

Accountants' Report

THE HILTON HEAD HOSPITAL

Hilton Head Island, South Carolina

June 30, 1977

McKNIGHT, FRAMPTON, BUSKIRK AND CO.

Certified Public Accountants

Hilton Head Island, South Carolina 29928

Ⓟ AH Hospital

THE HILTON HEAD HOSPITAL
BAYGALL ROAD
POST OFFICE BOX 1117
HILTON HEAD ISLAND, SOUTH CAROLINA 29928
TELEPHONE: (803) 785-6122

October 4, 1977



Mr. Arthur Horne, Chairman
County Council of Beaufort County
P. O. Box 1031
Beaufort, South Carolina 29902

Dear Mr. Horne:

Copies have just been presented to our Board of Trustees of the Audit of the Hospital operation for the fiscal year ending June 30, 1977.

I have enclosed two copies for use by the Council. Hopefully, you will not hesitate to call if we can answer any questions or furnish any other information.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Moultrie".

Moultrie D. Plowden
Administrator

MDP:aj
Enclosure

cc: Mr. Alec Turner

THE HILTON HEAD HOSPITAL
HILTON HEAD ISLAND, SOUTH CAROLINA

ACCOUNTANTS' REPORT

JUNE 30, 1977

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OFFICES IN
CHARLESTON
NORTH CHARLESTON
BEAUFORT
HILTON HEAD

September 8, 1977

The Board of Trustees
The Hilton Head Hospital
Hilton Head Island, South Carolina

We have examined the balance sheets of The Hilton Head Hospital as of June 30, 1977, and the related statements of revenue and expenses, changes in fund balances, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of The Hilton Head Hospital for the year ended June 30, 1976 were examined by other auditors whose report dated March 17, 1977 disclaimed an opinion on those statements for the following reasons quoted in part from their report:

"The Hospital incurred an operating loss of \$2,192,465 during its initial eleven months of operations ended June 30, 1976, and losses are continuing. The Hospital is in default on substantially all of its notes payable. The ability of the Hospital to generate cash flow and/or obtain funds from other sources sufficient to meet its significant cash requirements and to cure existing defaults under its loan agreements is not presently known. Realization of the Hospital's investment in property and equipment and other assets is dependent upon the success of the Hospital's future operations."

The statement of changes in financial position for the year ended June 30, 1976 has been restated as described in Note 13. The other auditors reported on the statement of changes in financial position for fiscal 1976 prior to the restatement.

As discussed in Note 9, the Hospital incurred operating losses of \$1,772,447.31 for 1977 and \$2,192,465.00 for 1976 as shown in Exhibit "C" and is in default of the Loan Agreement and various other note payable agreements as discussed in Note 6 and Note 5, respectively. The ability of the Hospital to operate at a profitable level, to generate cash flow, and/or obtain sufficient funds from other sources to meet current cash requirements and to rectify existing defaults in its loan agreements is not known at this time. The realization of the

MC KNIGHT, FRAMPTON, BUSKIRK AND CO.

The Board of Trustees
The Hilton Head Hospital

Page Two
September 8, 1977

Hospital's investment in property and equipment of \$9,069,081.23⁷⁷ and \$9,633,938.00⁷⁶ as of June 30, 1977 and 1976, respectively, and other assets of \$683,109.28 and \$794,565.00 as of June 30, 1977 and 1976, respectively, is dependent upon the outcome of the uncertainties referred to above.

We are unable to predict the outcome of the uncertainties mentioned in the preceding paragraph and therefore, due to the materiality of the aforementioned matters, we do not express an opinion on the aforementioned financial statements for the year ended June 30, 1977.

McKnight, Frampton, Buskirk and Co.

