

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

Combined Financial Statements

September 30, 2010 and 2009

(with Independent
Auditors' Report thereon)

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

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September 30, 2010 and 2009

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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, 2010 and 2009, 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, 2010 and 2009, 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.

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February 23, 2011

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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" or "RMC") annual financial report presents our analysis of the Medical Center's financial performance during the years ended September 30, 2010 and 2009. Please read this analysis in conjunction with the combined financial statements, which follow this section.

Overview of the Combined Financial Statements

The fiscal 2010 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, noncapital financing, 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, 2010, 2009 and 2008 is presented in Table A-1:

Table A-1
Condensed Combined Balance Sheet
September 30, 2010, 2009 and 2008 (in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current assets	\$ 39,721	\$ 41,221	\$ 40,364
Capital assets, net	56,747	50,262	47,085
Noncurrent assets	<u>57,937</u>	<u>71,771</u>	<u>73,748</u>
Total assets	<u>\$ 154,405</u>	<u>\$ 163,254</u>	<u>\$ 161,197</u>
Current liabilities	\$ 20,256	\$ 21,915	\$ 23,840
Long-term liabilities	<u>14,295</u>	<u>16,155</u>	<u>16,175</u>
Total liabilities	<u>34,551</u>	<u>38,070</u>	<u>40,015</u>
Invested in capital assets, net of related debt	40,592	33,767	29,380
Restricted	30	30	30
Unrestricted	<u>79,232</u>	<u>91,387</u>	<u>91,772</u>
Total net assets	<u>119,854</u>	<u>125,184</u>	<u>121,182</u>
Total liabilities and net assets	<u>\$ 154,405</u>	<u>\$ 163,254</u>	<u>\$ 161,197</u>

The net assets of the Medical Center decreased \$5,330,433 during 2010 and increased \$4,002,652 during 2009.

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:

Table A-2
Condensed Combined Statements of Revenues,
Expenses, and Changes in Net Assets
For the Years Ended September 30, 2010, 2009 and 2008 (in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 182,735	\$ 193,442	\$ 169,910
Operating expenses	<u>189,650</u>	<u>191,996</u>	<u>170,833</u>
Operating (loss) income	(6,915)	1,446	(923)
Nonoperating revenue, net	<u>1,585</u>	<u>2,556</u>	<u>1,998</u>
Excess of revenues over expenses before capital contributions	(5,330)	4,002	1,075
Capital contributions	<u>-</u>	<u>-</u>	<u>105</u>
Increase (decrease) in net assets	(5,330)	4,002	1,180
Beginning net assets	<u>125,184</u>	<u>121,182</u>	<u>120,002</u>
Ending net assets	<u>\$ 119,854</u>	<u>\$ 125,184</u>	<u>\$ 121,182</u>

Fiscal 2010 compared to Fiscal 2009

The Medical Center's total operating revenues decreased in fiscal 2010 due to several factors:

- Decreased volume with discharges down by 2%
- Increases in Charity Care and Bad Debt Expense increasing over the prior year by approximately \$18 million
- Shifts in Payer Mix – the Medicaid and Self Pay population grew by approximately 2.9%, with commercial and Medicare decreasing by 1.5% and 1.4% respectively.
- Decreases in reimbursement for Disproportionate Share payments from the state of approximately \$2.6 million

The Medical Center's operating expenses for fiscal 2010 decreased 1.3%. This was primarily driven by decreases in supply costs related to decreased volumes and professional fees and other expenses as the organization worked to reduce expenses to compensate for decreases in volumes and shifts in payer mix and higher charity care.

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.

Capital Assets and Debt Administration

At the end of fiscal 2010, the Medical Center had invested approximately \$56.7 million in net capital assets as shown in Table A-3. The increase of \$6.5 million is related to increased capital spending during fiscal 2010.

Two significant projects during the year were the Cerner system, which went live in December and the 64 slice CT system.

No new debt was issued during the year. However the Cancer Center renovation project and purchase of a new linear accelerator could require additional debt and possible restructuring of current debt.

Table A-3

Capital Assets

September 30, 2010, 2009 and 2008 (in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land and land improvements	\$ 3,170	\$ 3,170	\$ 3,162
Buildings and improvements	66,475	66,208	65,141
Equipment	84,022	74,636	65,618
Construction-in-progress	8,655	3,236	1,858
	<u>162,322</u>	<u>147,250</u>	<u>135,779</u>
Accumulated depreciation	<u>(105,575)</u>	<u>(96,988)</u>	<u>(88,694)</u>
Capital assets, net	<u>\$ 56,747</u>	<u>\$ 50,262</u>	<u>\$ 47,085</u>

Fiscal 2010 compared to Fiscal 2009

At September 30, 2010 and 2009, the Medical Center had \$16,155,000 and \$16,495,000, respectively, of bonds payable principal outstanding, a decrease of approximately 2.1% during the year. The Medical Center made principal payments of \$ 340,000 and \$17,705,000 during fiscal 2010 and 2009, respectively.

