THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Financial Statements

September 30, 2014 and 2013

(with Independent
Auditors' Report thereon)

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Table of Contents

September 30, 2014 and 2013

DIXON HUGHES GOODMAN LLP

11 Brendan Way, Suite 200
Greenville, SC 29615
D 864.288.5544
F 864.458.8519
www.dhgllp.com

Independent Auditors' Report

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

Report on the Combined Financial Statements
We have audited the accompanying combined statement of net position of The Regional Medical Center of Orangeburg and Calhoun Counties (the "Center") as of September 30, 2014, and the related combined statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements
Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the combined financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Combined Financial Statements

The combined financial statements of the Center as of and for the year ended September 30, 2013, were audited by other auditors whose report dated February 25, 2014, expressed an unmodified opinion on those combined financial statements. As discussed in Note 1 to the combined financial statements, the Center has adjusted its September 30, 2013 combined financial statements to retrospectively apply the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The other auditors reported on the 2013 combined financial statements before the retrospective adjustment.

As part of our audit of the 2014 combined financial statements, we also audited the adjustments to the 2013 combined financial statements to retrospectively apply the change in accounting as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the Center's 2013 combined financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 combined financial statements as a whole.

Required Supplemental Information

Management's Discussion and Analysis and the Employees' Pension Plan – Schedule of Funding Progress are not a required part of the combined financial statements, but are supplementary information required by GASB. We have applied certain limited procedures, which consisted primarily 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.

Other Supplemental Information

Our audit was made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining information in the supplemental schedules is presented for purposes of additional analysis of the combined financial statements rather than to present the combining statement of net position, combining results of operations of the individual entities, and the combining changes in net position and are not a required part of the basic combined financial statements. The combined schedules of other expenses and professional fees and services are presented for the purposes of additional analysis and are not a required part of the basic combined financial statements. Such supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

January 27, 2015

Dixon Hughes Goodman LLP

This section of the Regional Medical Center of Orangeburg and Calhoun Counties' (the "Center" or "RMC") annual combined financial statements presents our analysis of the Center's financial performance during the years ended September 30, 2014 and 2013. Please read this analysis in conjunction with the combined financial statements, which follow this section.

Overview of the Combined Financial Statements

The fiscal 2014 annual combined financial statements includes this management's discussion and analysis section, the report of independent auditors, and the combined financial statements of the Center. The accompanying combined financial statements also include notes that explain in more detail some of the information in the combined financial statements.

Required Combined Financial Statements

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

- The combined statements of net position include all of the Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Center creditors (liabilities). The combined statements of net position also provide the basis for evaluating the capital structure of the Center and assessing the liquidity and financial flexibility of the Center.

- All of the current year's revenues and expenses are accounted for in the combined statements of revenues, expenses, and changes in net position. These statements measure the success of the Center's operations over the past year and can be used to determine whether the Center has successfully recovered all of its costs through its fees and other resources 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 statements of net position and the combined statements of revenues, expenses, and changes in net position report the net position of the Center and the changes therein. The Center's net position is one indicator of the Center's financial health. Over time, increases or decreases in the Center's net position 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 Statements of Net Position

A summary of the Center's combined statements of net position at September 30, 2014, 2013, and 2012, is presented in Table A-1:

Table A-1
Condensed Combined Statements of Net Position
September 30, 2014, 2013, and 2012 (in thousands)

	2014	As Applied 2013	As Applied 2012
Current assets	$ 50,660	$ 51,641	$ 46,514
Capital assets, net	69,991	66,144	53,582
Noncurrent assets	69,412	67,420	65,823
Total assets	$ 190,063	$ 185,205	$ 165,919
Current liabilities	$ 31,540	$ 27,613	$ 25,031
Long-term liabilities	32,995	29,248	16,853
Total liabilities	64,535	56,861	41,884
Net investment in capital assets	35,701	35,646	34,849
Restricted for:			
Nonexpendable	30	30	30
By donor for specific activities or capital acquisitions	3,409	3,159	696
Unrestricted	86,388	89,509	88,460
Total net position	125,528	128,344	124,035
Total liabilities and net position	$ 190,063	$ 185,205	$ 165,919

The net position of the Center decreased $2,816 during 2014 and increased $4,309 during 2013.