THE HILTON HEAD HOSPITAL
BALANCE SHEET
UNRESTRICTED FUNDS

Exhibit "A"
Sheet 1

<u>ASSETS</u>	As of June 30,	
	1977	1976
<u>Current Assets</u>		
Cash	\$ 71,953.45	\$ 31,121.00
Accounts receivable (less allowance for uncollectibles of \$110,000.00 in 1977 and \$63,000.00 in 1976) (Note 1)	361,475.92	243,845.00
Accounts receivable - LaMotte Clinic, P.A. (Notes 8 and 9)	50,201.03	46,118.00
Accounts receivable - other	3,564.33	708.00
Inventories (Notes 1 and 2)	94,777.73	99,305.00
Prepaid expenses	7,547.19	6,525.00
Escrow account (Note 5)	12,884.89	-0-
Total current assets	602,404.54	427,622.00
<u>The Hilton Head Hospital Trust (Note 11)</u>		
Cash	65,234.43	34,566.00
Pledges receivable (less allowance for uncollectibles of \$134,000.00 in 1977 and \$23,000.00 in 1976) (Note 1)	158,603.54	209,283.00
Investments (Note 1)	44,000.00	-0-
Total The Hilton Head Hospital Trust	267,837.97	243,849.00
<u>Cash and Temporary Investments Held by Bond Trustee (Note 4)</u>		
	459,244.70	1,330,118.00
<u>Fixed Assets (At cost, less accumulated depreciation) (Notes 1, 3, 5, 6, and 7)</u>		
	9,069,081.23	9,633,938.00
<u>Other Assets</u>		
Deferred bond issuance expenses (less accumulated amortization of \$43,615.00 in 1977 and \$28,675.00 in 1976) (Note 1)	412,072.09	427,012.00
Deferred preopening expenses (less accumulated amortization of \$168,483.00 in 1977 and \$82,512.00 in 1976) (Note 1)	271,037.19	367,553.00
Total other assets	683,109.28	794,565.00
Total Assets	\$11,081,677.72	\$12,430,092.00

See notes to financial statements.

THE HILTON HEAD HOSPITAL
BALANCE SHEET
UNRESTRICTED FUNDS

Exhibit "A"
Sheet 2

	As of June 30,	
	1977	1976
<u>LIABILITIES AND FUND BALANCE</u>		
<u>Current Liabilities</u>		
Accounts payable (approximately 50% delinquent in 1977)	\$ 193,617.01	\$ 369,369.00
? Accounts receivable - credit balances	26,316.71	-0-
Notes payable - due within one year (Notes 5 and 8)	198,815.05	230,164.00
Capitalized equipment lease obligations - due within one year (Note 7)	61,881.28	-0-
Payrolls and related taxes payable	39,955.32	83,578.00
Accrued interest payable	28,637.19	12,913.00
Total current liabilities	549,222.56	696,024.00
<u>The Hilton Head Hospital Trust (Note 11)</u>		
Notes payable	4,814.38	-0-
? Deferred revenues (Note 1)	263,023.59	243,849.00
Total The Hilton Head Hospital Trust	267,837.97	243,849.00
<u>Bond Interest Payable (Note 4)</u>	459,150.00	459,150.00
<u>Non-Current Liabilities</u>		
Notes payable - due after one year (Notes 5 and 8)	61,943.53	80,388.00
Capitalized equipment lease obligation - due after one year (Note 7)	477,953.94	533,361.00
Hospital Facilities Gross Revenue and First Mortgage Bonds (Note 6)	11,200,000.00	11,200,000.00
Total non-current liabilities	11,739,897.47	11,813,749.00
Total liabilities	13,016,108.00	13,212,772.00
<u>Contingencies (Note 9)</u>		
<u>Fund Balance (Deficit) (Exhibit "D")</u>	(1,934,430.28)	(782,680.00)
Total Liabilities and Fund Balance	\$11,081,677.72	\$12,430,092.00

See notes to financial statements.

THE HILTON HEAD HOSPITAL
BALANCE SHEET
RESTRICTED FUNDS

Exhibit "B"

	As of June 30,	
	1977	1976
<u>Construction Pledge Campaign Fund (Note 12)</u>		
<u>Assets</u>		
Cash on hand and in banks	\$ 1,950.00	\$ 25,974.00
Pledges receivable (less allowance for uncollectibles of \$161,000 in 1977 and \$208,000 in 1976) (Note 1)	55,860.02	103,239.00
Land and securities (Note 1)	57,000.20	175,470.00
Total Assets	\$ 114,810.22	\$ 304,683.00
<u>Fund Balance (Exhibit "D")</u>	\$ 114,810.22	\$ 304,683.00

See notes to financial statements.

THE HILTON HEAD HOSPITAL
STATEMENT OF REVENUES AND EXPENSES

Exhibit "C"

