

**THE REGIONAL MEDICAL
CENTER OF ORANGEBURG
AND CALHOUN COUNTIES**

Combined Financial Statements

September 30, 2008 and 2007

(with Independent
Auditors' Report thereon)

**THE REGIONAL MEDICAL CENTER OF ORANGEBURG
AND CALHOUN COUNTIES**

Table of Contents

September 30, 2008 and 2007

	<u>Page(s)</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis	2 - 8
Combined Balance Sheets.....	9 – 10
Combined Statements of Revenues, Expenses, and Changes in Net Assets.....	11
Combined Statements of Cash Flows	12 - 13
Notes to Combined Financial Statements.....	14 – 29
Supplemental Information:	
Combined Schedules of Other Expenses.....	30
Combined Schedules of Professional Fees and Services.....	31

Independent Auditors' Report

To the Board of Trustees of
The Regional Medical Center of Orangeburg
and Calhoun Counties

We have audited the accompanying combined balance sheets of The Regional Medical Center of Orangeburg and Calhoun Counties (the "Center") as of September 30, 2008 and 2007, and the related combined statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these basic combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Center as of September 30, 2008 and 2007, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplemental information identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Center's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Dixon Hughes PLLC

January 26, 2009

(1)

11 Brendan Way, Suite 200
PO Box 25849
Greenville, SC 29616-0849
Ph. 864.288.5544 Fx. 864.458.8519
www.dixon-hughes.com

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of The Regional Medical Center of Orangeburg and Calhoun Counties' (the "Medical Center") annual financial report presents our analysis of the Medical Center's financial performance during the years ended September 30, 2008 and 2007. Please read this analysis in conjunction with the combined financial statements, which follow this section.

Overview of the Combined Financial Statements

The fiscal 2008 annual financial report includes this management's discussion and analysis section, the independent auditors' report and the combined financial statements of the Medical Center. The accompanying combined financial statements also include notes that explain in more detail some of the information in the combined financial statements.

Required Financial Statements

The Medical Center's combined financial statements report information of the Medical Center using accounting methods similar to those used by private-sector healthcare organizations. These statements offer short and long-term financial information about its activities:

- The combined balance sheets include all of the Medical Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Medical Center creditors (liabilities). The combined balance sheets also provide the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.
- All of the current year's revenues and expenses are accounted for in the combined statements of revenues, expenses, and changes in net assets. These statements measure the success of the Medical Center's operations over the past year and can be used to determine whether the Medical Center has successfully recovered all of its costs through its fees and other sources of revenue, profitability, and creditworthiness.
- The final required statement is the combined statement of cash flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities. It also provides answers to such questions as where did the cash come from, what was the cash used for and what was the change in the cash balance during the reporting period.

Financial Analysis of the Medical Center

The combined balance sheets and the combined statement of revenues, expenses, and changes in net assets report the net assets of the Medical Center and the changes therein. The Medical Center's net assets—the difference between assets and liabilities—are a way to measure financial health or financial position. Over time, increases or decreases in the Medical Center's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will also need to consider other nonfinancial factors such as changes in economic conditions, population growth, and new or changed governmental legislation.

Combined Balance Sheets

A summary of the Medical Center's combined balance sheets at September 30, 2008, 2007 and 2006 is presented in Table A-1:

Table A-1
Condensed Combined Balance Sheet
September 30, 2008, 2007 and 2006 (in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 40,364	\$ 51,257	\$ 37,675
Capital assets, net	47,085	50,749	56,830
Noncurrent assets	<u>73,748</u>	<u>49,174</u>	<u>49,646</u>
Total assets	<u>\$ 161,197</u>	<u>\$ 151,180</u>	<u>\$ 144,151</u>
Current liabilities	\$ 23,840	\$ 13,473	\$ 11,618
Long-term liabilities	<u>16,175</u>	<u>17,705</u>	<u>19,170</u>
Total liabilities	<u>40,015</u>	<u>31,178</u>	<u>30,788</u>
Invested in capital assets, net of related debt	29,380	31,578	36,250
Restricted	30	30	30
Unrestricted	<u>91,772</u>	<u>88,394</u>	<u>77,083</u>
Total net assets	<u>121,182</u>	<u>120,002</u>	<u>113,363</u>
Total liabilities and net assets	<u>\$ 161,197</u>	<u>\$ 151,180</u>	<u>\$ 144,151</u>

The net assets of the Medical Center increased \$1,179,469 during 2008 and \$6,640,027 during 2007.

Revenues, Expenses, and Changes in Net Assets

While the combined balance sheets show the change in financial position of net assets, the combined statements of revenues, expenses, and changes in net assets provide answers to the nature and source of these change:

Table A-2

**Condensed Combined Statements of Revenues,
Expenses, and Changes in Net Assets**

For the Years Ended September 30, 2008, 2007 and 2006 (in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues	\$ 169,910	\$ 158,576	\$ 145,062
Operating expenses	<u>170,833</u>	<u>156,801</u>	<u>146,403</u>
Operating (loss) income	(923)	1,775	(1,341)
Nonoperating revenue (expenses)	<u>1,998</u>	<u>4,865</u>	<u>4,883</u>
Excess of revenues over expenses before capital contributions	1,075	6,640	3,542
Capital contributions	105	-	
Increase in net assets	1,180	6,640	3,542
Beginning net assets	<u>120,002</u>	<u>113,362</u>	<u>109,820</u>
Ending net assets	<u>\$ 121,182</u>	<u>\$ 120,002</u>	<u>\$ 113,362</u>

Fiscal 2008 compared to Fiscal 2007

The Medical Center's total operating revenues increased in fiscal 2008 primarily due to:

- The increase was primarily driven by an increases volume with inpatient discharges up by 12.7%.
- Improved overall case mix index from 1.16 to 1.21 and a Medicare case mix index from 1.38 to 1.42

The Medical Center's operating expenses for fiscal 2008 increased 8.95%. The increase was primarily driven by an increase in labor costs and supply costs related to increased volumes.

Fiscal 2007 compared to Fiscal 2006

The Medical Center's total operating revenues increased in fiscal 2007 primarily due to:

- Increased volume with inpatient discharges up by 7.2% due to implementation of strategic satellite physician offices
- Improved overall case mix from 1.13 to 1.16 while Medicare case mix remained constant at 1.38

The Medical Center's operating expenses for fiscal 2007 increased 7%. The increase was primarily driven by an increase in labor costs of \$4.4 million or 6% and a supply costs increase of 2.2% due to surgical costs.