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 \$17,705,000 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.

Economic and Other Factors

The healthcare industry and the Regional Medical Center face a number of challenges for the future. The slow economy and the most comprehensive health reform in more than 50 years will continue to ratchet up pressure on U.S. providers to reduce costs and improve quality. More physicians will seek employment with hospitals or large medical groups and we will likely see more consolidation of hospitals and medical groups/independent practice associations.

Also 2011 will be a year that some will attempt to repeal the Affordable Care Act, while others attempt to change provisions that they do not like.

The Camden Group, a national healthcare advisory firm, predicts the following Top 10 Trends will have major and continuing impact on the healthcare sector during 2011:

1. **Insurance membership takes hit from slow recovery.** Few unemployed will take advantage of COBRA while employees, faced with paying more of their health plan premium, will select high-deductible, low-premium PPO plans, hurting HMOs.
2. **No easing on payment pressure.** Although health plan payments will keep pace with inflation and operating cost increases, they will not make up for declining or stagnant Medicaid and Medicare payments.
3. **Patients postpone care, hurting providers too.** With high unemployment and underemployment and increased out-of-pocket costs, people will continue to put off treatment, keeping volumes at hospitals, ambulatory centers, and physician offices soft.
4. **Cost is king.** Soft volume, downward pressure on revenues, and deteriorating payer mix with increased bad debt will drive providers to seek more cost savings. However, unions, staffing ratios, and regulations will make cuts difficult. At the same time, health plans will begin to explore and increase the use of tiered networks and stratify payment to encourage use of lower-cost providers.
5. **Capital remains elusive.** As in 2010, most non-profit hospitals will find it difficult to access capital. Lenders are requiring an increase in days cash-on-hand, coverage ratio, stronger EBITDA, and smaller borrowings. Credit rating agencies want to see: 1) physician alignment strategy, 2) clinical integration and cost reduction action, 3) IT plan, and 4) plans to capture more market share.
6. **Physicians make or break new care models.** To improve outcomes and lower costs, hospitals and medical groups will focus on accountable care, bundled payments, patient-centered medical homes, and/or clinical integration. Reducing variation in care -- primarily by physicians -- will be central to any successful strategy. An effective bundled payment strategy, for example, requires specialists to address clinical resource consumption and supply cost and use while standardizing care protocols in conjunction with hospitalists and intensivists.
7. **Construction focus is on fast returns.** Construction projects will be scaled down, with a focus on regulatory compliance, enhancing throughput, improving care/outcomes, and if possible, capturing additional market share. Providers also will prioritize construction that generates superior returns, such as surgical services and imaging centers. Do not be surprised to see the growth of freestanding emergency departments to reduce the need for hospitals, increase access, and provide capacity for the newly insured.
8. **IT becomes more pervasive -- or else.** Information technology underpins providers' ability to shift to new care models, so IT moves to center stage with efforts to implement electronic medical records, (EMRs,) computerized physician order entry (CPOE), and health information exchanges (HIEs.) Provided, of course, medical facilities already have in place ePrescribing, PACS, and online results reporting and scheduling.
9. **Let's make a deal.** Mergers and acquisitions will be brisk as more hospitals and physician groups acknowledge they lack the resources to invest in information technology, facilities, and equipment for new delivery models or the leverage to negotiate effectively with health plans. Given their central role in new models, the value of primary care medical groups will increase. It is possible that health plans will enter the market to acquire these medical groups.

10. **Market share, market share, market share.** Hospitals and medical groups have underutilized assets and must get them busy. Providers also realize that more volume will generate incremental revenue and decrease per unit cost. Hospitals will hunt for new programs to fill empty or underperforming assets.

As a regional medical center, RMC enjoys strong overall market share in both inpatient and outpatient volume. RMC’s focus will be to increase market share and capture a higher percentage of more complex cases, focusing on Cardiovascular Services, General Surgery, Orthopedic Surgery, and Oncology.

RMC is “ahead of the curve” by employing primary care and specialist physicians. However, market demand indicates a need for more physicians. RMC has included physician recruitment in the 3 year strategic plan that was completed this past year.

