

***The Regional Medical  
Center of Orangeburg  
and Calhoun Counties***

*Basic Financial Statements as of and for  
the Years Ended September 30, 2005 and  
2004, Supplemental Schedules for the Years  
Ended September 30, 2005 and 2004,  
and Independent Auditors' Report*

# THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-6
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004:	
Combined Statements of Net Assets	7
Combined Statements of Revenues, Expenses and Changes in Net Assets	8
Combined Statements of Cash Flows	9-10
Notes to Combined Financial Statements	11-23
SUPPLEMENTAL SCHEDULES FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004:	
Combined Schedule of Net Patient Service Revenues	24
Combined Schedule of Salaries and Benefits	25
Combined Schedule of Other Expenses	26
Combined Schedule of Professional Fees and Services	27

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying combined statements of net assets of The Regional Medical Center of Orangeburg and Calhoun Counties (the "Medical Center") as of September 30, 2005 and 2004, and the related combined statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Company'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 financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Medical Center as of September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Medical 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the Medical Center's management. Such supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

*Deloitte + Touche LLP*

November 28, 2005

# 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, 2005 and 2004. Please read this analysis in conjunction with the combined financial statements, which follow this section.

### Overview of the Combined Financial Statements

The fiscal 2005 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 statements of net assets 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 statements of net assets 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 statements of net assets 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.

## Net Assets

A summary of the Medical Center's combined statements of net assets at September 30, 2005 and 2004 is presented in Table A-1:

**Table A-1**  
**Condensed Combined Statements of Net Assets**  
**September 30, 2005, 2004 and 2003 (in thousands)**

	2005	2004	2003
Current assets	\$ 33,358	\$ 37,460	\$ 36,772
Capital assets, net	58,907	57,745	55,800
Noncurrent assets	<u>48,863</u>	<u>48,666</u>	<u>50,060</u>
Total assets	<u>\$ 141,128</u>	<u>\$ 143,871</u>	<u>\$ 142,632</u>
Current liabilities	\$ 10,727	\$ 13,246	\$ 12,716
Long-term liabilities	<u>20,580</u>	<u>22,050</u>	<u>23,235</u>
Total liabilities	<u>31,307</u>	<u>35,296</u>	<u>35,951</u>
Invested in capital assets, net of related debt	36,973	34,510	31,315
Restricted	30	30	31
Unrestricted	<u>72,818</u>	<u>74,035</u>	<u>75,335</u>
Total net assets	<u>109,821</u>	<u>108,575</u>	<u>106,681</u>
Total liabilities and net assets	<u>\$ 141,128</u>	<u>\$ 143,871</u>	<u>\$ 142,632</u>

The net assets of the Medical Center increased \$1,245,488 during fiscal 2005 and \$1,894,566 in fiscal 2004.

## Revenues, Expenses and Changes in Net Assets

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

**Table A-2**

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

**Years Ended September 30, 2005, 2004 and 2003 (in thousands)**

	2005	2004	2003
Operating revenues	\$ 138,237	\$ 136,840	\$ 121,233
Operating expenses	<u>137,413</u>	<u>136,698</u>	<u>128,301</u>
Operating income (loss)	824	142	(7,068)
Nonoperating income	<u>1,146</u>	<u>1,752</u>	<u>1,629</u>
Income (loss) before transfers	1,970	1,894	(5,439)
Transfers to counties	<u>(724)</u>	<u>-</u>	<u>(905)</u>
Change in net assets	1,246	1,894	(6,344)
Beginning net assets	<u>108,575</u>	<u>106,681</u>	<u>113,025</u>
Ending net assets	<u>\$ 109,821</u>	<u>\$ 108,575</u>	<u>\$ 106,681</u>

### *Fiscal 2005 compared to Fiscal 2004*

The Medical Center's operating revenues remained basically stable in fiscal 2005 primarily due to an increase in fee structure, inpatient discharges and declining operating room visits of 6.4%. The Medical Center's operating expenses for fiscal 2005 increased 0.5%. Despite inflationary pressures, operating expenses remained level due to reduced expenses in certain labor costs, supplies expense and bad debts. The Medical Center transferred \$724,000 to Orangeburg and Calhoun counties in fiscal 2005.

### *Fiscal 2004 compared to Fiscal 2003*

The Medical Center's operating revenues increased 14.7% in fiscal 2004 primarily due to a 6.3% increase in operating room visits, 3% increase in same-day surgery visits and improved reimbursement under several third-party payor contracts. The Medical Center's operating expenses for fiscal 2004 increased 8.2%. However, the Medical Center incurred even higher increases in certain areas: contract wages for nursing and other critical areas; drug costs; and physician expenses for oncology, general surgery, orthopedics, hospitalists and locum tenen coverage.

The Medical Center's operating revenues increased 7.1%, and operating expenses increased 14.5% in fiscal 2003 due to similar trends as fiscal 2004. The Medical Center transferred \$905,000 to Orangeburg and Calhoun counties in fiscal 2003.