Capital Assets and Debt Administration

At the end of fiscal 2008, the Medical Center had invested approximately \$47.1 million in net capital assets as shown in Table A-3. The decrease of \$3.7 million is related to a decrease in capital spending during fiscal 2008.

In continuing to protect market share in the geographical service area, the Medical Center developed and acquired additional medical practices in the outlining service areas as well as to strengthen the industry medicine service line. The lower geographic area of the two counties is reflecting the potential for population growth, and consequently, the Medical Center believes in bringing services directly into this area.

RMC is positioning itself to take advantage of the Jafza project in Santee by establishing health care services onsite and also focusing on providing state of the art equipment for the Medical Center.

Table A-3
Capital Assets
September 30, 2008, 2007 and 2006 (in thousands)

	2008	2007	2006
Land and land improvements	\$ 3,162	\$ 3,162	\$ 2,856
Buildings and improvements	65,141	65,141	65,152
Equipment	65,618	61,297	58,588
Construction-in-progress	1,858	873	287
	<u>135,779</u>	<u>130,473</u>	<u>126,883</u>
Accumulated depreciation	<u>(88,694)</u>	<u>(79,724)</u>	<u>(70,054)</u>
Capital assets, net	<u>\$ 47,085</u>	<u>\$ 50,749</u>	<u>\$ 56,829</u>

Fiscal 2008 compared to Fiscal 2007

At September 30, 2008 and 2007, the Medical Center had \$17,705,000 and \$19,170,000, respectively, of bonds payable principal outstanding, a decrease of approximately 8% during the year. The Medical Center made principal payments of \$ \$1,465,000 and \$1,410,000 during fiscal 2008 and 2007, respectively.

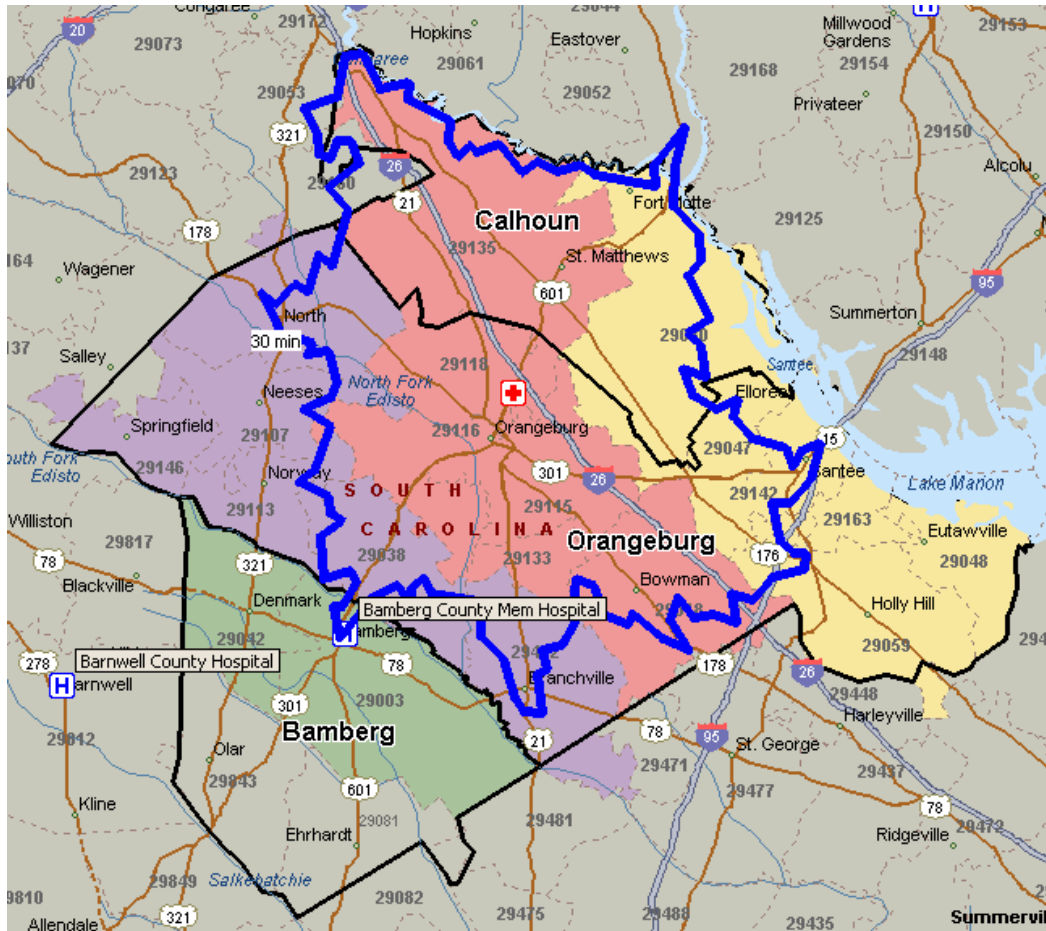
Fiscal 2007 compared to Fiscal 2006

At September 30, 2007 and 2006, the Medical Center had \$19,170,000 and \$20,580,000, respectively, of bonds payable principal outstanding, a decrease of approximately 7% during the year. The Medical Center made principal payments of \$1,410,000 and \$1,355,000 during fiscal 2007 and 2006, respectively.

Economic and Other Factors

The Medical Center faces a number of challenges for the future with some significant successes during this fiscal year.

The Medical Center is challenged with serving a large surface area with scattered population areas as indicated on the below map. In an effort to increase market share from the outer edges of the service area, the Medical Center is establishing physician platforms along the service area parameter.



Challenges on the horizon include the demographics of the service area, pricing transparency, a National economic downturn and the potential for significant healthcare reform including pay for performance. The Medical Center has taken steps to mitigate these challenges as follows:

- Continue to build upon the 5 year plan presented by Kaufman Hall in 2007 with the 2009 focus being centered on quality measures, patient satisfaction, community awareness, physician relations, and growth opportunities.
- Continuing with the expansion of current charity and uninsured program to identify patients who meet the charity guidelines and properly channel resources.

As a civic asset, the Medical Center is one of the top employers in the area. The Medical Center is committed to being the healthcare provider of choice through providing quality and being responsible for the cost effectiveness in delivery of healthcare. In the civic asset role, the statement released in June 2008 by the Medical Center reflected a value to the community of over \$ 94 million.