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

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

Table A-2
Condensed Combined Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2014, 2013, and 2012 (in thousands)

	2014	As Applied 2013	As Applied 2012
Operating revenues:			
Net patient service revenues	$ 214,357	$ 201,045	$ 191,582
Other	6,650	4,773	6,119
Total operating revenues	221,007	205,818	197,701
Operating expenses:			
Salaries and benefits	123,453	117,043	109,539
Supplies	33,318	31,437	29,702
Professional fees and services	35,572	25,997	27,848
Other	21,680	19,824	19,745
Depreciation and amortization	10,389	8,794	8,693
Total operating expenses	224,412	203,095	195,527
Operating income (loss)	(3,405)	2,723	2,174
Nonoperating revenues	589	1,586	1,805
Increase (decrease) in net position	(2,816)	4,309	3,979
Net position, beginning of year	128,344	124,035	120,056
Net position, end of year	$ 125,528	$ 128,344	$ 124,035

Combined Statements of Revenues, Expenses, and Changes in Net Position (continued)

Fiscal 2014 compared to Fiscal 2013

The Center's total operating revenues increased in fiscal 2014 due to several factors:

- Increased volume in the Dialysis Access Institute.
- A full year of operations for the Cardiology Practice and Bamberg Urgent Care
- Addition of several new services including RMC Internal Medicine Practice and RMC OB/GYN Practice.

The Center's operating expenses for fiscal 2014 increased 10.5%. This is primarily related to salary and supply expense related to the addition of new services and the addition of new providers. Increase in employee health costs and increase in depreciation related to the addition of the Dialysis Access Institute, renovation of the Cancer Center and purchase of a Linear Accelerator.

Fiscal 2013 compared to Fiscal 2012

The Center's total operating revenues increased in fiscal 2013 due to several factors:

- Increased volume in the Emergency Department.
- Addition of several new services including Bamberg Urgent Care and addition of Cardiology Practices.

The Center's operating expenses for fiscal 2013 increased 3.9%. This is primarily related to salary expense related to the addition of new services and the addition of new providers.

Capital Assets and Debt Administration

At the end of fiscal 2014, the Center had invested approximately $70.0 million in net capital assets as shown in Table A-3. The increase of approximately $3.9 million is related to the construction and purchase of equipment for the Dialysis Access Center, Patient Room Renovations, Emergency Generator and other infrastructure projects.

At the end of fiscal 2013, the Center had invested approximately $66.1 million in net capital assets as shown in Table A-3. The increase of approximately $12.6 million is related to the Cancer Center renovation project, including a purchase of a new linear accelerator, a Dialysis Access Center, and other infrastructure.

Capital Assets and Debt Administration (continued)

Table A-3
Capital Assets
September 30, 2014, 2013, and 2012 (in thousands)

	2014	2013	2012
Land and land improvements	$ 2,974	$ 3,176	$ 3,170
Buildings and improvements	90,432	76,019	68,774
Equipment	117,529	109,494	101,092
Construction-in-progress	1,483	9,803	4,158
	212,418	198,492	177,194
Accumulated depreciation	(142,427)	(132,348)	(123,612)
Capital assets, net	$ 69,991	$ 66,144	$ 53,582

Fiscal 2014 compared to Fiscal 2013

At September 30, 2014 and 2013, the Center has approximately $34,290,000 and $30,498,000, respectively, of bonds payable principal outstanding, an increase of approximately 12.4% during the year. The increase in bonds payable is due to the issuance of approximately $5,042,000 of the Series 2012 bonds. Additionally, the Center made principal payments of $1,250,000 and $1,880,000 during fiscal 2014 and 2013, respectively.

Fiscal 2013 compared to Fiscal 2012

At September 30, 2013 and 2012, the Center had approximately $30,498,000 and $18,733,000, respectively, of bonds payable principal outstanding, an increase of approximately 62.8% during the year. The increase in bonds payable is due to the issuance of approximately $13,645,000 of the Series 2012 bonds. Additionally, the Center made principal payments of $1,880,000 and $1,875,000 during fiscal 2013 and 2012, respectively.

Economic and other factors

The continuing theme is we are moving through a time of unprecedented change in both the delivery of care and also the payment for care.

During its recent Healthcare CEO Forum, Huron Consulting explored the need to achieve transformation of the healthcare enterprise. For most organizations, this mandate will require improvement in the range of 20 to 40 percent.

To successfully implement this magnitude of change, healthcare leaders are examining key aspects of their business, and determine their path forward. Clinical transformation, revenue transition, scale and integration, and operational excellence are the four levers they will need to pull – in varying combinations – to achieve quality and financial goals and advance their missions.

There were several key themes identified for creating a foundation for success. Three of them included:

- Evolve
- Integrate
- Lead

Evolve: Transitioning revenue streams: Organizations have begun to commit resources toward the fee-for-value model, but the majority of revenue is still tied to the fee-for-service model. Executives are bridging the two models through traditional cost-cutting and revenue-enhancement approaches, as well as exploring alternative revenue streams.

Integrate: Achieving clinical integration: Clinical integration is essential to lowering the total cost of care and achieving success in the post-reform environment. Healthcare leaders are creating new organizational and governance structures that support clinical integration- as well as high-value, more affordable care. Although organizations are taking different approaches, all recognize the critical role that successful hospital-physician alignment plays in their ability to deliver value.

