

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

Combined Financial Statements

September 30, 2009 and 2008

(with Independent
Auditors' Report thereon)

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

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September 30, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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 combined 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 5, 2010

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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, 2009 and 2008. Please read this analysis in conjunction with the combined financial statements, which follow this section.

Overview of the Combined Financial Statements

The fiscal 2009 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, 2009, 2008 and 2007 is presented in Table A-1:

Table A-1
Condensed Combined Balance Sheet
September 30, 2009, 2008 and 2007 (in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 41,221	\$ 40,364	\$ 51,257
Capital assets, net	50,262	47,085	50,749
Noncurrent assets	<u>71,771</u>	<u>73,748</u>	<u>49,174</u>
Total assets	<u>\$ 163,254</u>	<u>\$ 161,197</u>	<u>\$ 151,180</u>
Current liabilities	\$ 21,915	\$ 23,840	\$ 13,473
Long-term liabilities	<u>16,155</u>	<u>16,175</u>	<u>17,705</u>
Total liabilities	<u>38,070</u>	<u>40,015</u>	<u>31,178</u>
Invested in capital assets, net of related debt	33,767	29,380	31,578
Restricted	30	30	30
Unrestricted	<u>91,387</u>	<u>91,772</u>	<u>88,394</u>
Total net assets	<u>125,184</u>	<u>121,182</u>	<u>120,002</u>
Total liabilities and net assets	<u>\$ 163,254</u>	<u>\$ 161,197</u>	<u>\$ 151,180</u>

The net assets of the Medical Center increased \$4,002,652 during 2009 and \$1,179,469 during 2008.

Combined Statements of 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 changes:

Condensed Combined Statements of Revenues, Expenses, and Changes in Net Assets For the Years Ended September 30, 2009, 2008 and 2007 (in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 193,442	\$ 169,910	\$ 158,576
Operating expenses	<u>191,996</u>	<u>170,833</u>	<u>156,801</u>
Operating (loss) income	1,446	(923)	1,775
Nonoperating revenue (expenses)	<u>2,556</u>	<u>1,997</u>	<u>4,865</u>
Excess of revenues over expenses before capital contributions	4,002	1,075	6,640
Capital contributions	<u>-</u>	<u>105</u>	<u>-</u>
Increase in net assets	4,002	1,180	6,640
Beginning net assets	<u>121,182</u>	<u>120,002</u>	<u>113,362</u>
Ending net assets	<u>\$ 125,184</u>	<u>\$ 121,182</u>	<u>\$ 120,002</u>

Fiscal 2009 compared to Fiscal 2008

The Medical Center's total operating revenues increased in fiscal 2009 primarily due to several factors:

- An increased volume with inpatient discharges up by 9.4%.
- A 26.4% increase in volume of RMC practices
- Improved overall case mix index from 1.21 to 1.27 and a Medicare case mix index from 1.42 to 1.54
- Net revenue improvements related improved billing operations.

The Medical Center's operating expenses for fiscal 2009 increased 12%. The increase was primarily driven by an increase in labor costs and supply costs related to increased volumes and additional professional fees related to the billing improvement project.

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 increased 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.

Capital Assets and Debt Administration

At the end of fiscal 2009, the Medical Center had invested approximately \$50.2 million in net capital assets as shown in Table A-3. The increase of \$3.2 million is related to increased capital spending during fiscal 2009.

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, renovation of the Cancer Center and also focusing on providing state of the art equipment for the Medical Center.

Table A-3

**Capital Assets
September 30, 2009, 2008 and 2007 (in thousands)**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land and land improvements	\$ 3,170	\$ 3,162	\$ 3,162
Buildings and improvements	66,208	65,141	65,141
Equipment	74,636	65,618	61,297
Construction-in-progress	3,236	1,858	873
	<u>147,250</u>	<u>135,779</u>	<u>130,473</u>
Accumulated depreciation	<u>(96,988)</u>	<u>(88,694)</u>	<u>(79,724)</u>
Capital assets, net	<u>\$ 50,262</u>	<u>\$ 47,085</u>	<u>\$ 50,749</u>

Fiscal 2009 compared to Fiscal 2008

At September 30, 2009 and 2008, the Medical Center had \$16,495,000 and \$17,705,000, respectively, of bonds payable principal outstanding, a decrease of approximately 7% during the year. The Medical Center made principal payments of \$ 1,530,000 and \$1,465,000 during fiscal 2009 and 2008, respectively.