The Regional Medical Center, like other healthcare providers, has undertaken the initiative to better tell and document the service provided to the community and the nation for health care needs. Following the lead set by the Catholic Health Association and VHA, Inc., the following statement was developed utilizing the guide for planning and reporting community benefit. This statement is not all-inclusive as systems are being developed and processes established to hard wire the reporting process. As footnoted below, a point of difference is the inclusion of bad debt. It is the belief of the Regional Medical Center that a significant percentage of the bad debt expense relates to services rendered to those who lack the resources for the health care they need. The below table depicts the activity related to the community benefit provided by the Medical Center.

	<u>2008</u>	<u>2007</u>
Benefits for persons living in poverty and the broader community:		
Charity care at cost	\$ 7,025,290	\$ 6,979,696
Unreimbursed costs of public programs	7,438,331	3,954,394
Community health improvement program	55,129	52,699
Health professions education	646,780	626,931
Subsidized health services	1,510,957	2,312,772
Financial and in-kind contributions	125,000	135,200
Community building activities	<u>274,274</u>	<u>284,609</u>
Total quantifiable benefit	<u>\$ 17,075,761</u>	<u>\$ 14,346,301</u>

Demand for Hospital Care Increases

America is aging, living longer and utilizing more healthcare services per person than in recent history. The largest component of the health services market continues to be the hospital sector. The rising use of healthcare services is causing a reversal in the negative trend on hospital admission rates. The Health Care Advisory Board is predicting that, over the next 10 years, the United States will require more hospitals to meet the increased need.

Locally, in the primary and secondary service area, the growth rate for the Medicare population is projected to increase by 15.5% within the next five years. The Medical Center maintains 65.16% market share of the two area counties.

Healthcare Costs Continue to Rise

Hospital care is also the most important contributor to the increasing cost of healthcare services. Increasing emergency room utilization is one factor accelerating healthcare expenditures. Prescription drug cost trends have slowed but still report significant growth. A resurfacing of managed care in the governmental payer area is causing a great deal on focus on energy to be spent on the registration and pre-authorization process both leading to higher prices for healthcare services.

National Economic Downturn

Without nation's economic troubles, fewer patients are seeking hospital care while at the same time a growing proportion of patient need help paying for care, according to a new report from the American Hospital

Association. Medicaid expenditures – the largest and fastest growing portion of many state budgets – increase even faster during economic downturns as enrollment grows and state tax revenues drop.

US Healthcare Reform

During the coming year we can expect to see changes brought forth to reform the US healthcare system. Three broad objectives of the Obama plan for the nation’s healthcare system are:

- Reduce costs so the system will work for people and businesses – not just insurance companies.
- Provide affordable accessible coverage options for all
- Promote prevention and strengthen public health

Hospital Care Requires Skilled Staff and the Operating Cost of Labor Is Increasing

The Center for Medicare and Medicaid Services (“CMS”) reports that the existing nationwide shortage of registered nurses is being exacerbated by several factors: fewer nurses are in training programs, the existing nurse population is aging and vacancy and turnover rates are on the rise. The shortage of skilled nursing staff will continue to contribute to steeply rising labor costs.

While attention is focused on the nursing shortage, the current highest vacancy rate is for imaging technicians nationally. Other staff shortage areas include: pharmacists, LPNs (“licensed practical nurses”), nursing assistants, laboratory technicians and medical billers/coders. Hospitals have developed specific staff retention strategies as well as working with local technical colleges to increase the pool of trained professionals. The Medical Center has also undergone an education program to enhance manager skills to better retain employees.

Information Technology Needs Continue to Increase

Many forces are increasing the dependence on Information Technology in the healthcare field. Patient safety and the economic need for more efficiency are driving the industry to an electronic media for storage of health information to facilitate accurate and quick retrieval of the information. Current pressures from outside interest are driving the healthcare industry to integration of technology for efficient and patient safety. The Medical Center currently utilizes electronic physicians and nursing documentation in various areas and is moving toward a complete solution.

Finance Contact

The Medical Center’s combined financial statements are designed to present users with a general overview of the Medical Center’s finances and to demonstrate the Medical Center’s accountability. If you have any questions about the report or need additional financial information, please contact the Chief Financial Officer, The Regional Medical Center of Orangeburg and Calhoun Counties, 3000 St. Matthews Road, Orangeburg, South Carolina 29118

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Balance Sheets

September 30, 2008 and 2007

Assets	2008	2007
Current assets:		
Cash and cash equivalents	\$ 11,377,246	\$ 19,722,911
Short-term investments	-	5,329,778
Patients accounts receivable, net of estimated uncollectibles of approximately \$6,467,000 in 2008 and \$7,695,000 in 2007	20,342,935	19,249,031
Inventories of drugs and supplies	3,501,383	3,701,819
Other receivables, net	4,476	271,329
Prepaid expenses	2,376,574	2,019,762
Estimated third party payor settlements	2,761,821	961,882
Total current assets	<u>40,364,435</u>	<u>51,256,512</u>
Assets whose use is limited	73,153,996	48,258,429
Capital assets, net	47,084,530	50,748,631
Unamortized loan costs	229,296	423,429
Other assets	15,500	17,500
Prepaid pension cost	326,538	325,664
Goodwill	22,841	149,920
Total assets	<u>\$ 161,197,136</u>	<u>\$ 151,180,085</u>

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Balance Sheets, (continued)

September 30, 2008 and 2007

Liabilities and Net Assets

	<u>2008</u>	<u>2007</u>
Current liabilities:		
Current maturities of long-term debt	\$ 1,530,000	\$ 1,465,000
Accounts payable	5,122,647	3,757,535
Accrued salaries and wages	2,894,064	3,244,159
Accrued vacation	3,922,756	3,633,215
Accrued employee medical	1,018,343	1,225,592
Other accrued expenses	124,413	147,269
Estimated third party payor settlements	9,228,129	-
Total current liabilities	<u>23,840,352</u>	<u>13,472,770</u>
Long-term debt, net of current maturities	<u>16,175,000</u>	<u>17,705,000</u>
Total liabilities	<u>40,015,352</u>	<u>31,177,770</u>
Net assets:		
Invested in capital assets, net of related debt	29,379,530	31,578,631
Restricted:		
Nonexpendable for permanent endowment	30,000	30,000
Unrestricted	<u>91,772,254</u>	<u>88,393,684</u>
Total net assets	<u>121,181,784</u>	<u>120,002,315</u>
Total liabilities and net assets	<u>\$ 161,197,136</u>	<u>\$ 151,180,085</u>