Lead: Developing talent for the future: New payment and care delivery models require new leadership competencies, many of which may need to come from outside traditional healthcare paradigms and roles.

Economic Factors Related to the State Medicaid Expansion

A continued concern and one of the most critical issue facing hospitals in South Carolina today is the decision to not expand Medicaid as proposed by the Affordable Care Act. The Henry J Kaiser Family Foundation and the U.S. Department of Health and Human Services produced a list of states that will benefit the most from expanding Medicaid. South Carolina ranks 4th on that list. A USC economic impact report indicates that between 2014 and 2020 $11.2 billion in new federal funding will be generated between 2013 and 2020 due to newly eligible enrollees. By 2020, the annual economic impact will total $3.3 billion in annual economic output, nearly 44,000 jobs and approximately $1.5 billion in labor income.

Community Benefit

As a civic asset, the Center is one of the top employers in the area. The 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 October 2012 by the Center reflected a value to the community of over $120 million.

The 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 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 Center.

	2014	2013	2012
Benefits for person living in poverty and the Broader community:			
Charity care at cost	$ 7,405,643	$ 8,085,006	$ 8,107,253
Bad debt, Medicaid shortfall, and ambulance	8,860,092	9,398,130	9,266,166
Safe Kids	5,511	3,765	6,225
Health Professional Education Scholarships	157,595	213,300	206,809
Physician coverage of ED	1,921,423	2,771,495	2,932,271
Foundation and Community Outreach	725,302	961,674	915,695
Total quantifiable benefit	$ 19,075,566	$ 21,433,370	$ 21,434,419

Finance contact

The Center's combined financial statements are designed to present users with a general overview of the Center's finances and to demonstrate the 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 Statements of Net Position

September 30, 2014 and 2013

Assets	**2014**	**As Applied 2013**
Current assets:		
Cash and cash equivalents	$ 15,060,886	$ 15,328,885
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately $5,083,000 in 2014 and $5,177,000 in 2013	24,153,254	24,540,765
Drugs and supplies	4,784,579	4,256,050
Other receivables, net	2,432,540	3,096,565
Prepaid expenses	3,377,586	3,207,903
Estimated third party payor settlements	851,384	1,210,619
Total current assets	50,660,229	51,640,787
Assets limited as to use	65,981,717	64,581,545
Capital assets, net	69,991,347	66,144,310
Prepaid pension cost	2,657,706	1,529,731
Other receivables, net	760,394	1,277,667
Other assets	12,220	30,551
Total assets	$ 190,063,613	$ 185,204,591

(continued)

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Statements of Net Position, (continued)

September 30, 2014 and 2013

Liabilities and Net Position	**2014**	**As Applied 2013**
Current liabilities:		
Current maturities of long-term debt	$ 1,295,000	$ 1,250,000
Accounts payable	12,715,402	11,094,001
Accrued salaries and wages	6,291,947	5,686,738
Accrued vacation	5,830,416	5,555,848
Accrued employee medical	1,335,248	1,137,691
Other accrued expenses	444,503	363,280
Estimated third party payor settlements	3,627,878	2,525,246
Total current liabilities	31,540,394	27,612,804
Long-term debt, net of current maturities	32,995,000	29,248,060
Total liabilities	64,535,394	56,860,864
Net position:		
Net investment in capital assets	35,701,347	35,646,250
Restricted for:		
Nonexpendable	30,000	30,000
By donor for specific activities or capital acquisitions	3,409,014	3,158,891
Unrestricted	86,387,858	89,508,586
Total net position	125,528,219	128,343,727
Total liabilities and net position	$ 190,063,613	$ 185,204,591

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 Position

For the Years Ended September 30, 2014 and 2013

	2014	As Applied 2013
Operating revenues:		
Net patient service revenue, net of provision for bad debts of approximately $29,158,000 in 2014 and $31,316,000 in 2013	$ 214,356,437	$ 201,044,857
Other	6,650,242	4,773,616
Total operating revenues	221,006,679	205,818,473
Operating expenses:		
Salaries and wages	102,584,580	98,089,666
Employee benefits	20,867,897	18,954,092
Supplies	33,317,692	31,436,981
Professional fees and services	35,571,989	25,996,937
Other	21,680,390	19,824,259
Depreciation and amortization	10,388,512	8,793,966
Total operating expenses	224,411,060	203,095,901
Operating income (loss)	(3,404,381)	2,722,572
Nonoperating revenues (expenses):		
Investment income (loss), net	1,192,982	(721,278)
Noncapital grants and contributions	494,357	2,849,329
Foundation expenses	(179,590)	(123,330)
Interest expense	(918,876)	(418,447)
Total nonoperating revenues	588,873	1,586,274
Increase (decrease) in net position	(2,815,508)	4,308,846
Net position, beginning of the year	128,343,727	124,034,881
Net position, end of the year	$ 125,528,219	$ 128,343,727