During Fiscal 1998 the Center issued \$30,000,000 of hospital revenue bonds. During Fiscal 2009 the Center issued \$16,495,000 of South Carolina Jobs-Economic Development Authority Variable Rate Demand Hospital Revenue Bonds to refinance the 1998 bonds.

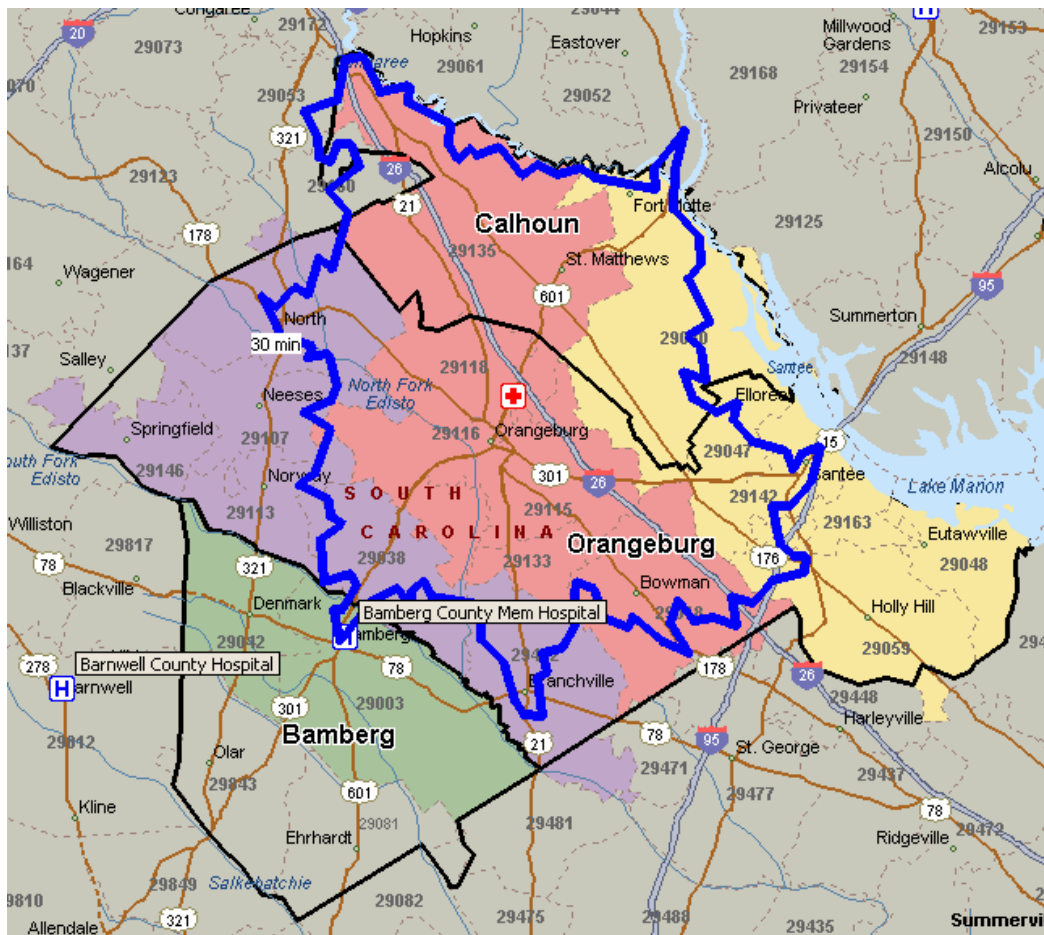
Fiscal 2008 compared to Fiscal 2007

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.

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 map below. In an effort to increase market share from the outer edges of the service area, the Medical Center continues to maintain physician platforms along the service area parameter.