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

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$33,433,361 in 2008 and \$35,111,653 in 2007	\$ 164,163,357	\$ 154,773,857
Other	5,746,867	3,802,022
Total operating revenues	<u>169,910,224</u>	<u>158,575,879</u>
Operating expenses:		
Salaries and wages	75,508,242	69,790,420
Employee benefits	14,408,025	14,205,578
Supplies	25,775,118	22,709,507
Professional fees and services	22,244,246	18,149,189
Other expense	23,599,432	21,949,400
Depreciation and amortization	9,298,088	9,996,716
Total operating expenses	<u>170,833,151</u>	<u>156,800,810</u>
Operating income (loss)	<u>(922,927)</u>	<u>1,775,069</u>
Nonoperating revenues (expenses)		
Investment income	2,333,224	5,593,464
Non-capital grants and contributions	320,182	9,094
Interest expense	(656,010)	(737,600)
Total nonoperating revenues (expenses)	<u>1,997,396</u>	<u>4,864,958</u>
Excess of revenues over expenses before capital contributions	1,074,469	6,640,027
Capital contributions	<u>105,000</u>	<u>-</u>
Increase in net assets	1,179,469	6,640,027
Net assets, beginning of the year	<u>120,002,315</u>	<u>113,362,288</u>
Net assets, end of the year	<u>\$ 121,181,784</u>	<u>\$ 120,002,315</u>

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

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Statements of Cash Flows

For the Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 170,497,643	\$ 153,395,561
Payments to suppliers and contractors	(70,695,815)	(62,847,228)
Payments to employees	(90,184,070)	(83,044,035)
Other receipts and payments, net	<u>6,048,883</u>	<u>4,503,216</u>
Net cash provided by operating activities	<u>15,666,641</u>	<u>12,007,514</u>
Cash flows from noncapital financing activities:		
Noncapital grants and contributions	<u>320,182</u>	<u>9,094</u>
Net cash provided by noncapital financing activities	<u>320,182</u>	<u>9,094</u>
Cash flows from capital and related financing activities:		
Capital contributions received	105,000	-
Principal paid on long-term debt	(1,465,000)	(1,410,000)
Interest paid on long-term debt	(656,010)	(820,157)
Purchase of capital assets	<u>(5,084,798)</u>	<u>(4,270,355)</u>
Net cash used by capital and related financing activities	<u>(7,100,808)</u>	<u>(6,500,512)</u>
Cash flows from investing activities:		
Net change in investments	5,329,778	(294,440)
Purchase of physican practice	-	(133,612)
Proceeds from sale of capital assets	885	2,317
Net change in assets limited as to use	(25,046,107)	1,617,266
Interest and dividends on investments	<u>2,483,764</u>	<u>4,439,392</u>
Net cash provided (used) by investing activities	<u>(17,231,680)</u>	<u>5,630,923</u>
Increase (decrease) in cash and cash equivalents	(8,345,665)	11,147,019
Cash and cash equivalents, beginning of year	<u>19,722,911</u>	<u>8,575,892</u>
Cash and cash equivalents, end of year	<u>\$ 11,377,246</u>	<u>\$ 19,722,911</u>

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Statements of Cash Flows (continued)

For the Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income (loss) to net cash provided		
by operating activities:		
Operating income (loss)	\$ (922,927)	\$ 1,775,069
Adjustments to reconcile operating income (loss) to		
net cash provided by operating activities:		
Loss on sale and disposal of capital assets	33,163	662,940
Depreciation and amortization	9,298,088	9,996,716
Provision for bad debts	33,433,361	35,111,653
Change in net operating assets and liabilities:		
Patient accounts receivable	(34,527,265)	(38,020,744)
Other receivables	268,853	144,387
Inventories and prepaid expenses	(156,376)	(991,186)
Estimated third party payor settlements	7,428,190	1,528,715
Net pension asset	(874)	-
Accounts payable	1,103,087	811,474
Accrued liabilities and other	<u>(290,659)</u>	<u>988,490</u>
Net cash provided by operating activities	<u>\$ 15,666,641</u>	<u>\$ 12,007,514</u>
Noncash transactions:		
Capital assets acquired through accounts payable	<u>\$ 262,025</u>	<u>\$ -</u>

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

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Notes to Combined Financial Statements

September 30, 2008 and 2007

1. **Summary of Significant Accounting Policies and Practices**

Organization - The Regional Medical Center of Orangeburg and Calhoun Counties (the "Center") is a nonprofit organization created in 1955 by an act of the South Carolina General Assembly. The Center primarily provides inpatient, outpatient and emergency care services for residents of Orangeburg and Calhoun Counties. The Center is organized under South Carolina nonstock corporation laws and governed by a Board of Trustees composed of twelve members appointed by the Orangeburg County Council, three members appointed by the Calhoun County Council, the chief of staff, and the chairman of the executive committee of the medical staff.

During 1997, the Center incorporated Edisto Regional Health Services, Inc. ("ERHS"). ERHS was formed exclusively to carry out the healthcare missions of the Center. In 1986, the Board of Trustees of the Center formed The Regional Medical Center of Orangeburg and Calhoun Counties Foundation (the "Foundation") for the purpose of performing certain fund-raising activities on the behalf of the Center. In 2006, the Board of Trustees of the Center formed the Edisto Health Foundation, Inc. (the "Edisto Foundation"), for the purpose of promoting and supporting the Center. The Board of Trustees of the Center appoints the members of the Board of Directors of the Foundation and the Edisto Foundation. According to the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, ERHS, the Foundation and the Edisto Foundation have been presented as blended component units and, thus, combined with the operations of the Center. Subsequent to year end, the Edisto Foundation was dissolved.

Principles of Combination - The accompanying combined financial statements include the accounts of the Regional Medical Center, ERHS, the Foundation, and the Edisto Foundation. All significant intercompany transactions and balances have been eliminated.

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

Enterprise Fund Accounting - The Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents - The Center considers all highly liquid investments with a maturity of three months or less when originally purchased, excluding amounts limited as to use, to be cash equivalents.

The Center maintains bank accounts at various financial institutions covered by the FDIC. At times throughout the year, the Center may maintain bank account balances in excess of the FDIC insured limit. It is management's opinion that the Center is not exposed to any significant credit risk related to cash.

Inventories of drugs and supplies - Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out method) or market.