RMC will continue to focus on improving overall operating margin through a combination of growth initiatives and more aggressive cost control. RMC will also continue to focus on quality measures, patient satisfaction, community awareness and physician relations.

Community Benefit

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 February 2010 by the Medical Center reflected a value to the community of over \$ 108 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 following table depicts the activity related to the community benefit provided by the Medical Center.

	<u>2010</u>	<u>2009</u>
Benefits for persons living in Poverty and the broader community		
Charity Care at Cost	\$ 9,169,392	\$ 11,544,987
Bad Debt, Medicaid Shortfall, and Ambulance	6,297,064	3,637,722
Safe Kids	2,610	47,222
Health Professions Education Scholarships	192,596	433,511
Physician coverage of ED	2,009,360	1,648,916
Foundation & Community Outreach	404,807	416,906
	<hr/>	<hr/>
Total quantifiable benefit	<u>\$ 18,075,829</u>	<u>\$ 17,729,264</u>

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 Cheryl Mason, 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, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 4,666,063	\$ 5,158,845
Patient accounts receivable, net of estimated uncollectibles of approximately \$3,653,000 in 2010 and \$4,664,000 in 2009	24,490,991	25,921,985
Drugs and supplies	4,095,619	3,040,042
Other receivables, net	1,054,713	45,842
Prepaid expenses	1,529,805	2,503,088
Estimated third party payor settlements	3,883,780	4,551,619
Total current assets	<u>39,720,971</u>	<u>41,221,421</u>
 Assets whose use is limited	 56,232,894	 70,226,832
 Capital assets, net	 56,747,255	 50,262,417
Unamortized loan costs	1,165,435	1,155,545
Other assets	-	13,500
Prepaid pension cost	294,005	296,538
Goodwill	<u>243,947</u>	<u>77,895</u>
 Total assets	 <u>\$ 154,404,507</u>	 <u>\$ 163,254,148</u>

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Balance Sheets, (continued)

September 30, 2010 and 2009

Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>
Current liabilities:		
Current maturities of long-term debt	\$ 1,860,000	\$ 340,000
Accounts payable	7,493,845	6,345,470
Accrued salaries and wages	3,380,123	3,963,030
Accrued vacation	4,301,564	4,569,128
Accrued employee medical	1,135,783	1,109,535
Other accrued expenses	63,239	72,552
Estimated third party payor settlements	<u>2,020,950</u>	<u>5,514,997</u>
Total current liabilities	20,255,504	21,914,712
Long-term debt, net of current maturities	<u>14,295,000</u>	<u>16,155,000</u>
Total liabilities	<u>34,550,504</u>	<u>38,069,712</u>
Net assets:		
Invested in capital assets, net of related debt	40,592,255	33,767,417
Restricted:		
Nonexpendable for permanent endowment	30,000	30,000
Unrestricted	<u>79,231,748</u>	<u>91,387,019</u>
Total net assets	<u>119,854,003</u>	<u>125,184,436</u>
Total liabilities and net assets	<u>\$ 154,404,507</u>	<u>\$ 163,254,148</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$23,602,863 in 2010 and \$17,514,577 in 2009	\$ 179,094,274	\$ 188,747,892
Other	3,640,251	4,694,270
Total operating revenues	<u>182,734,525</u>	<u>193,442,162</u>
Operating expenses:		
Salaries and wages	86,060,688	83,587,470
Employee benefits	18,160,499	15,755,245
Supplies	25,912,613	27,828,596
Professional fees and services	26,807,389	31,799,404
Other expense	23,985,003	24,343,637
Depreciation and amortization	8,723,989	8,681,828
Total operating expenses	<u>189,650,181</u>	<u>191,996,180</u>
Operating income (loss)	<u>(6,915,656)</u>	<u>1,445,982</u>
Nonoperating revenues (expenses):		
Investment income, net	1,616,643	2,876,563
Noncapital grants and contributions	200,252	229,890
Interest expense	(231,672)	(549,783)
Total nonoperating revenues	<u>1,585,223</u>	<u>2,556,670</u>
Increase (decrease) in net assets	(5,330,433)	4,002,652
Net assets, beginning of the year	<u>125,184,436</u>	<u>121,181,784</u>
Net assets, end of the year	<u>\$ 119,854,003</u>	<u>\$ 125,184,436</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 177,699,060	\$ 177,665,912
Payments to suppliers and contractors	(77,308,050)	(82,435,848)
Payments to employees	(105,045,410)	(97,536,185)
Other receipts and payments, net	<u>2,644,880</u>	<u>4,654,904</u>
Net cash provided (used) by operating activities	<u>(2,009,520)</u>	<u>2,348,783</u>
Cash flows from noncapital financing activities:		
Noncapital grants and contributions	<u>200,252</u>	<u>229,890</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of debt	-	16,495,000
Principal paid on long-term debt	(340,000)	(17,705,000)
Interest paid on long-term debt	(227,762)	(549,783)
Deferred financing costs	(72,920)	(360,403)
Purchase of capital assets	<u>(13,413,731)</u>	<u>(12,413,421)</u>
Net cash used by capital and related financing activities	<u>(14,054,413)</u>	<u>(14,533,607)</u>
Cash flows from investing activities:		
Purchase of physican practices	(239,682)	(67,194)
Net change in assets whose use is limited	13,993,938	2,927,164
Net investment income	<u>1,616,643</u>	<u>2,876,563</u>
Net cash provided by investing activities	<u>15,370,899</u>	<u>5,736,533</u>
Decrease in cash and cash equivalents	(492,782)	(6,218,401)
Cash and cash equivalents, beginning of year	<u>5,158,845</u>	<u>11,377,246</u>
Cash and cash equivalents, end of year	<u>\$ 4,666,063</u>	<u>\$ 5,158,845</u>