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, 2014 and 2013

	2014	As Applied 2013
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 216,205,815	$ 198,353,942
Payments to suppliers and contractors	(92,065,135)	(77,219,964)
Payments to employees	(122,375,143)	(116,653,120)
Other receipts and payments, net	7,836,644	6,499,547
Net cash provided by operating activities	9,602,181	10,980,405
Cash flows from noncapital financing activities:		
Noncapital grants and contributions	494,357	1,132,590
Payments for Foundation operations	(179,590)	(123,330)
Net cash provided by noncapital financing activities	314,767	1,009,260
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	5,041,940	13,645,104
Principal paid on long-term debt	(1,250,000)	(1,880,000)
Interest paid on long-term debt	(843,069)	(418,447)
Purchase of capital assets	(12,932,628)	(20,632,389)
Net cash used by capital and related financing activities	(9,983,757)	(9,285,732)
Cash flows from investing activities:		
Proceeds from the sale of capital assets	6,000	-
Decrease in assets limited as to use, net of earnings and fees	(207,190)	(398,015)
Net cash used by investing activities	(201,190)	(398,015)
Increase (decrease) in cash and cash equivalents	(267,999)	2,305,918
Cash and cash equivalents, beginning of year	15,328,885	13,022,967
Cash and cash equivalents, end of year	$ 15,060,886	$ 15,328,885

(continued)

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Statements of Cash Flows (continued)

For the Years Ended September 30, 2014 and 2013

	2014	As Applied 2013
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (3,404,381)	$ 2,722,572
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Loss on disposals of capital assets	5,104	-
Depreciation and amortization	10,388,512	8,793,966
Provision for bad debts	29,157,895	31,315,764
Change in net operating assets and liabilities:		
Patient accounts receivable	(28,770,384)	(34,006,679)
Other receivables, net	1,181,298	762,993
Drugs and supplies and prepaid expenses	(716,888)	(155,457)
Estimated third party payor settlements	1,461,867	962,938
Prepaid pension cost	(1,127,975)	(698,743)
Accounts payable	344,383	148,969
Accrued liabilities and other	1,082,750	1,134,082
Net cash provided by operating activities	$ 9,602,181	$ 10,980,405
Noncash transactions:		
Increase in pledges receivable, net	$ -	$ 1,716,739
Capital assets acquired through accounts payable	$ 1,277,018	$ 666,976

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

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

Organization - The Regional Medical Center of Orangeburg and Calhoun Counties ("TRMC") was established under the laws of the state of South Carolina in 1955 by an act of the South Carolina General Assembly. TRMC primarily provides inpatient, outpatient, and emergency care services for residents of Orangeburg and Calhoun Counties. TRMC is organized under South Carolina non-stock 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. TRMC is not included in the financial statements of Orangeburg County, South Carolina or Calhoun County, South Carolina.

Edisto Regional Health Services, Inc. ("ERHS") was incorporated by TRMC in 1997 and was formed exclusively to carry out the healthcare missions of TRMC. The Regional Medical Center of Orangeburg and Calhoun Counties Foundation (the "Foundation") was formed in 1986 by the Board of Trustees of TRMC for the purpose of performing certain fund-raising activities on behalf of the TRMC. The Board of Trustees of TRMC appoints the members of the Board of Directors of the Foundation.

In accordance with the criteria in Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity*, the Center, ERHS, and the Foundation are shown using a blended presentation; that is, the activity of the Center, ERHS, and the Foundation, collectively referred to as the "Center", is shown in the same column.

Basis of Accounting- The Center's combined financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America as prescribed by the GASB and include the accounts of the ERHS and the Foundation. All significant intercompany accounts have been eliminated.

Enterprise Fund Accounting - The Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* the Center will only recognize GASB statements as authoritative guidance. Financial Accounting Standards Board ("FASB") statements, including those issued after November 30, 1989 and AICPA pronouncements will no longer be authoritative and may be used as non-authoritative guidance.

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.