Challenges on the horizon include the demographics of the service area, a National economic downturn and significant healthcare reform including pay for performance. The Healthcare Financial Management Association identified the top issues facing healthcare leaders today as leadership and planning needs, cost and quality controls, preserving cash, and accessing and allocating scarce capital resources. The Medical Center has taken steps to mitigate these challenges and address the priorities as follows:

- Continued to build upon the 5 year plan presented by Kaufman Hall in 2007 and begin the process of working with a financial advisor to update the 5 year strategic financial plan and analyze debt capacity and financing options.
- Continued focus 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 2009 by the Medical Center reflected a value to the community of over \$ 98 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.

	2009	2008
Benefits for persons living in Poverty and the broader community		
Charity Care at Cost	\$ 11,544,987	\$ 7,025,290
Bad Debt, Medicaid Shortfall, and Ambulance	3,637,722	7,438,331
Safe Kids	47,222	55,129
Health Professions Education Scholarships	433,511	646,780
Physician coverage of ED	1,648,916	1,510,957
Financial and in-kind contributions	-	125,000
Foundation & Community Outreach	416,906	274,274
	<u> </u>	<u> </u>
Total quantifiable benefit	<u>\$ 17,729,264</u>	<u>\$ 17,075,761</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 RMC is seeing this trend in increased inpatient admissions. Inpatient cases in 2009 increased 9.4% over 2008 and in 2008 12.7% over 2007. The primary service area of the Medical Center encompasses the majority of Orangeburg and Calhoun counties and maintains 73.9% market share.

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. Continued growth of managed care in the governmental payer area is causing a great deal of focus on energy to be spent on the registration and pre-authorization process both leading to higher prices for healthcare services.

National Economic Downturn

It is expected that high unemployment will continue well into 2010 and will have an ongoing impact on insurance coverage and ability to manage out-of-pocket expenses, leading consumers to focus on reducing healthcare expenses and delaying nonessential care.

US Healthcare Reform

During the coming year we can expect to see changes brought forth to reform the US healthcare system. Change will be significant. The current bill in the Senate on December 21, 2009 is a 2000 page bill with a 400 page amendment.

- The current bill will cover 94% of the legal population and total cuts to hospitals of \$154.4 billion
- Expands Medicaid to 133% of poverty level
- Demonstration projects will be established to examine bundled payments to providers and physicians
- Value-based purchasing provisions will continue to drive the emphasis on quality

Physician payments cuts were scheduled to take effect January 1, 2010 but are now frozen for two months. It is unclear how this will be dealt with long term.

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

Health Affairs reports that despite the current easing of the nursing shortage due to the recession, the U.S. nursing shortage is projected to grow to 260,000 registered nurses by 2025. A shortage of this magnitude would be twice as large as any nursing shortage experienced in this country since the mid-1960s. In the article titled The Recent Surge in Nurse Employment: Causes and Implications, the researchers point to a rapidly aging workforce as a primary contributor to the projected shortage. The shortage of skilled nursing staff will continue to contribute to steeply rising labor costs.

Other staff shortage areas include imaging technicians, 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.

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, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 5,158,845	\$ 11,377,246
Patients accounts receivable, net of estimated uncollectibles of approximately \$4,664,000 in 2009 and \$6,467,000 in 2008	25,921,985	20,342,935
Drugs and supplies	3,040,042	3,501,383
Other receivables, net	45,842	4,476
Prepaid expenses	2,503,088	2,376,574
Estimated third party payor settlements	4,551,619	2,761,821
Total current assets	<u>41,221,421</u>	<u>40,364,435</u>
 Assets whose use is limited	 70,226,832	 73,153,996
 Capital assets, net	 50,262,417	 47,084,530
Unamortized loan costs	1,155,545	229,296
Other assets	13,500	15,500
Prepaid pension cost	296,538	326,538
Goodwill	<u>77,895</u>	<u>22,841</u>
 Total assets	 <u>\$ 163,254,148</u>	 <u>\$ 161,197,136</u>

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Balance Sheets, (continued)