Assets whose use is limited - Assets whose use is limited include assets designated by the Center for capital acquisitions, over which the Center retains control and may at its discretion subsequently use for other purposes, assets designated by the Foundation for nursing scholarships, and principal of a permanent endowment.

Investments in debt and equity securities - Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

Capital Assets - Capital assets with an initial cost of at least \$1,000 are recorded at cost, except donated assets, which are recorded at fair market value at the date of donation. Depreciation expense is calculated on all depreciable assets based on the straight-line method over the estimated useful lives of such assets as established by the American Hospital Association, with the following ranges:

Land improvements	3 to 25 years
Buildings	5 to 40 years
Equipment	3 to 20 years

Expenditures which materially extend useful lives are capitalized. Routine maintenance, repairs, and replacements are charged to expense.

Unamortized Loan Cost - Bond issuance expenses are amortized on a straight-line basis, which approximates the interest method, over the life of the related debt. The accumulated amortization at September 30, 2008 and 2007 was 376,969 and 182,836, respectively.

Pension Plan - The Center has a noncontributory defined benefit pension plan covering substantially all employees (see Note 9).

Net Assets - Net assets are classified in three components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets, net of related debt* or *restricted*.

Operating Revenue and Expenses - The Center's combined statements of revenues, expenses, and changes in net assets distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Center's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions - From time to time, the Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions 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 a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Third-party contractual revenue adjustments are recorded on an estimated basis in the period the related services are rendered. Such amounts are subject to audit by the governmental agencies. Adjustments, if any, are included in contractual revenue adjustments in the year of determination. In compliance with GASB 34, net patient revenues have been reduced by the amount of bad debt expense incurred by the Center.

The Center's policy does not require collateral or other security for patient accounts receivable. The Center routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies such as those

related to Medicare, Medicaid, Blue Cross, health maintenance organizations and commercial insurance carriers.

Charity Care - The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Income Taxes - The Regional Medical Center, ERHS, the Foundation, and the Edisto Foundation are organized and operated exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1954 (as amended) and are, therefore, exempt from income taxes.

Risk Management - The Center 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; medical malpractice; and employee health, dental and accident benefits. 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.

Reclassifications - Certain 2007 combined financial statement amounts have been reclassified to conform to the 2008 combined financial statement presentation.

2. Deposits and Investments

The Center's investments are reported at fair value, as discussed in Note 1, and included in the assets whose use is limited and short-term investments on the combined balance sheets. At September 30, 2008 and 2007, the Center had the following investments:

<u>September 30, 2008</u>	<u>Carrying Amount</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>
<u>Investment Type</u>					
Cash equivalents	\$ 660,579	\$ -	\$ -	\$ -	\$ -
Certificates of Deposit	31,245,737	31,245,737	-	-	-
Federal Home Loan Mortgage Corp.	1,491,869	-	7,969	312,245	1,171,655
Federal Home Loan Bank	2,022,244	505,410	1,516,834	-	-
Federal National Mortgage Association	1,892,354	-	50,907	192,006	1,649,441
U.S. Treasury Notes	8,686,830	-	4,767,206	3,919,624	-
Fannie Mae	462,970	205,173	-	257,797	-
Freddie Mac	1,392,496	-	1,392,496	-	-
Federal Farm Credit Bank	1,227,197	-	1,227,197	-	-
GNMA	1,110,611	-	258,404	339,429	512,778
U.S. Treasury Securities Stripped	3,088,687	-	-	-	3,088,687
Guaranteed Investment Contracts	14,613,000	-	14,613,000	-	-
Other Fixed Income	<u>6,160,535</u>	<u>5,901,113</u>	<u>-</u>	<u>25,249</u>	<u>234,173</u>
Total	<u>\$ 74,055,109</u>	<u>\$ 37,857,433</u>	<u>\$ 23,834,013</u>	<u>\$ 5,046,350</u>	<u>\$ 6,656,734</u>

<u>September 30, 2007</u>	<u>Carrying Amount</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>
<u>Investment Type</u>					
Cash equivalents	\$ 945,686	\$ -	\$ -	\$ -	\$ -
Certificates of Deposit	12,677,671	12,677,671	-	-	-
Federal Home Loan Mortgage Corp.	1,018,899	-	40,571	235,584	742,744
Federal Home Loan Bank	2,210,533	522,097	1,441,723	246,713	-
Federal National Mortgage Association	1,421,479	-	-	123,459	1,298,020
U.S. Treasury Notes	15,372,371	4,610,855	8,926,084	1,810,572	24,860
Fannie Mae	1,256,500	200,118	805,402	250,980	-
Freddie Mac	1,085,254	49,546	1,035,708	-	-
Federal Farm Credit Bank	762,536	762,536	-	-	-
GNMA	922,299	-	228,049	161,827	532,423
U.S. Treasury Securities Stripped	519,474	-	250,362	269,112	-
Guaranteed Investment Contracts	15,820,094	799,089	14,911,500	30,013	79,492
Equities	243,000	-	-	-	-
Total	<u>\$ 54,255,796</u>	<u>\$ 19,621,912</u>	<u>\$ 27,639,399</u>	<u>\$ 3,128,260</u>	<u>\$ 2,677,539</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses as a result of rising interest rates, the Center generally invests in obligations with varying maturity dates.

Credit Risk - The Center's policy regarding credit risk limits the Center to investments as defined by the Investments of Funds by Political Subdivisions for the State of South Carolina, including but not limited to obligations of state, federal, and political subdivisions.

Custodial Credit Risk - For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Center limits this risk by diversifying its investments with regard to issuers and class of issuers.

Concentration of Credit Risk - The Center requires that no more than 10% of the market value of investments should be invested in the securities of a single issuer, except for the United States Government, and its agencies or instrumentalities. As of September 30, 2008 and 2007, more than 10% of the Center's investments are invested in guaranteed investment contracts and U.S. Government Agencies.