	For The Year Ended June 30,	
	1977	1976
<u>Patient Service Revenues</u>	\$ 2,141,414.25	\$ 1,219,907.00
<u>Deductions from Patient Service Revenues</u>		
Allowances and uncollectible accounts (Note 1)	(193,001.49)	(95,048.00)
Medicare and Medicaid contractual adjustments and administrative write offs	(25,678.75)	-0-
Total deductions from patient service revenues	(218,680.24)	(95,048.00)
Net patient service revenues	1,922,734.01	1,124,859.00
<u>Other Operating Revenues</u>		
Weight Control Center	89,733.69	-0-
LaMotte Clinic, P.A. rents and services (Note 8)	127,065.21	200,252.00
Cafeteria and vending machines	74,057.39	54,663.00
Miscellaneous	5,448.39	6,999.00
Adjustment for overstatement of prior years income (Note 10)	(11,530.22)	-0-
Total other operating revenues	284,774.46	261,914.00
Total operating revenues	2,207,508.47	1,386,773.00
<u>Operating Expenses</u>		
Nursing and other professional expenses	1,199,970.70	1,030,463.00
General services	556,954.93	605,592.00
Administrative and fiscal services	511,427.35	524,146.00
Weight Control Center expenses	77,292.73	-0-
Depreciation and amortization (Note 1)	629,771.41	540,575.00
Interest (Notes 5, 6 and 7)	1,004,538.66	878,462.00
Total operating expenses	3,979,955.78	3,579,238.00
Loss from operations	(1,772,447.31)	(2,192,465.00)
<u>Non-Operating Revenues (Expenses)</u>		
Hilton Head Hospital Trust (Note 11)		
Contributions	410,275.25	286,910.00
Fund raising expense	(17,917.03)	(35,779.00)
Contributions - Construction Pledge Campaign Fund	142,183.80	-0-
Interest income	37,033.84	71,725.00
Sinking fund expenses	(348.60)	-0-
Adjustment for overstatement of prior years income classified as other (Note 10)	(16,578.00)	16,578.00
Total non-operating revenues	554,649.26	339,434.00
Excess Expenses over Revenues	\$(1,217,798.05)	\$(1,853,031.00)

See notes to financial statements.

THE HILTON HEAD HOSPITAL
STATEMENT OF CHANGES IN FUND BALANCES

Exhibit "D"

	For The Year Ended June 30,	
	1977	1976
<u>Unrestricted Fund</u>		
Balance at the beginning of the year (deficit)	\$ (782,680.00)	\$ -0-
Excess of expenses over revenues (Exhibit "C")	(1,217,798.05)	(1,853,031.00)
Transfers from Construction Pledge Campaign Fund to Unrestricted Fund	64,207.24	1,064,565.00
Difference between fund balance and related assets	-0-	5,786.00
Transfer from Hospital Auxiliary for library books	1,840.53	-0-
Balance At End Of Year (Deficit)	\$ (1,934,430.28)	\$ (782,680.00)
 <u>Construction Pledge Campaign Fund</u>		
Balance at the beginning of the year	\$ 304,683.00	\$ 1,281,621.00
Pledges received	-0-	155,791.00
Investment income	25,218.26	25,337.00
Provision for uncollectibles	(8,700.00)	(60,000.00)
Transfers of cash to Unrestricted Fund	(64,207.24)	(1,064,565.00)
Transfers to non-operating revenue	(142,183.80)	-0-
Changes in valuation of pledged stock	-0-	(27,715.00)
Difference between fund balance and related assets	-0-	(5,786.00)
Balance At End Of Year	\$ 114,810.22	\$ 304,683.00

See notes to financial statements.

THE HILTON HEAD HOSPITAL
STATEMENT OF CHANGES IN FINANCIAL POSITION
UNRESTRICTED FUND

Exhibit "E"

	For the Year Ended June 30,	
	1977	1976
<u>Working Capital Was Provided By:</u>		
Long term borrowings	\$ 20,000.00	\$ 576,020.00
Transfers from Construction Pledge Campaign Funds	64,207.24	1,064,565.00
Transfer from Hospital Auxiliary	1,840.53	-0-
Sale of equipment	26,791.88	-0-
Reduction in fixed asset and other assets for prior year adjustments (Note 10)	26,195.79	9,738.00
Transfers of cash from Trustee's funds	870,873.30	2,448,357.00
Total working capital provided	1,009,908.74	4,098,680.00
<u>Working Capital Was Applied To:</u>		
Operations:		
Excess of expenses over revenues (Exhibit "C")	1,217,798.05	1,853,031.00
Less expenses not requiring the outlay of working capital during the current period:		
Depreciation	(528,860.41)	(444,588.00)
Amortization	(100,911.00)	(95,987.00)
Working capital applied to operations	588,026.64	1,312,456.00
Purchase of fixed assets	6,446.59	2,355,062.00
Increase in preopening and bond issuance expenses	-0-	132,960.00
Reductions in long-term debt	93,851.53	14,936.00
Total working capital applied	688,324.76	3,815,414.00
Increase in Working Capital	\$ 321,583.98	\$ 283,266.00
The increase in working capital is accounted for as follows:		
<u>Working Capital Increases (Decreases)</u>		
Cash	\$ 40,832.45	\$ 28,619.00
Accounts receivable	117,630.92	243,845.00
Accounts receivable - LaMotte Clinic, P. A.	4,083.03	39,762.00
Accounts receivable - other	2,856.33	708.00
Inventories	(4,527.27)	98,149.00
Prepaid expenses	1,022.19	(23,804.00)
Escrow account	12,884.89	-0-
Accounts payable	175,751.99	212,512.00
Accounts receivable - credit balances	(26,316.71)	-0-
Notes payable - due within one year	31,348.95	(224,164.00)
Capitalized equipment lease obligation - due within one year	(61,881.28)	-0-
Payrolls and related taxes payable	43,622.68	(83,578.00)
Accrued interest payable	(15,724.19)	(8,783.00)
Increase in Working Capital	\$ 321,583.98	\$ 283,266.00
See notes to financial statements.		