## Capital Assets and Debt Administration

At the end of fiscal 2005, the Medical Center had invested approximately \$58.9 million in net capital assets as shown in Table A-3. The increase of \$8.5 million in equipment includes new computer systems hardware and software in addition to various items of medical diagnostic equipment, improvement to facilities for approximately \$ 2.0 million.

In continuing to protect market share in the geographical service area, the Medical Center acquired an existing physician practice in the Holly Hill area. The Holly Hill area offers the potential for population growth, and consequently, the Medical Center believes in bringing services directly into this area.

As the year ended, the Medical Center's architectural firm was still working with the management team evaluating preliminary plans for future expansions with consideration to additional capital investments in the outlying areas.

**Table A-3**

**Capital Assets**

**September 30, 2005, 2004 and 2003 (in thousands)**

	2005	2004	2003
Land and land improvements	\$ 2,883	\$ 2,767	\$ 2,736
Buildings and improvements	71,353	61,586	59,314
Equipment	77,315	71,739	65,279
Construction-in-progress	<u>251</u>	<u>5,713</u>	<u>3,849</u>
	151,802	141,805	131,178
Accumulated depreciation	<u>(92,894)</u>	<u>(84,060)</u>	<u>(75,378)</u>
Capital assets, net	<u>\$ 58,908</u>	<u>\$ 57,745</u>	<u>\$ 55,800</u>

*Fiscal 2005 compared to Fiscal 2004*

At September 30, 2005 and 2004, the Medical Center had \$21,935,000 and \$23,235,000, respectively, of bonds payable principal outstanding, a decrease of approximately 5% per year. The Medical Center made principal payments of \$1,300,000 and \$1,250,000 during fiscal 2005 and 2004, respectively.

*Fiscal 2004 compared to Fiscal 2003*

At September 30, 2004 and 2003, the Medical Center had \$23,235,000 and \$24,485,000, respectively, of bonds payable principal outstanding, a decrease of approximately 5% per year. The Medical Center made principal payments of \$1,250,000 and \$1,200,000 during fiscal 2004 and 2003, respectively.

**Economic and Other Factors**

The Medical Center faces a number of conspicuous and troubling challenges for the future. First, the Medical Center, like many hospitals in the nation, faces the uncertainty regarding funding at both the federal and state level. The two largest recipients for federal funding are the military and healthcare. Given the current federal fiscal deficit, the wars and recent natural disasters, it is expected that funding for Medicare will be impacted. The current presidential administration is looking toward solutions for the Medicaid program as well as the Medicare program. Currently, the governor of South Carolina has proposed one of the most aggressive Medicaid waivers as it related to Medicaid HMOs. Secondly, the Medical Center has market share concerns regarding its pricing structure. The current pricing structure is driven primarily by payer mix and the need to shift the expense of uninsured and charity patients to the commercial population. A third point of focus is the interaction with uninsured patients that receive healthcare services. Class action lawsuits have been filed at the federal level and state level against non-profit healthcare providers focusing on billing and collection practices as well as the tax-exempt status of these non-profit organizations.

## **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 need more hospitals to meet the increased need.

## **Healthcare Costs Continue to Rise**

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

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

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

While attention is focused on the nursing shortage, the current highest vacancy rate is for imaging technicians (15.5%) nationally. Other staff shortage areas include: pharmacists, LPNs, nursing assistants, laboratory technicians and medical billers/coders. Hospitals must develop specific staff retention strategies as well as work with local/regional training resources to increase the pool of trained professionals.

## **Information Technology Needs Continue to Increase**

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

## **Finance Contact**

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

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

**COMBINED STATEMENTS OF NET ASSETS  
AS OF SEPTEMBER 30, 2005 AND 2004**

<b>ASSETS</b>	<b>2005</b>	<b>2004</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 8,418,146	\$ 11,490,937
Short-term investments	4,863,317	4,830,029
Patient and other accounts receivable, net of estimated uncollectibles of \$7,395,000 in 2005 and \$12,384,000 in 2004	15,410,937	18,275,513
Inventories	3,345,194	2,028,707
Prepaid expenses	<u>1,320,837</u>	<u>834,725</u>
Total current assets	<u>33,358,431</u>	<u>37,459,911</u>
ASSETS LIMITED AS TO USE	47,365,388	48,151,729
CAPITAL ASSETS—Net	58,907,589	57,745,525
UNAMORTIZED LOAN COSTS	461,929	484,679
RESTRICTED ASSETS	30,257	29,703
GOODWILL	466,635	-
PREPAID PENSION ASSET	<u>538,185</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 141,128,414</u></b>	<b><u>\$ 143,871,547</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 1,355,000	\$ 1,300,000
Accounts payable	2,508,591	4,276,444
Accrued salaries and wages	2,124,835	2,995,197
Accrued vacation	3,598,634	3,573,764
Accrued employee medical	989,140	995,930
Other accrued expenses	<u>151,565</u>	<u>105,032</u>
Total current liabilities	<u>10,727,765</u>	<u>13,246,367</u>
NET PENSION OBLIGATION	-	115,019
LONG-TERM DEBT—Net of current portion	<u>20,580,000</u>	<u>21,935,000</u>
Total liabilities	<u>31,307,765</u>	<u>35,296,386</u>
 COMMITMENTS AND CONTINGENCIES (Notes 9, 13 and 14)		
<b>NET ASSETS:</b>		
Invested in capital assets—net of related debt	36,972,589	34,510,525
Restricted	30,257	29,703
Unrestricted	<u>72,817,803</u>	<u>74,034,933</u>
Total net assets	<u>109,820,649</u>	<u>108,575,161</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 141,128,414</u></b>	<b><u>\$ 143,871,547</u></b>