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Statements of Cash Flows (continued)

For the Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (6,915,656)	\$ 1,445,982
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	8,723,989	8,681,828
Provision for bad debts	23,602,863	17,514,577
Change in net operating assets and liabilities:		
Patient accounts receivable	(22,171,869)	(23,093,627)
Other receivables, net	(1,008,871)	(41,366)
Other assets	13,500	2,000
Drugs and supplies and prepaid expenses	(82,294)	334,827
Estimated third party payor settlements	(2,826,208)	(5,502,930)
Prepaid pension cost	2,533	30,000
Accounts payable	(513,971)	1,222,823
Accrued liabilities and other	<u>(833,536)</u>	<u>1,754,669</u>
Net cash provided (used) by operating activities	\$ <u>(2,009,520)</u>	\$ <u>2,348,783</u>
Noncash transactions:		
Capital assets acquired through accounts payable	\$ <u>1,658,436</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, 2010 and 2009

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. The Board of Trustees of the Center appoints the members of the Board of Directors of the Foundation. According to the provisions of the Governmental Accounting Standards Board ("GASB") pronouncement, *The Financial Reporting Entity*, ERHS and the Foundation have been presented as blended component units and, thus, combined with the operations of the Center.

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 Federal Deposit Insurance Corporation ("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 - 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 revenues 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, 2010 and 2009 was \$695,557 and \$632,527, 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 nonoperating 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 Center is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying combined financial statements do not reflect a provision or liability for federal and state income taxes. The Center has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2010.

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 on the combined balance sheets. At September 30, 2010 and 2009, the Center had the following investments:

<u>September 30, 2010</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	\$ 974,023	\$ -	\$ -	\$ -	\$ -
Money market accounts	23,689,881	-	-	-	-
Certificates of Deposit	1,533,705	1,533,705	-	-	-
Federal Home Loan Mortgage Corp.	7,597,034	-	88,480	407,287	7,101,267
Federal National Mortgage Association	11,624,413	-	79,996	457,453	11,086,964
Government National Mortgage Association	10,270,721	12,807	131,369	353,912	9,772,633
Small Business Administration	11,638	-	11,638	-	-
U.S. Treasury Securities	<u>531,479</u>	<u>-</u>	<u>-</u>	<u>531,479</u>	<u>-</u>
Total	<u>\$ 56,232,894</u>	<u>\$ 1,546,512</u>	<u>\$ 311,483</u>	<u>\$ 1,750,131</u>	<u>\$ 27,960,864</u>

<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	\$ 1,310,720	\$ -	\$ -	\$ -	\$ -
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>\$ 70,226,832</u>	<u>\$ 32,106,585</u>	<u>\$ 8,225,156</u>	<u>\$ 6,823,326</u>	<u>\$ 16,741,373</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, 2010, more than 10% of the Center's investments are invested in money market accounts and U.S. Government Agencies.