THE HILTON HEAD HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1977

Note 1. Summary of Significant Accounting Policies:

(a) Unrestricted and Restricted Funds - Restricted funds (as presented on Exhibit "B") refer to assets which have been restricted by donors as to use; and, therefore, funds designated by the administration are not included in restricted funds. Unrestricted funds are presented on Exhibit "A".

(b) Allowance for Uncollectibles - The Hilton Head Hospital (Hospital) accounts for its doubtful patient receivables using the reserve method based on its experiences since inception of direct write offs to gross revenues. The Hospital uses the prior collection experience of the Construction Pledge Campaign Fund's pledge receivables to account for its doubtful pledges for The Hilton Head Hospital Trust. The Construction Pledge Campaign Fund uses its prior collection experience to account for its doubtful pledges.

(c) Inventories - The Hospital values its inventories at lower of costs or market, principally on the first-in, first-out methods.

(d) Depreciation - Fixed assets are depreciated by the straight-line method at various rates calculated on the items' estimated useful lives.

(e) Amortization - Deferred bond issuance and preopening expenses are being amortized by the straight-line method over the life of the Hospital Facilities Gross Revenue and First Mortgage Bonds (Bonds) sold in June, 1974 and over a period of five years, respectively.

(f) Investments - Land and securities are valued at their estimated market value.

(g) Interest - During the construction of the Hospital, the interest expense was capitalized. Interest totaling \$76,818.00 was capitalized for the year ended June 30, 1976.

(h) Deferred Revenues - The Hilton Head Hospital Trust (Trust) accounts for pledges by recording a receivable and deferred revenue. When funds are transferred from the Trust to the general support of the Hospital, the deferred revenue is reduced and non-operating revenue is recorded.

(i) Medicare and Medicaid Programs - The Hospital renders care to patients covered by the Medicare and Medicaid programs. Final settlements under these programs are related to the allowable cost (limited so as to not exceed charges) of providing care to eligible patients. Normal billings for services to these patients are included in gross revenue, and allowances were made to reduce such billings to the estimated final settlement.

(j) General - The Hospital is a 40-bed acute care facility together with auxiliary support and administrative areas. A separate ambulatory care facility is currently being leased in part to LaMotte Clinic, P. A. Another 40-bed facility serves in part as a weight control center. The Hospital is a not for profit South Carolina corporation organized on August 22, 1973 and began operations in August 1975.

THE HILTON HEAD HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1977

Note 2. Inventories -

	As of June 30,	
	1977	1976
Medical and surgical supplies	\$ 61,976.21	\$ 71,439.00
Pharmacy	32,801.52	27,866.00
Total inventories	\$ 94,777.73	\$ 99,305.00

Note 3. Fixed Assets -

	Range of Estimated Useful Lives (Years)	As of June 30,	
		1977	1976
Land	-	\$ 84,410.00	\$ 84,410.00
Land improvements	12	254,945.02	254,945.00
Building and fixtures	20-40	8,302,004.48	8,330,130.00
Movable equipment	5-10	1,398,419.26	1,409,041.00
Total cost		10,039,778.76	10,078,526.00
Accumulated depreciation		(970,697.53)	(444,588.00)
Net Fixed Assets		\$ 9,069,081.23	\$ 9,633,938.00

Note 4. Cash and Temporary Investments Held by Bond Trustee - The Trustee holds cash and temporary cash investments in various sinking funds outlined in the trust indenture covering the Bonds. These assets are as follows:

	As of June 30,	
	1977	1976
Cash	\$ 459,244.70	\$ 1,261,178.00
Temporary cash investments (at cost)	-0-	67,464.00
Interest receivable	-0-	1,476.00
Total	\$ 459,244.70	\$ 1,330,118.00

The use of these assets have been to primarily pay interest due on the Bonds, which interest totaled \$918,300.00 in each year of 1977 and 1976. The Hospital has not made the required deposits with the Trustee as explained in Note 6.