See notes to 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, 2005 AND 2004

	2005	2004
REVENUES:		
Net patient service revenues, net of provision for bad debts of \$17,276,458 in 2005 and \$18,076,736 in 2004	\$ 135,563,662	\$ 133,903,793
Other operating revenues	<u>2,672,986</u>	<u>2,936,014</u>
Total revenues	<u>138,236,648</u>	<u>136,839,807</u>
EXPENSES:		
Salaries	66,149,764	65,658,646
Benefits	13,869,542	13,883,820
Professional fees and services	13,693,136	13,429,601
Supplies	18,478,803	18,139,757
Other	15,352,941	16,503,045
Depreciation	9,266,483	8,736,567
Interest	<u>602,391</u>	<u>346,032</u>
Total expenses	<u>137,413,060</u>	<u>136,697,468</u>
INCOME FROM OPERATIONS	823,588	142,339
NONOPERATING REVENUES—Net	<u>1,145,900</u>	<u>1,752,227</u>
INCOME BEFORE TRANSFERS	1,969,488	1,894,566
TRANSFERS TO COUNTIES	<u>724,000</u>	<u>-</u>
INCREASE IN NET ASSETS	1,245,488	1,894,566
NET ASSETS:		
Beginning of year	<u>108,575,161</u>	<u>106,680,595</u>
End of year	<u>\$ 109,820,649</u>	<u>\$ 108,575,161</u>

See notes to combined financial statements.

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

**COMBINED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from third-party payors and patients	\$ 139,431,878	\$ 135,280,683
Payments to suppliers	(51,045,904)	(48,777,964)
Payments to employees and other	(81,524,792)	(77,057,410)
Other receipts—net	<u>1,669,346</u>	<u>2,038,301</u>
Net cash provided by operating activities	<u>8,530,528</u>	<u>11,483,610</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES—Transfers to counties</b>		
Transfers to counties	(724,000)	-
Nonoperating revenue	<u>606,451</u>	<u>839,297</u>
Net cash (used in) provided by investing activities	<u>(117,549)</u>	<u>839,297</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
<b>CASH FLOWS FROM CAPITAL AND RELATED</b>	(1,300,000)	(1,250,000)
Interest payments on long-term debt	(567,542)	(294,337)
Capital expenditures	<u>(9,909,791)</u>	<u>(11,127,298)</u>
Net cash used in capital and related financing activities	<u>(11,777,333)</u>	<u>(12,671,635)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition cost of business	(1,000,385)	-
Sales of investments—net	681,327	2,216,542
Decrease in restricted assets—net	(554)	1,111
Investment income realized—net	<u>611,175</u>	<u>383,127</u>
Net cash provided by investing activities	<u>291,563</u>	<u>2,600,780</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(3,072,791)	2,252,052
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of year	<u>11,490,937</u>	<u>9,238,885</u>
End of year	<u>\$ 8,418,146</u>	<u>\$ 11,490,937</u>

(Continued)

# THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

## COMBINED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

---

	<b>2005</b>	<b>2004</b>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	\$ 823,588	\$ 142,339
Interest expense considered capital financing activity	567,542	294,337
Adjustments to reconcile loss from operations to net cash from operating activities:		
Depreciation	9,266,483	8,736,567
Amortization	22,750	20,292
Loss on sale of fixed assets	14,994	444,726
Change in patient accounts receivable	2,864,576	479,177
Change in inventories	(1,316,487)	(179,204)
Change in accounts payable	(1,767,853)	(1,053,323)
Change in accrued expenses	(805,749)	1,533,326
Change in other operating assets and liabilities—net	<u>(1,139,316)</u>	<u>1,065,373</u>
 TOTAL	 <u>\$ 8,530,528</u>	 <u>\$ 11,483,610</u>

See notes to combined financial statements.

(Concluded)

# THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

## NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

---

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

**Organization**—The Regional Medical Center of Orangeburg and Calhoun Counties (the “Medical Center”) is a nonprofit organization created in 1955 by an act of the South Carolina General Assembly. The Medical Center primarily provides inpatient, outpatient and emergency care services for residents of Orangeburg and Calhoun Counties. The Medical Center is organized under South Carolina nonstock corporation laws and governed by a Board of Trustees composed of 12 members appointed by the Orangeburg County Council, 3 members appointed by the Calhoun County Council, the chief of staff and the chairman of the executive committee of the medical staff.