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

	<u>2010</u>	<u>2009</u>
Carrying amount:		
Deposits	\$ 29,329,967	\$ 11,489,237
Investments	<u>31,568,990</u>	<u>63,896,440</u>
Total	<u>\$ 60,898,957</u>	<u>\$ 75,385,677</u>
Included in the following combined balance sheet captions:		
Cash and cash equivalents	\$ 4,666,063	\$ 5,158,845
Assets whose use is limited	<u>56,232,894</u>	<u>70,226,832</u>
	<u>\$ 60,898,957</u>	<u>\$ 75,385,677</u>

Investment income for assets whose use is limited and cash equivalents are comprised of the following for the years ended September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Investment income:		
Interest and dividend income	\$ 1,504,150	\$ 2,565,276
Realized gains (losses) on sales of investments, net	(351,023)	68,588
Unrealized gains on investments, net	<u>463,516</u>	<u>242,699</u>
Total	<u>\$ 1,616,643</u>	<u>\$ 2,876,563</u>

3. Accounts Receivable and Accounts Payable

Accounts Receivable	<u>2010</u>	<u>2009</u>
Receivable from patients	\$ 12,195,732	\$ 7,868,738
Receivable from third-party payors and others	7,522,348	8,187,755
Receivable from Medicare	7,015,472	4,299,185
Receivable from Medicaid	<u>1,409,939</u>	<u>10,230,628</u>
Total patient accounts receivable	28,143,491	30,586,306
Less: allowance for uncollectible accounts	<u>(3,652,500)</u>	<u>(4,664,321)</u>
Patient accounts receivable, net	<u>\$ 24,490,991</u>	<u>\$ 25,921,985</u>

Accounts Payable and Accrued Expenses	<u>2010</u>	<u>2009</u>
Payable to suppliers and others	\$ 7,557,084	\$ 6,418,022
Payable to employees (including payroll taxes)	<u>8,817,470</u>	<u>9,641,693</u>
Total accounts payable and accrued expenses	<u>\$ 16,374,554</u>	<u>\$ 16,059,715</u>

4. Capital Assets

Capital asset additions, retirements, transfers and balances for the years ended September 30, 2010 and 2009 were as follows:

	Balance September 30, 2009	Additions	Retirements & Transfers	Balance September 30, 2010
Land	\$ 656,617	\$ -	\$ -	\$ 656,617
Land improvements	2,513,494	-	-	2,513,494
Buildings	66,207,524	267,288	-	66,474,812
Equipment	<u>74,636,459</u>	<u>5,321,193</u>	<u>4,065,114</u>	<u>84,022,766</u>
Totals at historical cost	<u>144,014,094</u>	<u>5,588,481</u>	<u>4,065,114</u>	<u>153,667,689</u>
Less accumulated depreciation:				
Land improvements	(2,031,241)	(32,011)	-	(2,063,252)
Buildings	(43,216,315)	(2,256,064)	-	(45,472,379)
Equipment	<u>(51,740,179)</u>	<u>(6,299,254)</u>	<u>-</u>	<u>(58,039,433)</u>
Total accumulated depreciation	<u>(96,987,735)</u>	<u>(8,587,329)</u>	<u>-</u>	<u>(105,575,064)</u>
Construction in progress	<u>3,236,058</u>	<u>9,483,686</u>	<u>(4,065,114)</u>	<u>8,654,630</u>
Capital assets, net	<u>\$ 50,262,417</u>	<u>\$ 6,484,838</u>	<u>\$ -</u>	<u>\$ 56,747,255</u>
	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>

5. Long-Term Debt

A schedule of changes in the Center’s long-term debt for 2010 and 2009 follows:

	<u>September 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30, 2010</u>	<u>Current Portion</u>
2009 bonds	\$ <u>16,495,000</u>	\$ _____ -	\$ <u>(340,000)</u>	\$ <u>16,155,000</u>	\$ <u>1,860,000</u>
	<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>(17,705,000)</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>

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, 2010 was 1.35%. The 2009 Bonds are secured by a letter of credit totaling \$16,684,806 at September 30, 2010. 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 \$1,181,807 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 aggregate debt service payments due on long-term debt for the years subsequent to September 30, 2010, and until maturity are as follows:

<u>Year Ending September 30:</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
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	1,195,000	259,930
2016 – 2020	3,100,000	962,575
2021 – 2025	3,175,000	526,115
2026 – 2028	<u>1,880,000</u>	<u>104,389</u>
Total	<u>\$16,155,000</u>	<u>\$ 3,337,807</u>

6. Net Patient Service Revenues

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors 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 three year demonstration program in New York, Massachusetts, Florida, South Carolina, and California that ended in March 2008. This program has now been phased into all 50 states as of 2010. The Center has recorded an estimated reserve of \$141,000 and \$565,000 as of September 30, 2010 and 2009, respectively, 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, 2007.