September 30, 2009 and 2008

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Current liabilities:		
Current maturities of long-term debt	\$ 340,000	\$ 1,530,000
Accounts payable	6,345,470	5,122,647
Accrued salaries and wages	3,963,030	2,894,064
Accrued vacation	4,569,128	3,922,756
Accrued employee medical	1,109,535	1,018,343
Other accrued expenses	72,552	124,413
Estimated third party payor settlements	5,514,997	9,228,129
Total current liabilities	<u>21,914,712</u>	<u>23,840,352</u>
Long-term debt, net of current maturities	<u>16,155,000</u>	<u>16,175,000</u>
Total liabilities	<u>38,069,712</u>	<u>40,015,352</u>
Net assets:		
Invested in capital assets, net of related debt	33,767,417	29,379,530
Restricted:		
Nonexpendable for permanent endowment	30,000	30,000
Unrestricted	91,387,019	91,772,254
Total net assets	<u>125,184,436</u>	<u>121,181,784</u>
Total liabilities and net assets	<u>\$ 163,254,148</u>	<u>\$ 161,197,136</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$17,514,577 in 2009 and \$33,433,361 in 2008	\$ 188,747,892	\$ 164,163,357
Other	4,694,270	5,746,867
Total operating revenues	<u>193,442,162</u>	<u>169,910,224</u>
Operating expenses:		
Salaries and wages	83,587,470	75,508,242
Employee benefits	15,755,245	14,408,025
Supplies	27,828,596	25,775,118
Professional fees and services	31,799,404	22,332,087
Other expense	24,343,637	23,511,591
Depreciation and amortization	8,681,828	9,298,088
Total operating expenses	<u>191,996,180</u>	<u>170,833,151</u>
Operating income (loss)	<u>1,445,982</u>	<u>(922,927)</u>
Nonoperating revenues (expenses)		
Investment income	2,876,563	2,333,224
Non-capital grants and contributions	229,890	320,182
Interest expense	(549,783)	(656,010)
Total nonoperating revenues	<u>2,556,670</u>	<u>1,997,396</u>
Excess of revenues over expenses before capital contributions	4,002,652	1,074,469
Capital contributions	<u>-</u>	<u>105,000</u>
Increase in net assets	4,002,652	1,179,469
Net assets, beginning of the year	<u>121,181,784</u>	<u>120,002,315</u>
Net assets, end of the year	<u>\$ 125,184,436</u>	<u>\$ 121,181,784</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 177,665,912	\$ 170,497,643
Payments to suppliers and contractors	(82,435,848)	(70,695,815)
Payments to employees	(97,536,185)	(90,184,070)
Other receipts and payments, net	<u>4,654,904</u>	<u>6,048,883</u>
Net cash provided by operating activities	<u>2,348,783</u>	<u>15,666,641</u>
Cash flows from noncapital financing activities:		
Noncapital grants and contributions	<u>229,890</u>	<u>320,182</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of debt	16,495,000	-
Capital contributions received	-	105,000
Principal paid on long-term debt	(17,705,000)	(1,465,000)
Interest paid on long-term debt	(549,783)	(656,010)
Deferred financing costs	(360,403)	-
Purchase of capital assets	<u>(12,413,421)</u>	<u>(5,084,798)</u>
Net cash used by capital and related financing activities	<u>(14,533,607)</u>	<u>(7,100,808)</u>
Cash flows from investing activities:		
Net change in investments	-	5,329,778
Purchase of physican practice	(67,194)	-
Proceeds from sale of capital assets	-	885
Net change in assets limited as to use	2,776,624	(25,046,107)
Interest and dividends on investments	<u>3,027,103</u>	<u>2,483,764</u>
Net cash provided (used) by investing activities	<u>5,736,533</u>	<u>(17,231,680)</u>
Decrease in cash and cash equivalents	(6,218,401)	(8,345,665)
Cash and cash equivalents, beginning of year	<u>11,377,246</u>	<u>19,722,911</u>
Cash and cash equivalents, end of year	<u>\$ 5,158,845</u>	<u>\$ 11,377,246</u>

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Statements of Cash Flows (continued)