During October 1997, the Medical Center incorporated Edisto Regional Health Services, Inc. (“ERHS”). ERHS was formed exclusively to carry out the healthcare missions of the Medical Center. In 1986, the Board of Trustees of the Medical 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 Medical Center. The Board of Trustees of the Medical Center appoints the members of the Board of Directors of the Foundation. According to the provisions of the Governmental Accounting Standards Board (the “GASB”) Statement No. 14, *The Financial Reporting Entity*, ERHS and the Foundation have been presented as blended component units and, thus, combined with the operations of the Medical Center.

Financial statements for the component units may be obtained at the following address:

The Regional Medical Center of Orangeburg and Calhoun Counties  
3000 St. Matthews Road  
Orangeburg, South Carolina 29118

The Medical Center and ERHS 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.

**Principles of Combination**—The accompanying combined financial statements include the accounts of the Medical Center and ERHS. All significant intercompany transactions and balances have been eliminated.

**Basis of Accounting**—The Medical Center utilizes proprietary fund accounting, whereby revenues and expenses are recognized on an accrual basis. In 1993, the GASB issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, which provides guidance on how GASB pronouncements affect government entities that use business-type accounting and financial reporting. As is allowable under this statement, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**Use of Estimates**—The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates in the accompanying combined financial statements include the allowance for estimated uncollectible patient accounts receivable, the allowance for contractual adjustments and estimated third-party payor settlements.

**Reclassifications**—Certain fiscal 2004 amounts have been reclassified in order to conform to the fiscal 2005 presentation. These reclassifications include reclassification of approximately \$194,000 from other operating revenues to net patient service revenues; reclassification of approximately \$2,169,000 of contractual allowances on services provided to employees from employee benefits expense to net patient service revenues; and reclassification of approximately \$706,000 related to compensation of certain contract employees from professional fees and services to salaries expense.

**Cash and Cash Equivalents**—For purposes of the combined statements of cash flows, cash and cash equivalents include amounts in demand deposits with original maturities of three months or less which have not been designated as short-term investments.

**Inventories**—Inventories are stated at the lower of cost (first-in, first-out method) or market.

**Investments**—Investments in equity securities with readily determinable fair values and all investments in debt securities, including short-term investments, investments and restricted assets, are measured at fair value in the accompanying combined statements of net assets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating revenues—net in the accompanying combined statements of revenues, expenses and changes in net assets. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in a prior year.

**Assets Limited as to Use**—Assets limited as to use primarily include investments set aside by the Medical Center for future capital improvements, over which the Medical Center retains control and may at its discretion subsequently use for other purposes.

**Capital Assets**—Capital assets 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 Medical Center Association, with the following ranges:

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

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

**Unamortized Loan Cost**—Bond issuance expenses are amortized on a straight-line basis, which approximates the interest method, over the life of the related debt.

**Restricted Assets**—Restricted assets represent assets set aside by the Board of Trustees for future renovation, replacement and expansion of the facilities, and funds held by trustee.

**Goodwill**—Goodwill in the amount of \$467,000 was recorded in 2005 related to the purchase of a physician practice. Goodwill is being amortized over three years.

**Pension Plan**—The Medical Center has a noncontributory defined benefit pension plan covering substantially all employees (see Note 11).

**Net Assets**—Net assets are classified as invested in capital assets—net of related debt, restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors or laws or regulations of other governments or imposed by law.

**Net Patient Service Revenues**—Net patient service revenues are 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as settlements are determined.

The Medical Center has agreements with third-party payors that provide for payments to the Medical 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 and cover both operating and capital costs. Subsequent to August 1, 2000, certain outpatient services are reimbursed at prospectively determined rates. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to review by an independent peer organization. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2000.

**Medicaid**—Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a reimbursement system that is based on clinical, diagnostic and other factors.

**Commercial Insurance and Other**—The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations and directly with local employers. The basis for payment to the Medical Center under these agreements provides various discounts from established charges.

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

**Operating Revenues and Expenses**—All revenues and expenses directly related to the delivery of healthcare services are included in operating revenues and expenses in the accompanying combined statements of revenues, expenses and changes in net assets.

## 2. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

**Cash and Cash Equivalents**—The carrying amount reported in the accompanying combined statements of net assets 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 statements of net assets 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.

## 3. CASH, INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS

At September 30, 2005 and 2004, the Medical Center's cash balance in banks was approximately \$8,418,146 and \$11,490,937, respectively. These cash deposits are collateralized by various banks. Also, due to timing of receipt of patient and insurance payments, as well as payments to employees and suppliers, portions of bank balances may have been uncollateralized at various times during 2005 and 2004.

