact of these statements on the financial statements when implemented.

In March 2012, the GASB also issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62.* That Statement resolves conflicting guidance that resulted from the issuance of Statement No. 62. Statement 66 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged. The Organization has not elected to implement this statement early; however, the adoption of this statement is not expected to have a material impact on the financial statements.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans and Statement No. 68*, Accounting and Financial Reporting for Pensions,* which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other provisions, Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement calls for immediate recognition of more pension expense than is currently required. The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014. The Organization has not elected to implement these statements early. The Organization is currently evaluating the impact of these statements on the financial statements when implemented.

Supplementary Information
December 31, 2012 and 2011

Brookings Health System

Independent Auditor's Report on Supplementary Information

The Board of Directors
Brookings Health System
Brookings, South Dakota

We have audited the financial statements of Brookings Health System (Organization) as of and for the years ended December 31, 2012 and 2011, and our report thereon dated April 4, 2013, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of net patient and resident service revenue, other revenue, and expenses on pages 26 through 32 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Eide Bailly LLP

Sioux Falls, South Dakota
April 4, 2013

	2012	2011
Patient and Resident Service Revenue		
Adults and pediatrics	$ 7,630,741	$ 6,862,288
Radiology	11,492,365	8,639,618
Operating room	5,594,393	5,258,844
Brookview Manor	4,890,686	4,657,548
Emergency room	7,383,317	5,993,164
Laboratory	6,616,003	4,088,205
Pharmacy	4,921,118	4,666,904
Central service supplies	3,817,926	3,839,263
MRI	3,152,603	2,514,293
Respiratory care	1,860,877	1,430,352
Anesthesiology	1,133,319	1,099,095
Labor and delivery room	761,869	705,287
Nursery	621,981	631,292
Occupational therapy	875,912	733,833
Durable medical equipment	290,825	544,588
Physical therapy	1,850,288	1,110,476
Yorkshire Eye Clinic	1,201,595	1,210,489
Speech therapy	458,636	342,456
Cardiac rehab	257,843	239,859
Intensive care	95,972	107,828
Ambulance	1,353,150	1,263,179
Home health	658,091	499,117
Hospice	809,368	781,904
Hearth	195,744	193,248
Arlington Medical Center	273,977	174,188
White Medical Clinic	53,639	-
	68,252,238	57,587,318
Charity care	(298,750)	(289,152)
Total patient and resident service revenue	67,953,488	57,298,166
Contractual Adjustments and Bad Debts	(32,401,200)	(24,705,062)
Net Patient and Resident Service Revenue	$ 35,552,288	$ 32,593,104

	2012	2011
Other Revenue		
Brookhaven Estates	$ 375,033	$ 372,075
Cafeteria	214,362	192,418
Community health	17,788	9,501
Medical records	11,182	13,651
Miscellaneous	154,533	30,910
Total other revenue	$ 772,898	$ 618,555

	2012	2011
Adults and Pediatrics		
Salaries and wages	$ 2,116,253	$ 1,954,082
Supplies and other expenses	299,496	353,518
	2,415,749	2,307,600
Intensive Care		
Salaries and wages	21,780	11,836
Supplies and other expenses	40,162	40,664
	61,942	52,500
Nursery		
Salaries and wages	132,236	107,183
Supplies and other expenses	18,562	16,108
	150,798	123,291
Brookview Manor		
Salaries and wages	2,725,973	2,573,220
Supplies and other expenses	1,116,150	1,106,440
	3,842,123	3,679,660
Brookhaven Estates		
Salaries and wages	44,240	38,513
Supplies and other expenses	139,844	134,067
	184,084	172,580
Operating Room		
Salaries and wages	601,232	592,600
Supplies and other expenses	305,452	300,667
	906,684	893,267
Labor and Delivery Room		
Salaries and wages	121,897	110,571
Supplies and other expenses	134,979	307,188
	256,876	417,759
Pharmacy		
Salaries and wages	585,039	541,717
Supplies and other expenses	1,378,809	1,101,670
	1,963,848	1,643,387

	2012	2011
Central Service Supplies		
Salaries and wages	102,207	99,754
Supplies and other expenses	763,145	767,830
	865,352	867,584
Durable Medical Equipment		
Salaries and wages	27,613	30,059
Supplies and other expenses	5,088	72,759
	32,701	102,818
Anesthesiology		
Salaries and wages	594,863	559,121
Supplies and other expenses	46,032	39,699
	640,895	598,820
Radiology		
Salaries and wages	586,040	555,696
Supplies and other expenses	514,220	545,368
	1,100,260	1,101,064
MRI		
Salaries and wages	80,281	71,194
Supplies and other expenses	146,414	147,124
	226,695	218,318
Laboratory		
Salaries and wages	476,081	439,710
Supplies and other expenses	625,570	665,229
	1,101,651	1,104,939
Physical Therapy		
Salaries and wages	286,567	209,996
Supplies and other expenses	18,796	12,376
	305,363	222,372
Occupational Therapy		
Salaries and wages	114,296	107,107
Supplies and other expenses	21,407	54,595
	135,703	161,702