For the Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 1,445,982	\$ (922,927)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Loss on sale and disposal of capital assets	-	33,163
Depreciation and amortization	8,681,828	9,298,088
Provision for bad debts	17,514,577	33,433,361
Change in net operating assets and liabilities:		
Patient accounts receivable	(23,093,627)	(34,527,265)
Other receivables	(39,366)	268,853
Drugs and supplies and prepaid expenses	334,827	(156,376)
Estimated third party payor settlements	(5,502,930)	7,428,190
Net pension asset	30,000	(874)
Accounts payable	1,222,823	1,103,087
Accrued liabilities and other	<u>1,754,669</u>	<u>(290,659)</u>
Net cash provided by operating activities	\$ <u>2,348,783</u>	\$ <u>15,666,641</u>
Noncash transactions:		
Capital assets acquired through accounts payable	\$ <u>-</u>	\$ <u>262,025</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, 2009 and 2008

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”) pronouncement, *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. During the current year, the Edisto Foundation was dissolved.

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 the GASB’s pronouncement, *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, however the amounts not covered by the FDIC are collateralized. It is management's opinion that the Center is not exposed to any significant credit risk related to cash.

Drugs and supplies - 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 Costs - 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, 2009 and 2008 was \$606,265 and \$376,969, 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 nonoperating 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 pronouncements, 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.

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, 2009 and 2008, the Center had the following investments:

<u>September 30, 2009</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	\$ 1,481,532	\$ -	\$ -	\$ -	\$ -
Money Market Accounts	5,019,672	-	-	-	-
Certificates of Deposit	15,769,856	15,769,856	-	-	-
Federal Home Loan Mortgage Corp.	3,804,869	-	3,701	515,251	3,285,917
Federal Home Loan Bank	1,567,047	448,266	1,118,781	-	-
Federal National Mortgage Association	5,773,322	-	54,243	421,205	5,297,874
U.S. Treasury Notes	10,237,855	-	5,076,831	5,161,024	-
U.S. Treasury Bonds	3,196,797	-	-	-	3,196,797
Fannie Mae	276,102	-	-	276,102	-
Freddie Mac	1,137,512	1,002,768	134,744	-	-
Federal Farm Credit Bank	1,587,325	-	1,587,325	-	-
Government National Mortgage Association	5,647,868	4,195	249,531	433,357	4,960,785
Small Business Administration	16,387	-	-	16,387	-
Other fixed income	<u>14,881,500</u>	<u>14,881,500</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 70,397,644</u>	<u>\$ 32,106,585</u>	<u>\$ 8,225,156</u>	<u>\$ 6,823,326</u>	<u>\$ 16,741,373</u>

<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	-	-
Government National Mortgage Association	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>

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, and unless the investment committee approves. As of September 30, 2009 and 2008, more than 10% of the Center's investments are invested in guaranteed investment contracts, certificates of deposit, 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>2009</u>	<u>2008</u>
Carrying amount:		
Deposits	\$ 4,988,033	\$ 10,476,133
Investments and assets whose use is limited	<u>70,397,644</u>	<u>74,055,109</u>
Total	<u>\$ 75,385,677</u>	<u>\$ 84,531,242</u>
Included in the following combined balance sheet captions:		
Cash and cash equivalents	\$ 5,158,845	\$ 11,377,246
Assets whose use is limited	<u>70,226,832</u>	<u>73,153,996</u>
	<u>\$ 75,385,677</u>	<u>\$ 84,531,242</u>

Investment income for assets whose use is limited and other investments are comprised of the following for the years ended September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Investment income:		
Interest and dividend income	\$ 2,565,276	\$ 2,104,197
Realized gains on sales of investments	68,588	379,567
Unrealized gains (losses) on investments	<u>242,699</u>	<u>(150,540)</u>
Total	<u>\$ 2,876,563</u>	<u>\$ 2,333,224</u>

3. **Accounts Receivable and Accounts Payable**

Accounts Receivable	<u>2009</u>	<u>2008</u>
Receivable from patients	\$ 7,868,738	\$ 7,928,431
Receivable from third-party payors and others	8,187,755	5,430,028
Receivable from Medicare	4,299,185	9,355,271
Receivable from Medicaid	<u>10,230,628</u>	<u>4,096,298</u>
Total patient accounts receivable	30,586,306	26,810,028
Less: allowance for uncollectible accounts	<u>(4,664,321)</u>	<u>(6,467,093)</u>
Patient accounts receivable, net	<u>\$ 25,921,985</u>	<u>\$ 20,342,935</u>