THE HILTON HEAD HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 1977

Note 5. Notes Payable

	<u>As of June 30, 1977</u>	
	<u>Due Within One Year</u>	<u>Due After One Year</u>
(a) Bankers Trust of South Carolina holds a note collateralized by the Construction Pledge Campaign Fund assets (\$114,810.22) and second mortgages on properties held by Island Investment Corporation a related party (Note 8). The note was due February 1977 with interest at 1½% above the prime rate. The Hospital remitted an interest payment to the bank which was returned and is being held in escrow. The Hospital remains in default.	\$ 153,493.11	\$ -0-
(b) Island Investment Corporation holds an unsecured note which is currently in default. The note is payable in annual installments in August of \$6,000.00 with interest at 6% per annum. (Note 8)	12,000.00	40,665.00
(c) Systems Associate, Inc. holds an unsecured note payable in annual installments of \$5,000.00 on August 11, 1977 and 1978 and \$4,000.00 on August 11, 1979 with interest at 8% per annum.	5,000.00	9,000.00
(d) Burroughs Corporation holds a security interest in a 26701-860 mini-computer with a book value of \$23,143.65 on a note payable in monthly installments of \$390.59 with interest at 10.4% per annum.	3,321.94	12,278.53
(e) Louis H. LaMotte holds an unsecured note payable on October 27, 1977 with no interest.	<u>25,000.00</u>	<u>-0-</u>
Totals	<u>\$ 198,815.05</u>	<u>\$ 61,943.53</u>

THE HILTON HEAD HOSPITAL
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 1977

Note 6. Hospital Facilities Gross Revenue and First Mortgage Bonds - The 7.25% - 8.25% Bonds were issued on June 20, 1974, in the amount of \$11,200,000.00 under an Indenture dated June 1, 1974, and are limited obligations of Beaufort County, South Carolina. The County and the Hospital have entered into a Loan Agreement under which the Hospital has agreed to pay to Bankers Trust of South Carolina, as Trustee under the Loan Agreement, amounts sufficient to pay all debt service and costs associated with administration of the Loan Agreement and the Indenture.

The Hospital is required to deposit with the Trustee gross revenues from operations to the extent required for the next succeeding month's costs incidental to the administration of the Trust and installments to the Sinking Funds and Depreciation Reserve Fund. Due to the Hospital's cash position, no deposits have been made to the Trustee as of June 30, 1977.

The failure to make the required deposits with the Trustee, as previously stated, along with other violations of the Loan Agreement have resulted in the Hospital being in default. The Trustee has informed the Bondholders of these conditions. There has been no notice given by either the Trustee or the Bondholders of any foreclosure action planned as a result of the default situation, but there is no assurance that such action will not be taken in the future.

The bonds are collateralized by the gross revenues of the Hospital and a first mortgage on the Hospital facilities and land. Interest is payable on each January 1 and July 1 beginning January 1, 1975. Bonds aggregating \$1,125,000.00 and maturing serially from January 1, 1979 through January 1, 1985, are not subject to redemption prior to their maturity dates. Bonds aggregating \$10,075,000.00 and maturing on January 1, 2005, will be redeemable at the option of the County not earlier than January 1, 1985, at 104% plus interest and at declining redemption premiums thereafter. Such bonds are also subject to mandatory redemption without premium in specified annual amounts commencing January 1, 1986 through January 1, 2005.

The scheduled principal and interest for the next five fiscal years are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1978	\$ -0-	\$ 918,300.00	\$ 918,300.00
1979	125,000.00	918,300.00	1,043,300.00
1980	135,000.00	908,300.00	1,043,300.00
1981	150,000.00	897,500.00	1,047,500.00
1982	160,000.00	885,500.00	1,045,500.00
	<u>\$ 570,000.00</u>	<u>\$ 4,527,900.00</u>	<u>\$ 5,097,900.00</u>

Principal and interest requirements for fiscal years ending June 30, 1983 to 2005 are approximately \$1,046,000.00 per year.