Revenue from the Medicare and Medicaid programs accounted for approximately 53% and 17%, respectively, of the Center’s net patient revenue for the year ended 2010. Revenue from the Medicare and Medicaid programs accounted for approximately 51% and 10% respectively, of the Center’s net patient service revenue for the year ended 2009. 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 2010 net patient service revenue decreased by approximately \$988,000 due to a change in the allowances previously estimated for tentative cost report settlements. The 2009 net patient service revenue did not change significantly 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>2010</u>	<u>2009</u>
Gross patient charges at established rates	\$ 635,270,830	\$ 614,538,505
Deductions:		
Contractual adjustments	(432,573,693)	(408,276,036)
Provision for bad debts	<u>(23,602,863)</u>	<u>(17,514,577)</u>
	<u>(456,176,556)</u>	<u>(425,790,613)</u>
Net patient service revenue	\$ <u>179,094,274</u>	\$ <u>188,747,892</u>

The Center qualified for disproportionate share payments from the South Carolina Medicaid Program through September 30, 2010. The Center received quarterly lump-sum payments totaling approximately \$4,633,000 and recorded approximately \$572,000 in a third-party payor settlement receivable for a total of \$5,205,000 in 2010. The center received quarterly lump-sum payments totaling \$7,825,000 in 2009. 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 \$32,738,000 and \$20,754,000 in 2010 and 2009, respectively.

8. **Operating Leases**

The Center leases medical and business equipment under operating leases expiring at various dates through 2014. Total rent expense in 2010 and 2009 for all operating leases was approximately \$1,352,000 and \$1,110,000, respectively.

The following is a schedule by year of future remaining lease payments under operating leases at September 30, 2010, that have initial remaining lease terms in excess of one year.

2011	\$ 692,983
2012	642,577
2013	465,427
2014	249,711
2015	<u>9,928</u>
	\$ <u>2,060,626</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 frozen 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 prepaid pension cost for the years ended September 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Annual recommended contribution	\$ 2,995,466	\$ 2,477,409
Interest on net pension cost	(17,792)	(26,123)
Adjustment to annual required contribution	<u>20,324</u>	<u>32,654</u>
Annual pension cost	2,997,998	2,483,940
Contributions made	<u>2,995,465</u>	<u>2,453,940</u>
Decrease in prepaid pension cost	(2,533)	(30,000)
Prepaid pension cost:		
Beginning of year	<u>296,538</u>	<u>326,538</u>
End of year	<u>\$ 294,005</u>	<u>\$ 296,538</u>

The annual recommended contributions for 2010 and 2009 were determined as part of the October 1, 2009 and October 1, 2008, actuarial valuations, respectively. Actuarial assumptions used were as follows:

Investment rate of return	6%
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 30-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>
2008	\$2,885,898	100%	\$326,538
2009	\$2,483,940	99%	\$296,538
2010	\$2,997,998	100%	\$294,005

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>
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%)
2010	\$34,710,314	\$68,431,251	50.72%	\$(33,720,937)	\$62,789,642	(53.70%)

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 \$624,000 and \$601,000 to the Plan for the years ended September 30, 2010 and 2009, respectively.

The Center established a defined contribution plan effective January 1, 2010. Contributions to the plan were approximately \$1,325,000 for the year ended September 30, 2010.

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, 2010. 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, 2010 and 2009, the Center has recorded an accrual for incurred but not reported claims of approximately \$1,136,000 and \$1,110,000, 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, and is fully covered for any claim over the deductible amount. At September 30, 2010 and 2009, the Center has recorded an accrual for expected future claim costs of approximately \$458,000 and \$497,000, 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, 2010 and 2009, was approximately \$656,000 and \$634,000, respectively.

13. **Fair Value Disclosures**

The Fair Value Measurements standard 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, 2010 and 2009:

<i>Assets measured at fair value</i>	Fair value at September 30 <u>2010</u>	<u>Fair value measurements at September 30, 2010 using:</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	\$ 1,533,705	\$ -	\$ 1,533,705	\$ -
Government and agency securities	<u>30,035,285</u>	<u>30,035,285</u>	<u>-</u>	<u>-</u>
Total assets at fair value	\$ <u>31,568,990</u>	\$ <u>30,035,285</u>	\$ <u>1,533,705</u>	\$ <u>-</u>

<i>Assets measured at fair value</i>	Fair value at September 30 <u>2009</u>	<u>Fair value measurements at September 30, 2009 using:</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, 2010:

Fair value at September 30, 2008	\$ 14,613,000
Unrealized gains	<u>268,500</u>
Fair value at September 30, 2009	14,881,500
Sale of assets	<u>(14,881,500)</u>
Fair value at September 30, 2010	\$ <u>-</u>

14. Subsequent Events

Subsequent events have been evaluated through February 23, 2011, which is the date the combined financial statements were available to be issued.