Accounts Payable and Accrued Expenses	<u>2009</u>	<u>2008</u>
Payable to suppliers and others	\$ 6,418,022	\$ 5,247,060
Payable to employees (including payroll taxes)	<u>9,641,693</u>	<u>7,835,163</u>
Total accounts payable and accrued expenses	<u>\$ 16,059,715</u>	<u>\$ 13,082,223</u>

4. Capital Assets

Capital asset additions, retirements, transfers and balances for the years ended September 30, 2009 and 2008 were as follows:

	Balance September 30, 2008	Additions	Retirements & Transfers	Balance September 30, 2009
Land	\$ 656,617	\$ -	\$ -	\$ 656,617
Land improvements	2,505,276	8,218	-	2,513,494
Buildings	65,140,882	871,527	195,115	66,207,524
Equipment	<u>65,618,193</u>	<u>8,121,514</u>	<u>896,752</u>	<u>74,636,459</u>
Totals at historical cost	<u>133,920,968</u>	<u>9,001,259</u>	<u>1,091,867</u>	<u>144,014,094</u>
Less accumulated depreciation:				
Land improvements	(1,984,314)	(46,927)	-	(2,031,241)
Buildings	(40,888,226)	(2,328,089)	-	(43,216,315)
Equipment	<u>(45,821,779)</u>	<u>(6,039,114)</u>	<u>120,714</u>	<u>(51,740,179)</u>
Total accumulated depreciation	<u>(88,694,319)</u>	<u>(8,414,130)</u>	<u>120,714</u>	<u>(96,987,735)</u>
Construction in progress	<u>1,857,881</u>	<u>3,412,162</u>	<u>(2,033,985)</u>	<u>3,236,058</u>
Capital assets, net	<u>\$ 47,084,530</u>	<u>\$ 3,999,291</u>	<u>\$ (821,404)</u>	<u>\$ 50,262,417</u>
	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>

5. Long-Term Debt

A schedule of changes in the Center's long-term debt for 2009 and 2008 follows:

	<u>September 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2009</u>	<u>Current Portion</u>
2009 bonds	\$ -	\$ 16,495,000	\$ -	\$16,495,000	\$ 340,000
1998 bonds	<u>17,705,000</u>	<u>-</u>	<u>(17,705,000)</u>	<u>-</u>	<u>-</u>
	<u>\$ 17,705,000</u>	<u>\$ 16,495,000</u>	<u>\$ (17,705,000)</u>	<u>\$ 16,495,000</u>	<u>\$ 340,000</u>
	<u>September 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2008</u>	<u>Current Portion</u>
1998 bonds	<u>\$ 19,170,000</u>	<u>-</u>	<u>(1,465,000)</u>	<u>\$ 17,705,000</u>	<u>\$ 1,530,000</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. During Fiscal 2009, the Center issued \$16,495,000 of South Carolina Jobs-Economic Development Authority Variable Rate Demand Hospital Revenue Bonds 2009 Refunding (“2009 Bonds”) to refinance the 1998 Bonds. The effective interest rate of the bonds at September 30, 2009 was 1.43%. The 2009 Bonds are secured by a letter of credit totaling \$16,684,806 at September 30, 2009. The letter of credit expires on May 5, 2012. The proceeds of the Series 2009 Bonds have been pledged as security for the letter of credit.

Costs of \$1,202,364 were incurred in connection with the issuance of the 2009 Bonds and are being amortized over the remaining term of the 2009 Bonds.

The 2009 Bonds principal payments are made annually beginning in 2010 through 2028 in annual amounts ranging from \$340,000 to \$1,880,000. In addition, the 2009 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 2009 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, 2009.

The aggregate debt service payments due on long-term debt for the years subsequent to September 30, 2009, and until maturity are as follows:

<u>Year Ending September 30:</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 340,000	\$ 341,722
2011	1,860,000	449,109
2012	1,875,000	397,401
2013	1,880,000	345,276
2014	1,190,000	293,012
2015 – 2019	3,665,000	1,064,462
2020 – 2024	3,170,000	614,241
2025 – 2028	<u>2,515,000</u>	<u>174,306</u>
Total	<u>\$16,495,000</u>	<u>\$ 3,679,529</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, 2006.