	2012	2011
Speech Therapy		
Salaries and wages	135,421	95,991
Supplies and other expenses	14,022	11,727
	149,443	107,718
Respiratory Care		
Salaries and wages	281,078	280,625
Supplies and other expenses	159,675	175,214
	440,753	455,839
Yorkshire Eye Clinic		
Salaries and wages	187,446	209,933
Supplies and other expenses	730,799	732,449
	918,245	942,382
Arlington Medical Center		
Salaries and wages	129,059	101,820
Supplies and other expenses	75,555	35,357
	204,614	137,177
White Medical Clinic		
Salaries and wages	90,759	-
Supplies and other expenses	47,043	-
	137,802	-
Cardiac Rehab		
Salaries and wages	94,567	82,133
Supplies and other expenses	23,211	12,757
	117,778	94,890
Emergency Room		
Salaries and wages	1,365,261	1,375,905
Supplies and other expenses	866,286	894,854
	2,231,547	2,270,759
Ambulance		
Salaries and wages	536,154	503,927
Supplies and other expenses	124,650	101,128
	660,804	605,055

	2012	2011
Home Health		
Salaries and wages	384,871	345,605
Supplies and other expenses	59,610	64,271
	444,481	409,876
Hospice		
Salaries and wages	191,878	148,096
Supplies and other expenses	66,299	54,113
	258,177	202,209
Hearth		
Salaries and wages	139,934	133,746
Supplies and other expenses	12,165	13,985
	152,099	147,731
Administration		
Salaries and wages	927,009	538,261
Supplies and other expenses	1,319,262	1,244,829
	2,246,271	1,783,090
Business Office		
Salaries and wages	989,170	985,304
Supplies and other expenses	250,990	242,569
	1,240,160	1,227,873
Data Processing		
Salaries and wages	358,753	359,960
Supplies and other expenses	434,460	447,361
	793,213	807,321
Maintenance		
Salaries and wages	260,075	271,019
Supplies and other expenses	666,675	639,468
	926,750	910,487
Laundry		
Salaries and wages	148,096	135,743
Supplies and other expenses *	(32,446)	(31,566)
	115,650	104,177

* These expenses are net of the Organization’s allocation to Brookview Manor and Brookhaven Estates.

	2012	2011
Dietary		
Salaries and wages	718,767	697,237
Supplies and other expenses *	92,539	79,495
	811,306	776,732
Housekeeping		
Salaries and wages	238,623	213,167
Supplies and other expenses	55,771	63,160
	294,394	276,327
Nursing Administration		
Salaries and wages	204,753	189,805
Supplies and other expenses	1,941	1,566
	206,694	191,371
Medical Records		
Salaries and wages	365,583	349,124
Supplies and other expenses	13,490	14,525
	379,073	363,649
Unassigned Expenses		
Employee benefits	3,369,340	2,953,064
Depreciation and amortization	3,037,861	2,909,303
Insurance	409,945	379,222
	6,817,146	6,241,589
Total Expenses	$ 33,737,124	$ 31,723,913

* These expenses are net of the Organization’s allocation to Brookview Manor and Brookhaven Estates.

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*

The Board of Directors
Brookings Health System
Brookings, South Dakota

We have audited, 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 General of the United States, the financial statements of Brookings Health System, which comprise the balance sheets as of December 31, 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 4, 2013.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered Brookings Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Brookings Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of Brookings Health System'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 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. 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 yet been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2012-1 and 2012-2, that we consider to be significant deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Brookings Health System's financial statements are free from 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, 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*.

Example Entity's Response to Findings

Brookings Health System's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Brookings Health System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Eide Bailly LLP

Sioux Falls, South Dakota
April 4, 2013

Finding No. 2012-1 – Segregation of Duties

Condition: The Organization has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that not one individual handles a transaction from its inception to its completion.

Cause: This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to decide whether to accept the degree of risk associated with this condition because of cost or other considerations. The board had considered the cost benefit of adding additional staff and has decided to accept the risk associated with this condition.

Effect: Inadequate segregation of duties could adversely affect the Organization's ability to detect misstatements that would be significant in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities. Given the changes that have occurred at the Organization in recent years with clinic acquisitions and increasing complexity of hospital reimbursement systems including Medicare Rural Demonstration, and in comparison to your peer group, we recommend that you consider adjusting the current staffing model by adding an accounting manager or equivalent general ledger accountant position.

Response: Management plans to review this finding in 2013 to determine whether cost effective solutions exist to improve this deficiency.

Finding No. 2012-2 – Financial Reporting

Condition: The Organization does not have an internal control system designed to provide for the preparation of the financial statements in accordance with accounting standards generally accepted in the United States of America.

Criteria: A good system of internal control contemplates the ability on the part of management to prepare complete financial statements which includes all footnote disclosures in accordance with general accepted accounting principles.

Cause: This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to decide whether to accept the degree of risk associated with this condition because of cost or other considerations. The board had considered the cost benefit of improving the internal control over financial reporting and has decided to accept the risk associated with this condition.

Effect: The inability to prepare the financial statements in accordance with accounting standards generally accepted in the United States of America, may affect the ability to properly report the Organization's financial position and results of operations.

Recommendations: We recommend the Organization periodically assess the accounting staff and review capabilities and resources required to prepare the full set of financial statements and related disclosures annually.

Response: Management has requested the auditors to draft the financial statements and accompanying notes to the financial statements in accordance with standards generally accepted in the United States of America.