The carrying amount of deposits, investments, and assets whose use is limited are included in the Center's combined balance sheets as follows:

	<u>2008</u>	<u>2007</u>
Carrying amount:		
Deposits	\$ 10,476,133	\$ 19,055,322
Investments and assets whose use is limited	<u>74,055,109</u>	<u>54,255,796</u>
Total	<u>\$ 84,531,242</u>	<u>\$ 73,311,118</u>
Included in the following combined balance sheet captions:		
Cash and cash equivalents	\$ 11,377,246	\$ 19,722,911
Short-term investments	-	5,329,778
Assets whose use is limited	<u>73,153,996</u>	<u>48,258,429</u>
	<u>\$ 84,531,242</u>	<u>\$ 73,311,118</u>

Investment income for assets whose use is limited and other investments are comprised of the following for the years ended September 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Investment income:		
Interest and dividend income	\$ 2,104,197	\$ 743,619
Realized gains on sales of investments	379,567	3,695,773
Unrealized gains (losses) on investments	<u>(150,540)</u>	<u>1,154,072</u>
Total	<u>\$ 2,333,224</u>	<u>\$ 5,593,464</u>

3. Accounts Receivable and Accounts Payable

Accounts Receivable	<u>2008</u>	<u>2007</u>
Receivable from patients	\$ 7,928,431	\$ 6,847,220
Receivable from third-party payors and others	5,430,028	9,851,873
Receivable from Medicare	9,355,271	3,767,564
Receivable from Medicaid	<u>4,096,298</u>	<u>6,477,852</u>
Total patient accounts receivable	26,810,028	26,944,509
Less: allowance for uncollectible accounts	<u>(6,467,093)</u>	<u>(7,695,478)</u>
Patient accounts receivable, net	<u>\$ 20,342,935</u>	<u>\$ 19,249,031</u>

Accounts Payable and Accrued Expenses

	<u>2008</u>	<u>2007</u>
Payable to suppliers and others	\$ 5,247,060	\$ 3,904,804
Payable to employees (including payroll taxes)	<u>7,835,163</u>	<u>8,102,966</u>
Total accounts payable and accrued expenses	<u>\$ 13,082,223</u>	<u>\$ 12,007,770</u>

4. Capital Assets

Capital asset additions, retirements, transfers and balances for the years ended September 30, 2008 and 2007 were as follows:

	Balance September 30, 2007	Additions	Retirements & Transfers	Balance September 30, 2008
Land	\$ 656,617	\$ -	\$ -	\$ 656,617
Land improvements	2,505,276	-	-	2,505,276
Buildings	65,140,882	-	-	65,140,882
Equipment	<u>61,297,070</u>	<u>4,224,164</u>	<u>96,959</u>	<u>65,618,193</u>
Totals at historical cost	<u>129,599,845</u>	<u>4,224,164</u>	<u>96,959</u>	<u>133,920,968</u>
Less accumulated depreciation:				
Land improvements	(1,925,865)	(58,449)	-	(1,984,314)
Buildings	(38,590,742)	(2,297,484)	-	(40,888,226)
Equipment	<u>(39,207,484)</u>	<u>(6,620,943)</u>	<u>6,648</u>	<u>(45,821,779)</u>
Total accumulated depreciation	<u>(79,724,091)</u>	<u>(8,976,876)</u>	<u>6,648</u>	<u>(88,694,319)</u>
Construction in progress	<u>872,877</u>	<u>1,122,659</u>	<u>(137,655)</u>	<u>1,857,881</u>
Capital assets, net	<u>\$ 50,748,631</u>	<u>\$ (3,630,053)</u>	<u>\$ (34,048)</u>	<u>\$ 47,084,530</u>
	Balance September 30, 2006	Additions	Retirements & Transfers	Balance September 30, 2007
Land	\$ 656,617	\$ -	\$ -	\$ 656,617
Land improvements	2,199,906	323,190	(17,820)	2,505,276
Buildings	65,151,667	-	(10,785)	65,140,882
Equipment	<u>58,588,307</u>	<u>3,259,044</u>	<u>(550,281)</u>	<u>61,297,070</u>
Totals at historical cost	<u>126,596,497</u>	<u>3,582,234</u>	<u>(578,886)</u>	<u>129,599,845</u>
Less accumulated depreciation:				
Land improvements	(1,718,273)	(207,592)	-	(1,925,865)
Buildings	(33,855,339)	(4,735,403)	-	(38,590,742)
Equipment	<u>(34,480,081)</u>	<u>(4,727,851)</u>	<u>448</u>	<u>(39,207,484)</u>
Total accumulated depreciation	<u>(70,053,693)</u>	<u>(9,670,846)</u>	<u>448</u>	<u>(79,724,091)</u>
Construction in progress	<u>286,918</u>	<u>688,121</u>	<u>(102,162)</u>	<u>872,877</u>
Capital assets, net	<u>\$ 56,829,722</u>	<u>\$ (5,400,491)</u>	<u>\$ (680,600)</u>	<u>\$ 50,748,631</u>

5. Long-term Debt

A schedule of changes in the Center's long-term debt for 2008 and 2007 follows:

	September 30, 2007	Additions	Reductions	September 30, 2008	Current Portion
1998 bonds	\$ <u>19,170,000</u>	\$ _____	\$ <u>(1,465,000)</u>	\$ <u>17,705,000</u>	\$ <u>1,530,000</u>
	September 30, 2006	Additions	Reductions	September 30, 2007	Current Portion
1998 bonds	\$ <u>20,580,000</u>	\$ _____	\$ <u>(1,410,000)</u>	\$ <u>19,170,000</u>	\$ <u>1,465,000</u>

During Fiscal 1998, the Center issued \$30,000,000 of South Carolina Jobs—Economic Development Authority Variable Rate Demand Hospital Revenue Bonds Series 1998 (the "1998 Bonds") for the purpose of financing an expansion to the Center's facilities. The effective interest rates at September 30, 2008 and 2007, were 8.50% and 3.86%, respectively.

Costs of \$606,265 were incurred in connection with the issuance of the 1998 Bonds and are being amortized over the remaining term of the 1998 Bonds.

As a part of the 1998 Bonds issuance, the Center established a Standby Purchase Agreement (the "Agreement"). The Agreement states that if at the time of tender, a buyer cannot be found by the remarketing agent, the trustee of the Bonds will call on the Bank of America, holder of the agreement, to purchase the Bonds, which will then be Bank Bonds. The interest rate for the Bonds after the Agreement is invoked will be LIBOR plus 0.5% for the first 60 days and LIBOR plus 1% after 60 days, payable on the first Wednesday of each month. In 2008, the Agreement was invoked and a portion of the Bonds are being held by the Bank of America at September 30, 2008. If the holding period for the Bank Bonds exceeds one year, then the amortization of the Bank Bonds will be accelerated to a ten year period. Subsequent to year-end, all of the Bonds have successfully been remarketed.