Adoption of New Accounting Policies – During the year ended September 30, 2014, the Center implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement provides financial reporting guidance related to deferred inflows of resources, deferred outflows of resources, and net position, which are elements of the statement of net position. As a result of the application of the new guidance, the costs associated with the issuance of long-term debt are required to be expensed in the period incurred, rather than deferred and amortized over the term of the related debt. As a result of the retroactive application of this guidance, certain amounts previously reported as of and for the year ended September 30, 2013, have been restated and a cumulative effect adjustment has been recorded to net position as of September 30, 2012. The effect of this application on previously reported combined financial statement amounts is summarized below:

	2013 As Previously Reported	Adjustment	2013 As Applied
Combined Statement of Net Position:			
Unamortized loan costs	$ 1,380,516	$ (1,380,516)	$ -
Total assets	$ 186,585,107	$ (1,380,516)	$ 185,204,591
Unrestricted net position	$ 90,889,102	$ (1,380,516)	$ 89,508,586
Net position, September 30, 2013	$ 129,724,243	$ (1,380,516)	$ 128,343,727
Net position, September 30, 2012	$ 125,498,656	$ (1,463,775)	$ 124,034,881

Combined Statement of Revenues, Expenses, and Changes in Net Position:	2013 As Previously Reported	Adjustment	2013 As Applied
Depreciation and amortization	$ 8,877,225	$ (83,259)	$ 8,793,966
Total operating expenses	$ 203,179,160	$ (83,259)	$ 203,095,901
Operating income	$ 2,639,313	$ 83,259	$ 2,722,572
Increase in net position	$ 4,225,587	$ 83,259	$ 4,308,846
Net position, September 30, 2013	$ 129,724,243	$ (1,380,516)	$ 128,343,727
Net position, September 30, 2012	$ 125,498,656	$ (1,463,775)	$ 124,034,881

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.

At September 30, 2014 and 2013, the Center's deposits had a carrying amount of approximately $16,571,000 and $18,097,000, respectively, and bank balances of approximately $17,479,000 and $18,111,000, respectively. The System had cash on hand of approximately $7,000 at September 30, 2014 and approximately $6,000 at September 30, 2013.

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

Assets Limited as to Use - Assets limited as to use 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, principal of a permanent endowment, and funds restricted by donor for specific activities or capital acquisitions.

Investments - Investments in debt 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. Investment income (loss), both including realized and unrealized gains and losses, is included in nonoperating revenues (expenses).

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.

Net Position - Net position is classified in four components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position - nonexpendable* consists of an endowment fund for which the donor has stipulated, as a condition of the contribution, that the principal is to be maintained in perpetuity. *Restricted net position – by donor for specific activities or capital acquisitions* includes all resources for which the Center is legally obligated to spend the resources in accordance with restrictions imposed by external third parties. *Unrestricted net position* is not subject to stipulations imposed by external third parties.

Operating Revenue and Expenses - The Center's combined statements of revenues, expenses, and changes in net position 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.

Unconditional Promises to Give - Unconditional promises to give are recognized as contributions when the promise is received. Unconditional promises to give that are expected to be collected in less than one year are reported at net realizable value. Any beyond one year are discounted to their present value using treasury rates consistent with the life of the pledge. The applicable rates at September 30, 2014 and 2013 were 1.78% and 1.39%, respectively.

From time to time, the Center receives large pledges and contributions from a small number of donors that represent a significant portion of recorded unconditional promises to give and contributions, which are included in other receivables in the accompanying combined statements of net position and nonoperating revenues in the accompanying statements of revenues, expenses, and changes in net position.

An allowance for uncollectible contributions is necessary as, from time to time, the Center may be unable to collect an outstanding promise to give recorded as contributions receivable. The allowance is management's estimate of the potential future write-offs of uncollectible contributions and is based on historical write-offs, overdue contributions, and other factors.

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, 2014.

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. The Center is self-insured for employee health claims as discussed in Note 10.

2. Deposits and Investments

The Center's investments are reported at fair value, as discussed in Note 1, and included in the assets limited as to use on the combined statements of net position. At September 30, 2014 and 2013, the Center had the following investments:

September 30, 2014		Investment Maturity			
Investment Type	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Debt securities:					
Federal Home Loan Mortgage Corp.	$ 10,525,474	$ 3,439	$ 109,994	$ 178,003	$ 10,234,038
Federal National Mortgage Association	18,255,874	1,627	214,291	783,946	17,256,010
Government National Mortgage Association	29,666,505	162,146	340,578	877,810	28,285,971
U.S. Treasury Securities	6,023,269	1,067,286	3,875,194	-	1,080,789
Total deposits	$ 64,471,122	$ 1,234,498	$ 4,540,057	$ 1,839,759	$ 56,856,808

September 30, 2013		Investment Maturity			
Investment Type	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Debt securities:					
Federal Home Loan Mortgage Corp.	$ 10,124,863	$ -	$ 104,592	$ 18,170	$ 10,002,101
Federal National Mortgage Association	17,317,689	16,590	77,517	720,031	16,503,551
Government National Mortgage Association	28,951,286	1,577	261,022	669,515	28,019,172
U.S. Treasury Securities	5,420,047	1,267,657	4,152,390	-	-
Total deposits	$ 61,813,885	$ 1,285,824	$ 4,595,521	$ 1,407,716	$ 54,524,824

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.