The Regional Medical Center of Orangeburg and Calhoun Counties

Combining Balance Sheet

September 30, 2010

<u>Assets</u>	<u>The Medical Center</u>	<u>ERHS</u>	<u>Foundation</u>	<u>Combined Total</u>	<u>Eliminating Entries</u>	<u>Combined Total</u>
Current assets:						
Cash and cash equivalents	\$ 4,062,853	\$ 221,939	\$ 381,271	\$ 4,666,063	\$ -	\$ 4,666,063
Patient accounts receivable, net of estimated uncollectibles of approximately \$3,653,000	24,203,957	287,034	-	24,490,991	-	24,490,991
Drugs and supplies	4,067,293	28,326	-	4,095,619	-	4,095,619
Other receivables, net	1,028,489	26,224	-	1,054,713	-	1,054,713
Prepaid expenses	1,523,130	6,675	-	1,529,805	-	1,529,805
Estimated third party payor settlements	3,883,780	-	-	3,883,780	-	3,883,780
Total current assets	<u>38,769,502</u>	<u>570,198</u>	<u>381,271</u>	<u>39,720,971</u>	<u>-</u>	<u>39,720,971</u>
Assets whose use is limited	56,117,296	-	115,598	56,232,894	-	56,232,894
Due from affiliate	16,397,788	-	-	16,397,788	(16,397,788)	-
Capital assets, net	55,971,507	775,748	-	56,747,255	-	56,747,255
Unamortized loan costs	1,165,435	-	-	1,165,435	-	1,165,435
Prepaid pension cost	294,005	-	-	294,005	-	294,005
Goodwill	-	243,947	-	243,947	-	243,947
Total assets	<u>\$ 168,715,533</u>	<u>\$ 1,589,893</u>	<u>\$ 496,869</u>	<u>\$ 170,802,295</u>	<u>\$ (16,397,788)</u>	<u>\$ 154,404,507</u>

The Regional Medical Center of Orangeburg and Calhoun Counties

Combining Balance Sheet, (continued)

September 30, 2010

<u>Liabilities and Net Assets</u>	<u>The Medical Center</u>	<u>ERHS</u>	<u>Foundation</u>	<u>Combined Total</u>	<u>Eliminating Entries</u>	<u>Combined Total</u>
Current liabilities:						
Current maturities of long-term debt	\$ 1,860,000	\$ -	\$ -	\$ 1,860,000	\$ -	\$ 1,860,000
Accounts payable	7,409,821	84,024	-	7,493,845	-	7,493,845
Accrued salaries and wages	3,221,017	159,106	-	3,380,123	-	3,380,123
Accrued vacation	4,056,397	245,167	-	4,301,564	-	4,301,564
Accrued employee medical	1,135,783	-	-	1,135,783	-	1,135,783
Other accrued expenses	62,474	765	-	63,239	-	63,239
Estimated third party payor settlements	2,020,950	-	-	2,020,950	-	2,020,950
Total current liabilities	<u>19,766,442</u>	<u>489,062</u>	<u>-</u>	<u>20,255,504</u>	<u>-</u>	<u>20,255,504</u>
Due to affiliate	-	16,397,788	-	16,397,788	(16,397,788)	-
Long-term debt, net of current maturities	<u>14,295,000</u>	<u>-</u>	<u>-</u>	<u>14,295,000</u>	<u>-</u>	<u>14,295,000</u>
Total liabilities	<u>34,061,442</u>	<u>16,886,850</u>	<u>-</u>	<u>50,948,292</u>	<u>(16,397,788)</u>	<u>34,550,504</u>
Net assets:						
Invested in capital assets, net of related debt	39,816,507	775,748	-	40,592,255	-	40,592,255
Restricted: Nonexpendable for permanent endowment	30,000	-	-	30,000	-	30,000
Unrestricted	<u>94,807,584</u>	<u>(16,072,705)</u>	<u>496,869</u>	<u>79,231,748</u>	<u>-</u>	<u>79,231,748</u>
Total net assets	<u>134,654,091</u>	<u>(15,296,957)</u>	<u>496,869</u>	<u>119,854,003</u>	<u>-</u>	<u>119,854,003</u>
Total liabilities and net assets	<u>\$ 168,715,533</u>	<u>\$ 1,589,893</u>	<u>\$ 496,869</u>	<u>\$ 170,802,295</u>	<u>\$ (16,397,788)</u>	<u>\$ 154,404,507</u>

See accompanying Independent Auditors' Report.