**Deposits**—At September 30, 2005, the Medical Center's investment balances (recorded at fair market value), credit ratings and maturities, were as follows:

		September 30, 2005				
		Maturities				
	Credit Rating	< 1 year	1-5 years	6-10 years	> 10 years	Total
Cash Reserves	N/A	\$ 390,141	\$ -	\$ -	\$ -	\$ 390,141
Certificates of Deposit	AAA	11,320,902				11,320,902
Federal Home Loan Mortgage Corp	AAA	1,948,844	244,610			2,193,454
Federal Home Loan Bank	AAA	369,744	547,926			917,670
Federal National Mortgage Association	AAA		662,325			662,325
US Treasury Notes	AAA	1,999,299	9,982,305	1,223,199		13,204,803
US Treasury STRIPS	AAA	386,568	538,644	72,885		998,097
US Treasury Bonds	AAA				432,835	432,835
Principal Protected Notes	N/A	22,108,478				22,108,478
		<u>\$ 38,523,976</u>	<u>\$ 11,975,810</u>	<u>\$ 1,296,084</u>	<u>\$ 432,835</u>	<u>\$ 52,228,705</u>

At September 30, 2004, the Medical Center's investment balances (recorded at fair market value), credit ratings and maturities, were as follows:

		September 30, 2004				
		Maturities				
	Credit Rating	< 1 year	1-5 years	6-10 years	> 10 years	Total
Cash Reserves	N/A	\$ 263,644	\$ -	\$ -	\$ -	\$ 263,644
US Treasury Bonds	AAA	2,835,329	13,146,577	729,806		16,975,356
Certificates of Deposit	AAA	12,006,443				12,006,443
Federal Home Loan Mortgage Corp	AAA		1,312,902			1,312,902
US Treasury STRIPS	AAA		357,064			357,064
Principal Protected Notes	N/A		22,329,993			22,329,993
		<u>\$ 15,105,416</u>	<u>\$ 37,146,536</u>	<u>\$ 729,806</u>	<u>\$ -</u>	<u>\$ 52,981,758</u>

**Interest Rate Risk**—The Medical Center is currently developing a formal, written investment policy. However, as a means of limiting its exposure to fair value losses as a result of rising interest rates, the Medical Center generally invests in obligations with varying maturity dates.

**Credit Risk**—The Medical Center's policy regarding credit risk limits the Medical 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 Medical 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 Medical Center is currently developing a policy on custodial risk credit risk; however, based on the nature of the investments the Medical Center currently holds management does not consider custodial risk to be significant.

**Concentration of Credit Risk**—The Medical Center places no formal limit on the amount that it may invest in any one issuer. However, investments are typically placed with multiple issuers.

**Principal Protected Notes**—During fiscal 2001, the Medical Center purchased \$35,000,000 in principal protected notes with \$10,000,000 maturing in fiscal 2004 and \$25,000,000 maturing in fiscal 2006. These notes carry a zero coupon, and the ultimate return in excess of the principal invested is determined by fluctuations in the S&P 500 Composite Price Index on the trade date and certain dates as defined in the notes' purchase agreements.

**Restricted Assets**—Restricted assets, consisting of a permanently restricted scholarship endowment fund, are stated at fair market value and include the following at September 30, 2005 and 2004:

	2005	2004
Restricted assets—certificates of deposit	<u>\$ 30,257</u>	<u>\$ 29,703</u>

Investment income is comprised of the following for the years ended September 30, 2005 and 2004:

	2005	2004
Investment income:		
Interest and dividend income	\$ 611,175	\$ 473,558
Realized losses on sales of investments	-	(90,431)
Unrealized (losses) gains on investments	<u>(71,726)</u>	<u>529,803</u>
Total	<u>\$ 539,449</u>	<u>\$ 912,930</u>

#### 4. CONCENTRATIONS OF CREDIT RISK

*Patient Accounts Receivable*—The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. The mix of receivables from patients and third-party payors at September 30, 2005 and 2004 was as follows:

	2005	2004
Medicare	44 %	36 %
Medicaid	17 %	12
Blue Cross	10 %	14
Other third-party payors	18 %	18
Patients	<u>11 %</u>	<u>20</u>
Total	<u>100 %</u>	<u>100 %</u>

## 5. CAPITAL ASSETS

A summary of changes in capital assets during fiscal 2005 and 2004 is as follows:

<b>2005</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Transfers/ Disposals</b>	<b>Ending Balance</b>
Land	\$ 611,617	\$ 45,000	\$ -	\$ 656,617
Land improvements	2,155,482		71,153	2,226,635
Buildings	61,585,723	488,750	9,278,182	71,352,655
Equipment	<u>71,739,226</u>		<u>5,576,089</u>	<u>77,315,315</u>
Subtotal	136,092,048	533,750	14,925,424	151,551,222
Construction in progress and capital equipment projects	<u>5,713,353</u>	<u>9,909,791</u>	<u>(15,372,566)</u>	<u>250,578</u>
Total	<u>141,805,401</u>	<u>10,443,541</u>	<u>(447,142)</u>	<u>151,801,800</u>
Accumulated depreciation:				
Land and land improvements	1,668,416	104,402		1,772,818
Buildings	31,736,773	2,236,887	(432,148)	33,541,512
Equipment	<u>50,654,687</u>	<u>6,925,194</u>		<u>57,579,881</u>
Total	<u>84,059,876</u>	<u>9,266,483</u>	<u>(432,148)</u>	<u>92,894,211</u>
Total capital assets—net	<u>\$ 57,745,525</u>	<u>\$ 1,177,058</u>	<u>\$ (14,994)</u>	<u>\$ 58,907,589</u>
<b>2004</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Transfers/ Disposals</b>	<b>Ending Balance</b>
Land	\$ 611,617	\$ -	\$ -	\$ 611,617
Land improvements	2,124,444		31,038	2,155,482
Buildings	59,314,096		2,271,627	61,585,723
Equipment	<u>65,278,234</u>	<u>68,380</u>	<u>6,392,612</u>	<u>71,739,226</u>
Subtotal	127,328,391	68,380	8,695,277	136,092,048
Construction in progress and capital equipment projects	<u>3,849,465</u>	<u>11,058,918</u>	<u>(9,195,030)</u>	<u>5,713,353</u>
Total	<u>131,177,856</u>	<u>11,127,298</u>	<u>(499,753)</u>	<u>141,805,401</u>
Accumulated depreciation:				
Land and land improvements	1,553,813	114,603		1,668,416
Buildings	29,596,164	2,140,609		31,736,773
Equipment	<u>44,228,359</u>	<u>6,481,353</u>	<u>(55,025)</u>	<u>50,654,687</u>
Total	<u>75,378,336</u>	<u>8,736,565</u>	<u>(55,025)</u>	<u>84,059,876</u>
Total capital assets—net	<u>\$ 55,799,520</u>	<u>\$ 2,390,733</u>	<u>\$ (444,728)</u>	<u>\$ 57,745,525</u>

## 6. LONG-TERM DEBT

A summary of long-term debt, related to the issuance and repayment of bonds, at September 30 is as follows:

	Outstanding September 30, 2004	Issued	Payments	Outstanding September 30, 2005
<b>2005</b>				
1998 Bonds	<u>\$ 23,235,000</u>	<u>\$ -</u>	<u>\$ 1,300,000</u>	<u>\$ 21,935,000</u>
	Outstanding September 30, 2003	Issued	Payments	Outstanding September 30, 2004
<b>2004</b>				
1998 Bonds	<u>\$ 24,485,000</u>	<u>\$ -</u>	<u>\$ 1,250,000</u>	<u>\$ 23,235,000</u>

During fiscal 1998, the Medical 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 Medical Center’s facilities. Principal and interest requirements of the Medical Center range from approximately \$736,000 to \$2,050,000 annually through 2028. The effective interest rates at September 30, 2005 and 2004 were 2.73% and 1.66%, respectively.

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

The 1998 Bonds bear interest, payable on the first Wednesday of each month, at a variable rate determined weekly by the remarketing agent. The 1998 Bonds will continue to bear interest at the variable rate until the interest rate is converted, if ever, to a short-term rate or a fixed rate in accordance with the terms of the bond indenture. The payment of the regularly scheduled principal and interest on the 1998 Bonds is insured by a financial guaranty insurance policy.

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

Under the terms of the 1998 Bond indenture, the Medical Center is required to maintain certain restrictive covenants, including maintenance of a long-term debt service coverage ratio of no less than 1.1 to 1. The Medical Center was in compliance with this covenant as of September 30, 2005 and 2004.

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

The future debt service requirements of the 1998 Bonds, assuming the 1998 Bonds continue to be remarketed and mature over their scheduled repayment terms and based upon the effective interest rate as of September 30, 2005, are as follows:

<b>Year Ending September 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	\$ 1,355,000	\$ 580,330	\$ 1,935,330
2007	1,410,000	542,588	1,952,588
2008	1,465,000	803,244	2,268,244
2009	1,530,000	462,462	1,992,462
2010	1,590,000	419,874	2,009,874
2011 - 2015	5,990,000	1,501,227	7,491,227
2016 - 2020	2,790,000	988,443	3,778,443
2021 - 2025	3,410,000	566,885	3,976,885
2026 - 2028	<u>2,395,000</u>	<u>99,850</u>	<u>2,494,850</u>
	<u>\$ 21,935,000</u>	<u>\$ 5,964,903</u>	<u>\$ 27,899,903</u>

## **7. CHARITY CARE**

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services, based on established rates. The following information measures the level of charity care provided during the years ended September 30, 2005 and 2004:

	<b>2005</b>	<b>2004</b>
Charges forgone, based on established rates	<u>\$ 23,917,000</u>	<u>\$ 14,788,000</u>
Equivalent percentage of charity care patients to all patients served	5.38%	3.64%

## **8. DISPROPORTIONATE SHARE POOL FUND**

Healthcare providers that participate in the South Carolina Medicaid Program and provide services to low income patients that are disproportionate to the level of services rendered in other participating providers are considered disproportionate share providers. In July 1991, the Medical Center, due to changes in South Carolina state law, qualified as a disproportionate share provider and elected to participate in the Disproportionate Share Pool Fund (the "DSH Fund").