The 1998 Bonds principal payments are made annually beginning in 1999 through 2028 in annual amounts ranging from \$495,000 to \$1,720,000. In addition, the 1998 Bonds are subject to optional redemption, in whole or in part, at a redemption price of par plus accrued interest to the date of redemption.

Under the terms of the 1998 Bond indenture, the Center is required to maintain certain restrictive covenants, the most restrictive of which requires the Center to maintain a certain debt service ratio. The Center was in compliance with this covenant as of September 30, 2008 and 2007.

All revenues of the Center have been pledged as security for the 1998 Bonds.

The aggregate debt service payments due on long-term debt for the years subsequent to September 30, 2008, and until maturity are as follows:

<u>Year Ending September 30:</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,530,000	\$ 1,564,961
2010	1,590,000	1,429,723
2011	1,655,000	1,289,181
2012	1,720,000	1,142,894
2013	1,040,000	990,862
2014 – 2018	3,180,000	3,843,237
2019 – 2023	3,150,000	2,554,497
2024 – 2028	<u>3,840,000</u>	<u>1,045,222</u>
Total	<u>\$ 17,705,000</u>	<u>\$ 13,860,577</u>

6. Net Patient Service Revenues

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at primarily 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 are reimbursed under a prospective payment system called the Ambulatory Payment Classification System (“APCs”). The Center’s classification of patients under the Medicare program and the appropriateness of their admission are subject to review by an independent peer review organization. The Center’s Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2005.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 created the Recovery Audit Contractors (RAC) program to detect and correct improper payments in the Medicare program. This began as a 3-year demonstration program in New York, Massachusetts, Florida, South Carolina, and California that ended in March 2008. This program is now being phased into all 50 states through 2009. The Center has recorded a liability of \$565,000 as of September 30, 2008 as a result of its RAC audit.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed using a payment per discharge system with case-mix adjustments based on a Diagnosis Related Group (“DRG”) system. Outpatient Medicaid services are reimbursed at a certain percentage of allowable costs. The Center is reimbursed at an interim rate with final settlement determined after it submits its annual Medicaid cost report. The Center’s

Medicaid cost reports have been audited by the Medicaid program through September 30, 2004.

Revenue from the Medicare and Medicaid programs accounted for approximately 52% and 16%, respectively, of the Center's net patient revenue for the year ended 2008. Revenue from the Medicare and Medicaid programs accounted for approximately 47% and 17% respectively, of the Center's net patient service revenue for the year ended 2007. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Center believes that it is in compliance with all applicable laws and regulations and it has recorded adequate provisions for any inquiries and reviews. Compliance with such laws and regulations can be subject to future government review and interpretations as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. A provision (contractual adjustment) is deducted each year from the gross patient service charges to reflect the net patient service revenues earned under the Medicare and Medicaid programs. Final determination of amounts earned is computed using annual reports submitted by the Center and is subject to review and adjustment by the program's intermediary. Changes from final determination are reflected as changes in estimates generally in the year of determination. The 2008 net patient revenues decreased by approximately \$6,441,000 due to a change in the allowances previously estimated for tentative cost report settlements. The 2007 net patient revenues increased by approximately \$1,529,000 due to a change in the allowances previously estimated for tentative cost report settlements.

The Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The bases for payment to the Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates. Contractual adjustments related to Medicare and Medicaid programs and other allowances were deducted from patient service revenue to arrive at net patient service revenue as follows:

	<u>2008</u>	<u>2007</u>
Gross patient charges at established rates	\$ 560,107,660	\$ 476,346,507
Deductions:		
Contractual adjustments	(362,510,942)	(286,460,997)
Provision for bad debts	<u>(33,433,361)</u>	<u>(35,111,653)</u>
	<u>(395,944,303)</u>	<u>(321,572,650)</u>
Net patient service revenue	\$ <u>164,163,357</u>	\$ <u>154,773,857</u>

The Center qualified for disproportionate share payments from the South Carolina Medicaid Program through September 30, 2008. The Hospital received quarterly lump-sum payments totaling approximately \$7,608,000 and \$20,806,000 in 2008 and 2007, respectively. These amounts are reflected as a reduction of Medicaid contractual adjustments.

7. **Charity Care**

Charges excluded from revenue under the Center's charity care policy were approximately \$23,418,000 and \$20,173,000 in 2008 and 2007, respectively.

8. **Operating Leases**

The Center leases various medical and business equipment under operating leases expiring at various dates through 2016. Total rent expense in 2008 and 2007 for all operating leases was approximately \$963,000 and \$710,000, respectively.

The following is a schedule by year of future remaining lease payments under operating leases at September 30, 2008, that have initial remaining lease terms in excess of one year.

2009	\$ 307,314
2010	207,728
2011	192,174
2012	<u>142,615</u>
	<u>\$ 849,831</u>

9. **Benefit Plans**

The Center has a single employer, noncontributory defined benefit pension plan (the "Plan") covering substantially all employees who have completed one year of credited service. The Plan provides benefits based on years of credited service and compensation as defined in the Plan document.

Amounts funded for the Plan are based upon actuarial calculations. The Center's Board of Trustees determines the Plan's funding policy. The Plan utilized the aggregate actuarial cost method to determine the annual recommended contributions. There are no employee contributions to the plan.

The Center's annual pension cost and net pension asset for the years ended September 30, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Annual recommended contribution	\$ 2,879,385	\$ 2,776,553
Interest on net pension cost	(26,053)	(26,053)
Adjustment to annual required contribution	<u>32,566</u>	<u>32,566</u>
Annual pension cost	2,885,898	2,783,066
Contributions made	<u>2,886,772</u>	<u>2,783,066</u>
Increase in net pension asset	874	-
Net pension asset:		
Beginning of year	<u>325,664</u>	<u>325,664</u>
End of year	<u><u>\$ 326,538</u></u>	<u><u>\$ 325,664</u></u>

The annual recommended contributions for 2008 and 2007 were determined as part of the October 1, 2007 and October 1, 2006, actuarial valuations, respectively. Actuarial assumptions used were as follows:

Investment rate of return	8%
Projected salary increases	5%
Inflation rate	3%

The assumptions do not include postretirement benefit increases. The unfunded actuarial accrued liability is being amortized over a straight-line 10-year period on an open basis using the level-dollar method.