THE HILTON HEAD HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1977

Note 7. Capitalized Equipment Lease Obligations - Hundred East Credit Corporation holds a security interest in radiology equipment with a book value of \$378,886.00 under a lease agreement to run 61 months from July 1, 1976. The lease is payable in monthly installments of principal and interest at 12.25% per annum as follows:

(a) July 1977 - December 1977 - 40% of prior months revenues for the Hospital Radiology Department but no less than \$4,000.00 nor more than \$5,500.00 per month.

(b) January 1978 - June 1981 - Minimum of 40% of prior months revenues of Radiology Department with a maximum of \$15,862.20 per month installment.

Current portion of lease is \$61,881.28 and the portion that is non-current is \$477,953.94 assuming maximum monthly payments.

Note 8. Related Party Transactions -

Island Investment Corporation - Dr. Peter LaMotte (Vice Chairman of the Board of Trustees) and Mr. William L. Bethea, Jr. (member of the Board of Trustees and Secretary of the Hospital) are the principal stockholders of Island Investment Corporation. The Hospital facilities are constructed on a 17-acre site purchased from Island Investment Corporation through the issuance of a 6% subordinated note payable. As stated in Note 5, the note is currently in default. The terms of the sales agreement provide that Island Investment Corporation can only look to the corporate entity in the event of foreclosure on the note and not to the 17-acre site. Island Investment Corporation has allowed a second mortgage on certain of its properties as collateral for a note payable to Bankers Trust of South Carolina (Note 5).

?
Why
Rent
Decrease }
LaMotte Clinic, P. A. - The LaMotte Clinic, P. A. (Clinic) is a professional association of physicians who are currently members of the Hospital medical staff. The clinic leases in part the adjoining ambulatory care facility from the Hospital for \$77,669.26 for 1977 and \$83,143.00 for 1976. The lease has a term of five years extending to 1980 but is subject to renewal, under similar terms, for nine additional five-year terms. The Hospital and the Clinic have negotiated certain modifications to these lease terms primarily with respect to the amount of annual lease payments. Total billings to the Clinic for rent and other services were \$127,065.21 for 1977 and \$200,252.00 for 1976. The Clinic is currently indebted to the Hospital for billings from February 1977 to June 30, 1977 of \$50,201.03. The Hospital is currently negotiating with the Clinic on a settlement of this account. The continued delinquency of this receivable may be construed under Internal Revenue Code Section 501(c)(3) as a private benefit to the Clinic and thereby effect the tax exempt status of the Hospital. One of the requirements in the Loan Agreement and the Trust Indenture is that the Hospital maintain an income tax exemption under Internal Revenue Code Section 501(c)(3).

THE HILTON HEAD HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1977

Note 9. Contingencies -

Operations and Debt Matters - As shown on Exhibit "C", the Hospital has incurred operational losses of \$1,772,447.31 and \$2,192,465.00 for 1977 and 1976, respectively and such losses are continuing after June 30, 1977. Therefore, the Hospital has relied on campaigns for contributions, deferment of payments to creditors, and monies from the Bond issue to continue operations through fiscal 1977.

Due to these losses, the Hospital has been unable to generate sufficient cash-flow to meet certain of its notes payable commitments as described in Note 5 and to meet its funding requirements under the Loan Agreement as discussed in Note 6. Accordingly, the Hospital is in default in these notes payable and the Loan Agreement and as a result thereof, all of these lenders and/or bondholders have the right to demand immediate payment of the total outstanding principal balances plus accrued interest, or take the required action so as to take possession of the related collateral. There has been no indication from the lenders that they will take foreclosure action on the defaults but there is no assurance that they will not do so in the future.

Note 10. Adjustment to Prior Years Income - Current year's Other Operating Revenues and Non-Operating Revenues were reduced for the year ended June 30, 1977 for certain accounting errors for the year ended June 30, 1976 which were discovered during the year ended June 30, 1977.

Note 11. Hilton Head Hospital Trust - The Hilton Head Hospital Trust (Trust) was formed during fiscal 1976 for the purposes of providing general support to the Hospital as approved by the Trustees of the Trust. Subsequent to June 30, 1977, the assets of the Trust are to be incorporated under Section 351 of the Internal Revenue Code and the Trust is to request a ruling from the Internal Revenue Service on being a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Note 12. Restricted Fund - Construction Pledge Campaign Fund was formed originally to receive contributions in support of the construction program of the Hospital. It has subsequently supported the general operations of the Hospital.

Note 13. Change in Accounting Principle - The Hospital's method of reporting the statement of changes in financial position has been changed from the cash-flow method used in fiscal 1976 to the all financial resources method. Accordingly the statement of changes in financial position has been restated to conform and make comparable the fiscal 1977 statement of changes in financial position.