The Medical Center recognizes revenue to the extent the DSH Fund pool payments exceed the direct matching payment to the state. Accordingly, the Medical Center, which received \$11,559,794 and \$13,144,362 of the DSH Fund during fiscal years 2005 and 2004, respectively, and recorded these amounts as DSH Fund revenues for the years ended September 30, 2005 and 2004. These revenues are included in net patient service revenues as a reduction to contractual adjustments in the accompanying combined statements of revenues, expenses and changes in net assets. Revenues received under this program are subject to audit by the Medicaid fiscal intermediary.

Management expects the disproportionate share program reimbursement methodologies to change as a result of future legislation, and the effects to the Medical Center of such changes are unknown.

## 9. LEASES

The Medical Center rents various equipment on a month-to-month basis. In fiscal 2005 and 2004, rental expense for operating leases was \$752,876 and \$517,013, respectively.

## 10. NONOPERATING REVENUES, NET

Nonoperating revenues, net, for the years ended September 30, 2005 and 2004, consist of the following:

	2005	2004
Investment income	\$ 539,449	\$ 912,930
Contributions	617,289	718,118
Other	<u>(10,838)</u>	<u>121,179</u>
Total	<u>\$ 1,145,900</u>	<u>\$ 1,752,227</u>

## 11. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

**Pension Plan**—The Medical Center has adopted the provisions of GASB Statement No. 27, *Accounting for Pensions of State and Local Governmental Employers*. There was determined to be no net pension asset or liability in accordance with GASB Statement No. 27 with a transition date of October 1, 1996.

The Medical Center has a defined benefit pension plan which covers substantially all employees who have completed one year of credited service. The benefits are based on years of service and the average compensation of the employee.

Amounts funded for the plan are based upon actuarial calculations. The Medical 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.

Contributions amounted to \$3,284,184 and \$1,565,099 and represented 125% and 61.1% of the annual recommended contribution for the years ended September 30, 2005 and 2004, respectively. The Medical Center's annual pension cost and net pension asset (obligation) were as follows for the years ended September 30, 2005 and 2004:

	2005	2004
Annual pension cost	\$ 2,630,980	\$ 2,578,951
Contributions made	<u>3,284,184</u>	<u>1,565,099</u>
Increase (decrease) in prepaid pension asset (obligation)	653,204	(1,013,852)
Net pension asset (obligation), beginning of year	<u>(115,019)</u>	<u>898,833</u>
Net pension asset (obligation), end of year	<u>\$ 538,185</u>	<u>\$ (115,019)</u>

The annual recommended contributions for 2005 and 2004 were determined as part of the October 1, 2004 and October 1, 2003, actuarial valuations, respectively. Actuarial assumptions used were:

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

The assumptions do not include post-retirement 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.

Fiscal Year Ending	Trend Information		
	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Asset / (Obligation)
September 30, 2001	\$ 891,613	106.5%	\$ 1,340,158
September 30, 2002	1,301,132	97.3	1,304,972
September 30, 2003	1,800,420	77.4	898,833
September 30, 2004	2,578,951	60.7	(115,019)
September 30, 2005	2,630,980	125.0	538,185

Under GASB Statement No. 27, a schedule of funding progress is not required when the aggregate actuarial cost method is used. The actuarial accrued liability shown in the following table is computed using the projected unit-credit method. For the October 1, 2004 actuarial valuation, the interest rate used was 5.1%.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL") (Projected Unit-Credit Method)	Funded (Unfunded) AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
October 1, 2003	23,683,849	42,410,465	(18,726,616)	55.84%	36,935,484	(50.70)%
October 1, 2004	29,163,497	44,980,999	(15,817,502)	64.84%	43,281,735	(36.55)%
October 1, 2005	33,014,211	50,605,643	(17,591,432)	65.24%	46,582,879	(37.76)%

The Medical Center's asset valuation method is the aggregate cost method.

**Retirement Plan**—Effective July 1, 2001, the Medical Center adopted a defined contribution post-retirement plan under Section 403(b) of the Internal Revenue Code ("IRC") that covers substantially all employees (the TRMC Matching 403B Plan). This plan allows employees to contribute amounts as limited by the IRC. The Medical 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 Medical Center's matching contributions after five years of service. Plan participants made contributions of \$2,219,362 and \$1,964,611 to this plan for the years ended September 30, 2005 and 2004. The Medical Center's contributions to this plan are included within the amounts contributed to the defined benefit plan. The Medical Center's Board of Trustees may make amendments to this plan.

## **12. TRANSFERS TO COUNTIES**

The Medical Center made nonexchange payments to Orangeburg County (\$636,000) and Calhoun County (\$88,000) for the year ended September 30, 2005. Such amounts have been classified as transfers to counties within the accompanying combined statement of revenues, expenses and changes in net assets.