The Regional Medical Center of Orangeburg and Calhoun Counties

Combining Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended September 30, 2010

	<u>The Medical Center</u>	<u>ERHS</u>	<u>Foundation</u>	<u>Combined Total</u>	<u>Eliminating Entries</u>	<u>Combined Total</u>
Operating revenues:						
Net patient service revenue, net of provision for bad debts of \$23,602,863	\$ 176,018,140	\$ 3,076,134	\$ -	\$ 179,094,274	\$ -	\$ 179,094,274
Other	1,095,652	2,141,927	402,672	3,640,251	-	3,640,251
Total operating revenues	<u>177,113,792</u>	<u>5,218,061</u>	<u>402,672</u>	<u>182,734,525</u>	<u>-</u>	<u>182,734,525</u>
Operating expenses:						
Salaries and wages	81,735,994	4,324,694	-	86,060,688	-	86,060,688
Employee benefits	17,346,057	814,442	-	18,160,499	-	18,160,499
Supplies	25,643,747	268,866	-	25,912,613	-	25,912,613
Professional fees and services	26,476,180	331,209	-	26,807,389	-	26,807,389
Other expense	22,896,612	723,977	364,414	23,985,003	-	23,985,003
Depreciation and amortization	8,536,086	187,903	-	8,723,989	-	8,723,989
Total operating expenses	<u>182,634,676</u>	<u>6,651,091</u>	<u>364,414</u>	<u>189,650,181</u>	<u>-</u>	<u>189,650,181</u>
Operating income (loss)	<u>(5,520,884)</u>	<u>(1,433,030)</u>	<u>38,258</u>	<u>(6,915,656)</u>	<u>-</u>	<u>(6,915,656)</u>
Nonoperating revenues (expenses):						
Investment income, net	1,613,262	121	3,260	1,616,643	-	1,616,643
Noncapital grants and contributions	200,252	-	-	200,252	-	200,252
Interest expense	(231,672)	-	-	(231,672)	-	(231,672)
Total nonoperating revenues	<u>1,581,842</u>	<u>121</u>	<u>3,260</u>	<u>1,585,223</u>	<u>-</u>	<u>1,585,223</u>
Increase (decrease) in net assets	<u>(3,939,042)</u>	<u>(1,432,909)</u>	<u>41,518</u>	<u>(5,330,433)</u>	<u>-</u>	<u>(5,330,433)</u>
Net assets, beginning of the year	<u>138,593,133</u>	<u>(13,864,048)</u>	<u>455,351</u>	<u>125,184,436</u>	<u>-</u>	<u>125,184,436</u>
Net assets, end of the year	<u>\$ 134,654,091</u>	<u>\$ (15,296,957)</u>	<u>\$ 496,869</u>	<u>\$ 119,854,003</u>	<u>\$ -</u>	<u>\$ 119,854,003</u>

See accompanying Independent Auditors' Report.

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Schedules of Other Expenses

For the Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Management service contracts	\$ 2,916,024	\$ 2,991,276
Utilities	1,867,394	1,758,660
Sales tax	2,128,920	1,901,787
Insurance	1,984,980	2,034,668
Advertising	798,528	1,010,782
License tax	4,177,018	4,227,928
Equipment rentals	1,290,772	1,048,905
Outside lab services	793,662	871,527
Repairs	591,600	580,952
Employee scholarships	490,881	465,264
Recruiting	688,516	629,558
Telephone	490,881	817,484
Hospice	126,820	535,865
Employee recognition	246,183	228,012
Memberships and dues	207,359	228,382
Hazardous material disposal	141,582	153,888
Freight and shipping	383,233	333,910
Education	877,977	1,277,375
Computers and software	126,662	118,459
Books and subscriptions	297,211	229,936
Microfilming and storage	83,996	62,568
Linens	25,115	38,298
Uniforms and apparel	58,360	66,819
Bank charges	107,404	34,666
Pest control	21,106	22,939
Auto	9,760	16,180
Rent	1,351,693	1,185,788
Miscellaneous	<u>1,701,366</u>	<u>1,471,761</u>
 Total	 <u>\$ 23,985,003</u>	 <u>\$ 24,343,637</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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Outside services	\$ 10,727,874	\$ 14,445,080
Physician fees	5,749,871	5,067,656
Contract labor	3,120,489	5,198,555
Maintenance Contracts	4,223,670	4,233,695
Collection expenses	1,018,672	1,075,081
Legal expenses	530,774	317,685
Consultants	661,327	639,774
Management contract -- Quorum	660,972	643,322
Audit fees	94,575	126,471
Rental expense	<u>19,165</u>	<u>52,085</u>
Total	<u>\$ 26,807,389</u>	<u>\$ 31,799,404</u>

See accompanying Independent Auditors' Report.