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 an estimated reserve of \$565,000 as of September 30, 2009 and 2008 as a result of the upcoming RAC audits.

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, 2006.

Revenue from the Medicare and Medicaid programs accounted for approximately 51% and 10%, respectively, of the Center’s net patient revenue for the year ended 2009. Revenue from the Medicare and Medicaid programs accounted for approximately 52% and 8% respectively, of the Center’s net patient service revenue for the year ended 2008. 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 2009 net patient revenues did not change significantly due to a change in the allowances previously estimated for tentative cost report settlements. 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 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 include 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 charges to arrive at net patient service revenue as follows:

	<u>2009</u>	<u>2008</u>
Gross patient charges at established rates	\$ 614,538,505	\$ 555,459,145
Deductions:		
Contractual adjustments	(408,276,036)	(357,862,427)
Provision for bad debts	<u>(17,514,577)</u>	<u>(33,433,361)</u>
	<u>(425,790,613)</u>	<u>(391,295,788)</u>
Net patient service revenue	<u>\$ 188,747,892</u>	<u>\$ 164,163,357</u>

In late 2008, a 40% discount was established for all patients without insurance. During 2009, the Center extended self pay discounts in the amount of \$17,729,617, and is included in contractual adjustments.

The Center qualified for disproportionate share payments from the South Carolina Medicaid Program through September 30, 2009. The Hospital received quarterly lump-sum payments totaling approximately \$7,825,000 and \$7,608,000 in 2009 and 2008, 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 \$20,754,000 and \$28,066,000 in 2009 and 2008, respectively.

8. **Operating Leases**

The Center leases various medical and business equipment under operating leases expiring at various dates through 2014. Total rent expense in 2009 and 2008 for all operating leases was approximately \$1,110,000 and \$963,000, respectively.

The following is a schedule by year of future remaining lease payments under operating leases at September 30, 2009, that have initial remaining lease terms in excess of one year.

2010	\$ 748,841
2011	537,825
2012	352,064
2013	274,095
2014	<u>130,571</u>
	<u>\$ 2,043,396</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. The Center has elected to freeze the plan effective January 1, 2010.

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, 2009 and 2008, are as follows:

	<u>2009</u>	<u>2008</u>
Annual recommended contribution	\$ 2,477,409	\$ 2,879,385
Interest on net pension cost	(26,123)	(26,053)
Adjustment to annual required contribution	<u>32,654</u>	<u>32,566</u>
Annual pension cost	2,483,940	2,885,898
Contributions made	<u>2,453,940</u>	<u>2,886,772</u>
Increase (decrease) in net pension asset	(30,000)	874
Net pension asset:		
Beginning of year	<u>326,538</u>	<u>325,664</u>
End of year	<u>\$ 296,538</u>	<u>\$ 326,538</u>

The annual recommended contributions for 2009 and 2008 were determined as part of the October 1, 2008 and October 1, 2007, 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>
2007	2,783,066	100%	325,664
2008	2,885,898	100%	326,538
2009	2,483,940	99%	296,538

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

	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Deficit of Assets over AAL</u>	<u>Annual Covered Payroll</u>	<u>Deficit as a Percent of Covered Payroll</u>
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%)
2009	33,279,000	77,737,556	42.81%	(44,458,556)	62,482,331	(71.20%)

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 \$601,000 and \$531,000 to the Plan for the years ended September 30, 2009 and 2008, 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, 2009. 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, 2009 and 2008, the Center has recorded an accrual for incurred but not reported claims of approximately \$1,110,000 and \$1,018,000, 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, 2009 and 2008, the Center has recorded an accrual for expected future claim costs of approximately \$497,000 and \$299,000, 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 a chief executive officer and a chief operating officer whose salary is paid in addition to the above-mentioned fee. The management fee for the years ended September 30, 2009 and 2008, was approximately \$634,000 and \$613,000, respectively.

13. Fair Value Disclosures

The Center adopted the provisions of Fair Value Measurements on October 1, 2008.

The provision defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provision does not require any new fair value measurements, but clarifies and standardizes some divergent practices that have emerged since prior guidance was issued. The provision creates a three-level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation.