Three year trend information:

<u>Fiscal Year Ending September 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
2006	2,761,274	92%	325,664
2007	2,783,066	100%	325,664
2008	2,885,898	100%	326,538

The three-year historical trend information showing the Center’s progress in accumulating sufficient assets to pay benefits when due is presented below:

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Deficit of Assets over AAL	Annual Covered Payroll	Deficit as a Percent of Covered Payroll
2006	36,302,325	57,512,978	63.12%	(21,210,653)	49,396,754	(42.94%)
2007	42,358,111	51,005,192	83.05%	(8,647,081)	54,627,232	(15.83%)
2008	47,123,000	52,413,141	89.91%	(5,290,141)	56,589,059	(9.35%)

The Center also has a retirement savings plan under Section 403(b) of the Internal Revenue Code (“IRC”) that covers substantially all employees. This plan allows employees to contribute amounts as limited by the IRC. The Center matches contributions equal to 25% of the participants’ contribution up to a maximum of 6% of compensation for eligible participants employed on the last day of the calendar year. Participants are fully vested in the Center’s matching contributions after five years of service. The Center contributed approximately \$531,334 and \$342,000 to the Plan for the years ended September 30, 2008 and 2007, respectively.

10. **Insurance Programs**

Professional Liability Insurance - Malpractice claims arising from services provided to patients have been asserted against the Center by various claimants, and additional claims may be asserted for known incidents through September 30, 2008. The claims are in various stages of processing, and some may ultimately be brought to trial. Moreover, additional claims arising from services provided to patients in the past may be asserted.

Effective October 1, 2001, the Center changed its professional liability insurance coverage from a claims-made policy to an incurred policy carried by the Insurance Reserve Fund of the State of South Carolina. Incidents occurring prior to October 1, 2001, have been and may be asserted against the Center, and these claims would not be covered under the current professional liability insurance policy. The ultimate disposition of liabilities relating to claims that occurred prior to October 1, 2001, is subject to inherent uncertainties. However, management is of the opinion that, taking into account the applicable professional liability insurance coverage, and the Center’s experience with past claims, the results of these claims and potential claims will not have a material adverse effect on the Center’s financial position or results of operations. The Center is protected under the South Carolina Tort Claims Act, which has a cap of \$1,200,000 for physician errors and \$300,000 for other medical staff errors

Settled claims have not exceeded commercial insurance coverage in any of the three preceding years, except for those incidences occurring prior to October 1, 2001, which were not covered under the current professional liability insurance policy.

Self-Insurance Medical Plan - The Center's health insurance plan is a self-insured medical plan (the "Medical Plan") that provides certain benefits for covered employees. The employees pay a monthly premium and the Medical Plan will pay for certain medical expenses as defined in the Medical Plan document. The Medical Plan has a lifetime coverage maximum of \$1 million per covered participant. The Center maintains individual stop-loss insurance coverage for a covered participant's annual claims in excess of \$175,000. At September 30, 2008 and 2007, the Center has recorded an accrual for incurred but not reported claims of approximately \$1,018,000 and \$1,226,000, respectively.

Workers' Compensation - Prior to January 1, 2006, the Center was fully insured for workers' compensation costs. Beginning January 1, 2006, the Center obtained a high-deductible insurance policy under which the Center is responsible for the first \$50,000 of cost on each claim. At September 30, 2008 and 2007, the Center has recorded an accrual for expected future claim costs of approximately \$299,000 and \$312,000, respectively.

11. **Fair Value of Financial Instruments**

The following information relates to the fair value of the Center's financial instruments:

Cash and Cash Equivalents - The carrying amount reported in the accompanying combined balance sheets for cash and cash equivalents approximates its fair value.

Short-Term Investments, Investments, and Restricted Assets - Fair value is based on quoted market prices, if available, or estimated useful quoted market prices for similar securities.

Accounts Payable and Accrued Expenses - The carrying amounts reported in the accompanying combined balance sheets for accounts payable and accrued expenses approximate their fair values.

Long-Term Debt - The bonds have a variable interest rate adjusted on a weekly basis; thus, the fair value of the bonds approximates the carrying value.

12. Management Agreement

The Center has a management contract with Quorum Health Resources, Inc. Management fees are adjusted annually by the change in the consumer price index but limited to annual increases of 6.0%. The management contract also provides the Center with an executive officer whose salary is paid in addition to the above-mentioned fee. The management fee for the years ended September 30, 2008 and 2007, was approximately \$613,000 and \$589,000, respectively.

13. Commitments

The Center signed a contract for approximately \$12,000,000 for a new information technology system. As of September 30, 2008, the Center had paid approximately \$930,000 related to the contract. The project is expected to be completed in 2010.

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Schedules of Other Expenses

For the Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Management service contracts	\$ 2,660,955	\$ 2,862,406
Utilities	1,950,371	2,431,605
Sales tax	1,923,354	1,532,902
Insurance	1,592,427	1,747,364
Advertising	617,519	305,597
License tax	4,565,827	4,993,898
Equipment Rentals	1,114,963	848,029
Outside lab services	857,384	867,626
Repairs	615,515	602,647
Employee scholarships	1,113,818	937,903
Recruiting	963,569	1,041,445
Telephone	740,906	383,872
Hospice	383,026	420,639
Employee recognition	183,179	147,019
Memberships and dues	190,368	145,393
Hazardous material disposal	152,130	136,404
Freight and shipping	155,100	136,816
Education	724,723	509,489
Computers and software	128,160	105,665
Books and subscriptions	120,593	98,027
Microfilming and storage	77,764	103,905
Linens	31,360	31,805
Uniforms and apparel	50,799	23,293
Bank charges	32,334	24,178
Pest control	15,703	20,156
Auto	7,553	13,296
Transcription services	5,888	3,450
Rent	1,359,860	1,106,999
Miscellaneous	1,264,284	367,572
	<hr/>	<hr/>
Total	\$ <u>23,599,432</u>	\$ <u>21,949,400</u>

See accompanying Independent Auditors' Report.

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Schedules of Professional Fees and Services

For the Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Outside Services	\$ 6,732,744	\$ 6,069,951
Physician fees	4,317,741	3,961,669
Contract Labor	4,069,267	1,893,115
Maintenance Contracts	3,867,674	3,523,886
Collection expenses	1,263,630	647,002
Legal Expenses	283,009	362,238
Consultants	948,816	812,886
Management contract -- Quorum	566,541	597,124
Audit Fees	122,324	213,631
Rental Expense	<u>72,500</u>	<u>67,687</u>
Total	<u>\$ 22,244,246</u>	<u>\$ 18,149,189</u>

See accompanying Independent Auditors' Report.