Credit risk ratings are not required for U.S. Government Obligations or those obligations explicitly guaranteed by the U.S. Government. As of September 30, 2014 and 2013, the Center's investments in U.S. Government Agencies were rated AA+ by Standard & Poor's.

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, 2014, the Center held less than 5% of the carrying amount of investments in any one issuer except money market accounts and U.S. Government Agencies.

The carrying amount of deposits and assets limited as to use are included in the Center's combined statements of net position are as follows:

	2014	2013
Carrying amount:		
Deposits	$ 16,571,481	$ 18,096,545
Investments	64,471,122	61,813,885
Total	$ 81,042,603	$ 79,910,430
Included in the following combined statements of net position captions:		
Cash and cash equivalents	$ 15,060,886	$ 15,328,885
Assets limited as to use	65,981,717	64,581,545
	$ 81,042,603	$ 79,910,430

Investment income (loss), net, for assets limited as to use and cash equivalents are comprised of the following for the years ended September 30, 2014 and 2013:

	2014	2013
Interest and dividend income	$ 3,574,952	$ 3,313,722
Realized losses on sales of investments, net	(1,987,698)	(1,922,275)
Unrealized gains (losses) on investments, net	31,442	(1,668,666)
Custodian fees	(425,714)	(444,059)
Investment income (loss), net	$ 1,192,982	$ (721,278)

3. Accounts Receivable and Accounts Payable

Patient accounts receivable reported as current assets by the Center consisted of the following as of September 30, 2014 and 2013:

Accounts Receivable	2014	2013
Receivable from patients	$ 7,060,140	$ 7,389,806
Receivable from third-party payors and others	7,236,535	7,204,373
Receivable from Medicare	10,193,980	10,482,685
Receivable from Medicaid	4,745,685	4,640,824
Total patient accounts receivable	29,236,340	29,717,688
Less: allowance for uncollectible accounts	(5,083,086)	(5,176,923)
Patient accounts receivable, net	$ 24,153,254	$ 24,540,765

Accounts payable (including accrued expenses) reported as current liabilities by the Center consisted of the following as of September 30, 2014 and 2013:

Accounts Payable and Accrued Expenses	2014	2013
Payable to suppliers and others	$ 13,159,905	$ 11,457,281
Payable to employees (including payroll taxes)	13,457,611	12,380,277
Total accounts payable and accrued expenses	$ 26,617,516	$ 23,837,558

4. Capital Assets

Capital asset additions, retirements, transfers and balances for the years ended September 30, 2014 and 2013 were as follows:

	Balance September 30, 2013	Additions	Retirements & Transfers	Balance September 30, 2014
Land	$ 656,617	$ -	$ (2,000)	$ 654,617
Land improvements	2,519,429	68,408	(268,684)	2,319,153
Buildings	76,019,482	914,028	13,498,267	90,431,777
Equipment	109,494,329	3,157,835	4,876,808	117,528,972
Totals at historical cost	188,689,857	4,140,271	18,104,391	210,934,519
Less accumulated depreciation:				
Land improvements	(2,138,527)	(19,390)	-	(2,157,917)
Buildings	(52,655,828)	(3,498,577)	56,170	(56,098,235)
Equipment	(77,553,741)	(6,833,538)	217,024	(84,170,255)
Total accumulated depreciation	(132,348,096)	(10,351,505)	273,194	(142,426,407)
Construction in progress	9,802,549	10,069,375	(18,388,689)	1,483,235
Capital assets, net	$ 66,144,310	$ 3,858,151	$ (11,104)	$ 69,991,347

	Balance September 30, 2012	Additions	Retirements & Transfers	Balance September 30, 2013
Land	$ 656,617	$ -	$ -	$ 656,617
Land improvements	2,513,494	6,000	(65)	2,519,429
Buildings	68,773,912	960,718	6,284,852	76,019,482
Equipment	101,091,658	4,156,918	4,245,753	109,494,329
Totals at historical cost	173,035,681	5,123,636	10,530,540	188,689,857
Less accumulated depreciation:				
Land improvements	(2,118,595)	(19,932)	-	(2,138,527)
Buildings	(50,110,044)	(2,546,006)	222	(52,655,828)
Equipment	(71,383,520)	(6,170,754)	533	(77,553,741)
Total accumulated depreciation	(123,612,159)	(8,736,692)	755	(132,348,096)
Construction in progress	4,158,081	16,181,668	(10,537,200)	9,802,549
Capital assets, net	$ 53,581,603	$ 12,568,612	$ (5,905)	$ 66,144,310

5. Long-Term Debt

A schedule of changes in the Center's long-term debt for 2014 and 2013 follows:

	September 30, 2013	Additions	Reductions	September 30, 2014	Current Portion
2009 bonds	$ 10,540,000	$ -	$ (1,190,000)	$ 9,350,000	$ 1,195,000
2012 bonds	19,958,060	5,041,940	(60,000)	24,940,000	100,000
	$ 30,498,060	$ 5,041,940	$ (1,250,000)	$ 34,290,000	$ 1,295,000

	September 30, 2012	Additions	Reductions	September 30, 2013	Current Portion
2009 bonds	$ 12,420,000	$ -	$ (1,880,000)	$ 10,540,000	$ 1,190,000
2012 bonds	6,312,956	13,645,104	-	19,958,060	60,000
	$ 18,732,956	$ 13,645,104	$ (1,880,000)	$ 30,498,060	$ 1,250,000

During Fiscal 2012, the Center issued South Carolina Jobs-Economic Development Authority Variable Rate Demand Hospital Revenue Bond Series 2012 (the "2012 Bonds") in the principal amount of not to exceed $25,000,000 for the purpose of financing an expansion to the Center's facilities. The 2012 Bonds principal payments are due annually beginning in 2014 through 2037 in annual amounts ranging from $60,000 to $2,165,000. In addition, the 2012 Bonds are subject to optional redemption on May 1, 2022, in whole or in part, at a redemption price of par plus accrued interest to the date of redemption. The gross receipts of the Center are pledged as security on the 2012 Bonds.

A financial institution directly purchased the 2012 Bonds. The financial institution advanced the principal amount of the 2012 Bonds to the Center through May 2014 when all bond funds were advanced. The interest rate on the 2012 bonds is fixed at 3.58% per annum until May 1, 2022, at which time then 2012 bonds will be redeemed or the interest on the 2012 bonds may be reset. Interest is payable monthly.

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 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 at any time, in whole or in part, at a redemption price of par plus accrued interest to the date of redemption. The effective interest rate of the bonds at September 30, 2014 and 2013 was 1.12% and 1.28%. The gross receipts of the Center are pledged as security on the 2009 Bonds. The 2009 Bonds are secured by a letter of credit that was extended in November 2014 and expires on October 5, 2016.

Under the terms of the 2009 and 2012 Bond indentures, 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, 2014, and until maturity are as follows:

	Long-Term Debt	
Year Ending September 30:	**Principal**	**Interest**
2015	$ 1,295,000	$ 1,151,589
2016	1,020,000	1,111,088
2017	1,060,000	1,079,035
2018	1,100,000	1,045,589
2019	1,145,000	1,010,692
2020 – 2024	6,220,000	4,684,766
2025 – 2029	7,320,000	3,786,640
2030 – 2034	8,885,000	2,224,733
2035 – 2037	6,245,000	422,933
Total	$34,290,000	$16,517,065

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. The difference between the Center's rates and the estimated payments from third-party payors is recorded as a contractual allowance. Revenue for patient services and the related accounts receivable have been adjusted to the estimated amounts that will be received under third-party payor arrangements. 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 prospectively determined rates per discharge using a diagnosis related group (Medicare Severity Adjusted or "MSDRG") system. These rates vary according to patient classification, clinical diagnosis, and other factors. Inpatient capital costs are paid at prospectively determined rates as a component of the MSDRG payment. The Center is classified as Sole Community hospital and for Medicare inpatient services, the hospital receives the higher of the hospital specific rate or the federal rate, with final settlement determined after submission of the annual Medicare cost report.

Certain Medicare outpatient services are paid based on APCs ("Ambulatory Payment Classifications"), the outpatient equivalent of MSDRGs while other outpatient Medicare services are paid under a Medicare fee schedule. The Center is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after the submission of annual Medicare cost reports by the Center and audits thereof by the Medicare fiscal intermediary. The Medicare cost reports of the Center have been audited and final settled by the Medicare fiscal intermediary through the fiscal year ended September 30, 2011.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries through September 30, 2012 were reimbursed on an interim basis at prospectively determined rates with final settlement determined after the submission of the annual Medicaid cost reports by the Center and audits thereof by Medicaid. For the fiscal year ended September 30, 2013 and forward all reimbursements are made on a prospective basis. The Medicaid cost reports of the Center have been audited and final settled by Medicaid through the fiscal year ended September 30, 2007. Additionally, the fiscal year ended September 30, 2010 Medicaid cost reports have been audited and final settled as part of Medicaid implementation of hospital specific prospective payment rates effective for the fiscal year ended September 30, 2013.