## **13. PROFESSIONAL LIABILITY INSURANCE**

Malpractice claims arising from services provided to patients have been asserted against the Medical Center by various claimants, and additional claims may be asserted for known incidents through September 30, 2005. 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 Medical 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 may yet be asserted against the Medical Center, and these claims would not be covered under the current professional liability insurance policy. Management is of the opinion that, taking into account the applicable professional liability insurance coverage, the Medical Center's experience with past claims and the amount accrued for malpractice liability as of September 30, 2005, the results of these claims and potential claims will not have a material adverse effect on the Medical Center's financial position or results of operations. However, the ultimate disposition of liabilities relating to claims which occurred prior to October 1, 2001 is subject to inherent uncertainties. In 2001, the Medical Center's management internally designated \$5,000,000 to address such claims and the amount expended for such claims is immaterial.

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.

## **14. CONTINGENCIES**

As discussed in Note 1, the Medical Center is reimbursed for certain Medicare and Medicaid items at tentative rates. Final settlement, which is determined after submission of annual cost reports filed by the Medical Center with fiscal intermediaries, may differ from the settlement indicated in the cost reports.

The Health Insurance Portability and Accountability Act ("HIPAA") was enacted August 21, 1996 to ensure health insurance portability, reduce healthcare fraud and abuse, guarantee security and privacy of health information and enforce standards for health information. Organizations were required to be in compliance with certain HIPAA provisions beginning April 2003. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations.

The Medical Center, along with many hospitals in the United States, has been served with lawsuits challenging the billing and collection practices these hospitals and the Medical Center allegedly utilize for insured and uninsured patients. The Medical Center is vigorously contesting these lawsuits.

In the ordinary course of its business, the Medical Center is also the defendant in certain other litigation. Management believes that liability and malpractice insurance coverage provides adequate protection for this litigation in process.

\* \* \* \* \*

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

**COMBINED SCHEDULES OF NET PATIENT SERVICE REVENUES  
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

---

	<b>2005</b>	<b>2004</b>
PATIENT SERVICE REVENUES—At established rates:		
Inpatient	\$ 233,824,521	\$ 220,540,264
Outpatient	<u>185,778,518</u>	<u>170,627,253</u>
Total	<u>419,603,039</u>	<u>391,167,517</u>
DEDUCTIONS FROM PATIENT SERVICE REVENUES:		
Bad debts	(17,276,458)	(18,076,736)
Contractual adjustments	<u>(266,762,919)</u>	<u>(239,186,988)</u>
Total	<u>(284,039,377)</u>	<u>(257,263,724)</u>
NET PATIENT SERVICE REVENUES	<u>\$ 135,563,662</u>	<u>\$ 133,903,793</u>

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

**COMBINED SCHEDULES OF SALARIES AND BENEFITS  
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

---

	<b>2005</b>	<b>2004</b>
Salaries (including agent and contract salaries)	\$ 66,149,764	\$ 65,658,646
Benefits	13,869,542	13,883,820
Benefits as a percentage of salaries	21%	21%

# THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

## COMBINED SCHEDULES OF OTHER EXPENSES FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

---

	<b>2005</b>	<b>2004</b>
Management services contracts	\$ 2,635,084	\$ 2,797,998
Utilities	1,502,682	1,383,827
Sales tax	1,266,080	1,375,716
Insurance	1,155,011	1,132,180
License tax	1,041,404	966,656
Office Supplies	898,575	961,915
Repairs	842,057	702,620
Equipment rentals	786,294	822,012
Employee scholarships	667,061	532,146
Outside lab services	539,112	468,939
Recruiting	489,671	632,871
Telephone	425,952	407,714
Physician recruitment	396,339	671,463
Travel	374,647	395,332
Advertising	281,499	279,783
Minor equipment	212,119	322,146
Sanitation supplies	204,815	175,706
General supplies	184,190	833,146
Education	166,878	128,387
Memberships & dues	157,836	105,958
Freight & shipping	151,952	163,140
Hospice	123,447	177,774
Computers & software	119,619	207,470
Employee recognition	105,501	75,678
Books & subscriptions	86,998	66,939
Hazardous material disposal	86,728	93,803
Transcription services	52,531	136,824
Microfilming & storage	46,523	67,543
Uniforms & apparel	42,335	43,540
Linens	36,917	34,855
Auto	18,851	8,670
Pest control	16,196	18,992
Bank charges	12,030	13,067
Miscellaneous	226,007	298,235
	<b>\$ 15,352,941</b>	<b>\$ 16,503,045</b>

# THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

## COMBINED SCHEDULES OF PROFESSIONAL FEES AND SERVICES FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

---

	<b>2005</b>	<b>2004</b>
Outside services	\$ 5,413,781	\$ 4,681,782
Physician fees	2,544,353	2,828,665
Maintenance contracts	2,309,868	2,045,291
Collection expenses	1,206,509	1,582,944
Legal expenses	888,665	1,070,582
Consultants	658,743	577,473
Management contract - Quorum	545,932	528,327
Audit Fees	<u>125,285</u>	<u>114,537</u>
	<u>\$ 13,693,136</u>	<u>\$ 13,429,601</u>