OTHER FINANCIAL INFORMATION

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September 8, 1977

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CHARLESTON
NORTH CHARLESTON
BEAUFORT
HILTON HEAD

ACCOUNTANTS' REPORT ON OTHER FINANCIAL INFORMATION

The Board of Trustees
The Hilton Head Hospital
Hilton Head Island, South Carolina

The audited financial statements of the Hospital, including our report, are presented in the preceding section of this report. The following financial information on Schedules 1, 2 and 3, although not considered necessary for a fair presentation of financial position, results of operations and changes in financial position in conformity with generally accepted accounting principles, is presented for supplementary analysis purposes. The information is not presented in comparative form due to the Hospital completely revising its method of classifying revenues and expenses. The information has been subjected to the audit procedures applied in the examination of the basic financial statements. For the same reasons expressed in our preceding report contained herein on the financial statements, we do not express an opinion on the other financial information.

In accordance with Section 13.8 of the Loan Agreement dated June 1, 1974, between The Hilton Head Hospital and Beaufort County, South Carolina, certain information has either been included in the preceding financial statements or Schedule 3 except for the following statements, which we are now making:

1. We obtained no knowledge of any Bonds being paid, purchased or redeemed
2. We obtained no knowledge of any proceeds from the sale of any property, condemnation award or insurance under the loan agreement, other than the sale of dental equipment.

McKnight, Frampton, Buskirk and Co.

THE HILTON HEAD HOSPITAL
SCHEDULE OF PATIENT SERVICE REVENUES
FOR THE YEAR ENDED JUNE 30, 1977

Schedule 1

Room and general services	
Acute care units	\$ 694,945.00
Intensive care and coronary care units	119,161.89
Operating and recovery room	153,888.69
Emergency room	119,132.50
Medical and surgical supplies	47,491.50
Laboratory	250,441.15
Radiology	269,153.70
Anesthesia	76,362.11
Pharmacy	199,865.85
Physical therapy	56,451.03
Respiratory therapy	117,315.83
Electrocardiology	<u>37,205.00</u>

Total

\$2,141,414.25

THE HILTON HEAD HOSPITAL
 SCHEDULE OF OPERATING EXPENSES
 FOR THE YEAR ENDED JUNE 30, 1977

Schedule 2
 Sheet 1 of 5

Nursing and Other Professional Services

Nursing Services

Salaries - administrative	\$ 16,235.72	
Salaries - general	251,248.89	
Medical and surgical supplies	29,552.24	
Drugs	696.63	
Other expenses	<u>1,512.66</u>	
		\$ 299,246.14

Intensive and Coronary Care Units

Salaries	73,463.48	
Professional fees	415.00	
Medical and surgical supplies	7,797.03	
Drugs	388.86	
Maintenance	6,740.75	
Other expenses	<u>467.51</u>	
		89,272.63

Operating and Recovery Rooms

Salaries	57,390.46	
Medical and surgical supplies	59,316.97	
Drugs	1,117.55	
Other expenses	<u>488.28</u>	
		118,313.26

Emergency Room

Salaries	73,634.69	
Professional fees	19,748.85	
Medical and surgical supplies	11,735.36	
Drugs	4,488.95	
Other expenses	<u>476.14</u>	
		110,083.99

Laboratory

Salaries	72,655.76	
Outside laboratory services	18,795.35	
Professional fees	6,000.00	
Medical and surgical supplies	35,960.53	
Blood and blood derivatives	8,632.34	
Drugs	178.77	
Other expenses	<u>1,600.11</u>	
		<u>143,822.86</u>

Balance carried forward

\$ 760,738.88

THE HILTON HEAD HOSPITAL
 SCHEDULE OF OPERATING EXPENSES
 FOR THE YEAR ENDED JUNE 30, 1977

Schedule 2
 Sheet 2 of 5

Nursing and Other Professional Services (continued)

Balance brought forward		\$	760,738.88
<u>Radiology</u>			
Salaries	\$	30,243.41	
Professional fees		87,903.35	
Medical and surgical supplies		1,870.34	
Drugs		3,292.64	
Other supplies		29,233.05	
Other expenses		390.79	152,933.58
 <u>Anesthesiology</u>			
Salaries		3,494.48	
Professional fees		37,618.19	
Medical and surgical supplies		3,979.10	
Drugs		5,554.34	
Other expenses		1.85	50,647.96
 <u>Medical Records</u>			
Salaries		33,899.66	
Office supplies		3,638.96	
Other expenses		1,408.00	38,946.62
 <u>Pharmacy</u>			
Salaries		43,753.04	
Medical and surgical supplies		1,150.23	
Drugs		63,498.99	
Other expenses		699.83	109,102.09
 <u>Physical Therapy</u>			
Salaries		27,134.58	
Medical and surgical supplies		3,716.84	
Other expenses		836.10	31,687.52
 <u>Respiratory Therapy</u>			
Contractual services		42,413.52	
Medical and surgical supplies		4,539.29	
Drugs		1,724.42	
Other expenses		592.38	49,269.61
Balance carried forward			\$1,193,326.26