The provision defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, the Center considers the principal or most advantageous market in which those assets or liabilities are sold and considers assumptions that market participants would use when pricing those assets or liabilities. Fair values determined using level 1 inputs rely on active and observable markets to price identical assets or liabilities. In situations where identical assets and liabilities are not traded in active markets, fair values may be determined based on level 2 inputs, which exist when observable data exists for similar assets and liabilities. Fair values for assets and liabilities that are not actively traded in observable markets are based on level 3 inputs, which are considered to be unobservable.

Among the Center's assets, investments were reported at their fair values on a recurring basis.

For assets carried at fair value, the following table provides fair value information as of September 30, 2009:

	<u>Fair value measurements at September 30, 2009 using:</u>			
<i>Assets measured at fair value</i>	Fair value at September 30 <u>2009</u>	Quoted prices in active markets for identical assets and liabilities <u>(Level 1 inputs)</u>	Quoted prices for similar assets and liabilities <u>(Level 2 inputs)</u>	Significant unobservable inputs <u>(Level 3 inputs)</u>
Certificates of deposit	\$ 15,769,856	\$ -	\$ 15,769,856	\$ -
Government and agency securities	33,245,084	33,245,084	-	-
Guaranteed investment contract	<u>14,881,500</u>	<u>-</u>	<u>-</u>	<u>14,881,500</u>
Total assets at fair value	<u>\$ 63,896,440</u>	<u>\$ 33,245,084</u>	<u>\$ 15,769,856</u>	<u>\$ 14,881,500</u>

The following table illustrates the activity of the Level 3 assets from September 30, 2008 to September 30, 2009:

Fair value at September 30, 2008	\$ 14,613,000
Unrealized gains	<u>268,500</u>
Fair value at September 30, 2009	<u>\$ 14,881,500</u>

14. **Commitments**

The Center signed a contract for approximately \$9,800,000 for a new information technology system. As of September 30, 2009, the Center had paid approximately \$4,679,000 related to the contract. The project is expected to be completed in 2010.

15. **Subsequent Events**

Effective January 1, 2010, the defined benefit pension plan was frozen.

Subsequent events have been evaluated through January 5, 2010, which is the date the combined financial statements were available to be issued.

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Schedules of Other Expenses

For the Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Management service contracts	\$ 2,991,276	\$ 2,660,955
Utilities	1,758,660	1,950,371
Sales tax	1,901,787	1,923,354
Insurance	2,034,668	1,592,427
Advertising	1,010,782	617,519
License tax	4,227,928	4,565,827
Equipment rentals	1,048,905	1,114,963
Outside lab services	871,527	857,384
Repairs	580,952	615,515
Employee scholarships	465,264	1,113,818
Recruiting	629,558	963,569
Telephone	817,484	740,906
Hospice	535,865	383,026
Employee recognition	228,012	183,179
Memberships and dues	228,382	190,368
Hazardous material disposal	153,888	152,130
Freight and shipping	333,910	155,100
Education	1,277,375	724,723
Computers and software	118,459	128,160
Books and subscriptions	229,936	120,593
Microfilming and storage	62,568	77,764
Linens	38,298	31,360
Uniforms and apparel	66,819	50,799
Bank charges	34,666	32,334
Pest control	22,939	15,703
Auto	16,180	7,553
Transcription services	-	5,888
Rent	1,185,788	1,359,860
Miscellaneous	1,471,761	1,176,443
	<hr/>	<hr/>
Total	\$ <u>24,343,637</u>	\$ <u>23,511,591</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Outside services	\$ 14,445,080	\$ 6,732,744
Physician fees	5,067,656	4,317,741
Contract labor	5,198,555	4,069,267
Maintenance Contracts	4,233,695	3,955,515
Collection expenses	1,075,081	1,263,630
Legal expenses	317,685	283,009
Consultants	639,774	948,816
Management contract -- Quorum	643,322	566,541
Audit fees	126,471	122,324
Rental expense	<u>52,085</u>	<u>72,500</u>
Total	<u>\$ 31,799,404</u>	<u>\$ 22,332,087</u>

See accompanying Independent Auditors' Report.