THE HILTON HEAD HOSPITAL
 SCHEDULE OF OPERATING EXPENSES
 FOR THE YEAR ENDED JUNE 30, 1977

Schedule 2
 Sheet 3 of 5

Nursing and Other Professional Services (continued)

Balance brought forward		\$1,193,326.26
<u>Social Services</u>		
Salaries	\$ 5,779.00	
Other expenses	865.44	
		6,644.44
 Total Nursing and Other Professional Services		\$1,199,970.70

General Services

Dietary

Salaries	\$ 84,593.11	
Contractual services	121,382.99	
Supplies	3,377.90	
Other expenses	3,146.29	
		\$ 212,500.29

Housekeeping

Salaries	55,230.32	
Supplies	11,599.43	
Contractual services	62,467.06	
Other expenses	685.01	
		129,981.82

Maintenance and Engineering

Salaries	36,315.69	
Supplies	12,619.81	
Maintenance	10,235.21	
Electricity	111,100.55	
Fuel oil	40,682.36	
Refuse collection	1,207.36	
Pest control	1,610.00	
Other expenses	701.84	
		214,472.82

Total General Services		\$ 556,954.93
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THE HILTON HEAD HOSPITAL
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 1977

Schedule 2
Sheet 4 of 5

Administrative and Fiscal Services

Material Management

Salaries	\$ 49,505.48
Medical and surgical supplies	10,854.96
Supplies	1,500.18
Maintenance	3,231.34
Travel	1,499.06
Printing	10,394.22
Postage	5,708.18
Freight	1,438.69
Other expenses	<u>245.36</u>

\$ 84,377.47

Finance

Salaries	91,413.23
Collection agency fees	4,667.45
Audit	19,565.00
Office supplies	12,049.11
Printing	3,001.03
Other expenses	<u>2,174.13</u>

132,869.95

Administration

Salaries	53,901.12
Payroll taxes	77,188.54
Group insurance	77,009.39
Insurance	22,197.30
Office and other supplies	7,174.95
Maintenance	3,435.04
Telephone	25,092.35
Dues	5,460.31
Travel	1,319.63
Legal fee	18,036.58
Other expense	<u>3,364.72</u>

294,179.93

Total Administrative and Fiscal Services

\$ 511,427.35

THE HILTON HEAD HOSPITAL
SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED JUNE 30, 1977

Schedule 2
Sheet 5 of 5

Weight Control Center Expenses

Salaries	\$ 49,692.19
Professional fees	3,990.00
Office and other supplies	2,746.33
Food	1,923.84
Dues and subscription	2,206.71
Travel	2,872.85
Printing	8,897.99
Postage	2,178.84
Employee recruitment	1,806.78
Other expenses	<u>977.20</u>

Total Weight Control Center Expenses

\$ 77,292.73

Depreciation and Amortization

\$ 629,771.41

Interest

\$1,004,538.66

Total Operating Expenses

\$3,979,955.78

THE HILTON HEAD HOSPITAL
HOSPITAL FACILITIES GROSS REVENUE AND FIRST MORTGAGE BONDS
STATEMENT OF TRANSACTIONS IN TRUST INDENTURE FUNDS AND ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 1977

Schedule 3

	<u>Sinking Funds</u>		
	<u>Bond Service Account</u>	<u>Debt Service Reserve Account</u>	<u>Redemption Account</u>
Balance July 1, 1976 (cash and marketable securities)	\$ 256,218.77	\$ 1,072,417.90	\$ 5.90
Transfers from Debt Service Reserve Account to Bond Service Account	1,121,231.23	(1,121,231.23)	
Transfers from Unrestricted Fund		21,125.06	
Interest income on investments		37,147.42	
Payment of interest due on July 1, 1976 and January 1, 1977	(918,300.00)		
Payment of Trustee fees and expenses		(9,370.35)	
Balance June 30, 1977 (represented by cash and investments held by The Trustee)	<u>\$ 459,150.00</u>	<u>\$ 88.80</u>	<u>\$ 5.90</u>