Other – 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 51% and 16%, respectively, of the Center's net patient service revenue for the year ended 2014. Revenue from the Medicare and Medicaid programs accounted for approximately 52% and 16% respectively, of the Center's net patient service revenue for the year ended 2013. 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 2014 and 2013 net patient service revenue decreased by approximately $1,306,000 and $2,560,000, respectively, due to changes in the allowances previously estimated for tentative cost report settlements.

Contractual adjustments related to Medicare and Medicaid programs and other adjustments were deducted from gross patient service charges to arrive at net patient service revenue as follows:

	2014	**2013**
Gross patient service charges at established rates, net of charity care	$ 771,083,043	$ 733,554,129
Deductions:		
Contractual adjustments	(527,568,711)	(501,193,508)
Provision for bad debts	(29,157,895)	(31,315,764)
	(556,726,606)	(532,509,272)
Net patient service revenue	$ 214,356,437	$ 201,044,857

The Center qualified for disproportionate share payments from the South Carolina Medicaid Program through September 30, 2014. The Center received quarterly lump-sum payments totaling approximately $8,942,000. The Center received quarterly lump-sum payments totaling $7,971,000 in 2013. These amounts are reflected as a reduction of Medicaid contractual adjustments.

Medicare and Medicaid Electronic Health Records ("EHR") Incentives - EHR incentive reimbursements are payments received under the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act") which was enacted into law as part of the American Recovery and Reinvestment Act of 2009 ("ARRA"). The HITECH Act includes provisions designed to increase the use of EHR by both physicians and hospitals. Beginning with federal fiscal year 2011 (federal fiscal year is October 1 through September 30) and extending through federal fiscal year 2016, eligible hospitals participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of their certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Center recognized approximately $1,049,021 and $1,960,000 of revenues related to EHR incentive reimbursements for the years ended September 30, 2014 and 2013, respectively. These revenues are reflected in other operating revenues on the accompanying statements of revenues, expenses, and changes in net position. The Center recognizes income related to EHR incentive payments using the grant cliff recognition method under which the revenue is recognized at the end of the EHR reporting period once it is determined that the EHR meaningful use criteria has been complied with and has been attested to. The Center must attest to certain criteria in order to qualify to receive the incentive payments. The amount of the incentive payments are calculated using predetermined formulas based on available information, primarily related to discharges and patient days. Future incentive payments could vary due to certain factors such as availability of federal funding for both Medicare and Medicaid incentive payments and the Center's ability to implement and demonstrate meaningful use of certified EHR technology. The Center has and will continue to incur both capital costs and operating expenses in order to implement its certified EHR technology and meet meaningful use requirements in the future. These expenses are ongoing and are projected to continue over all stages of implementation of meaningful use. The timing of recognizing the expenses may not correlate with the receipt of the incentive payments and the recognition of revenues. There can be no assurance that the Center will be able to continue to demonstrate meaningful use of certified EHR technology in the future, and the failure to do so could have a material, adverse effect on the results of operations. As a part of operating this program, there is a reasonable possibility that government authorities may make adjustments to amounts previously recorded by the Center. The Center's attestation of demonstrating meaningful use is also subject to review by the appropriate government authorities. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

7. Charity Care

Charges excluded from revenue under the Center's charity care policy were approximately $26,449,000 and $28,875,000 in 2014 and 2013, respectively.

The Center calculates the cost of providing charity care to patients using a cost-to-charge ratio method. Using this method, the costs of providing charity care services under the Center's indigent and charity care policy were approximately $7,406,000 and $8,085,000 for 2014 and 2013, respectively.

8. Operating Leases

The Center leases medical and business equipment under operating leases expiring at various dates through 2019. Total rent expense in 2014 and 2013 for all operating leases was approximately $2,134,000 and $1,618,000, respectively.

The following is a schedule by year of future remaining lease payments under operating leases at September 30, 2014, that have initial remaining lease terms in excess of one year.

2015	$ 884,982
2016	504,248
2017	385,908
2018	245,528
2019	66,447
	$ 2,087,113

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, 2014 and 2013, are as follows:

	2014	2013
Annual recommended contribution	$ 2,090,919	$ 2,279,906
Interest on net pension cost	(107,081)	(49,859)
Adjustment to annual required contribution	115,211	56,953
Annual pension cost	2,099,049	2,287,000
Contributions made	3,227,024	2,985,743
Increase in prepaid pension cost	1,127,975	698,743
Prepaid pension cost:		
Beginning of year	1,529,731	830,988
End of year	$ 2,657,706	$ 1,529,731

The annual recommended contributions for 2014 and 2013 were determined as part of the October 1, 2013 and October 1, 2012, actuarial valuations, respectively. Actuarial assumptions used were as follows:

	2014	2013
Investment rate of return	7%	6%
Projected salary increases	N/A	N/A
Inflation rate	N/A	N/A

The assumptions do not include postretirement benefit increases. The aggregate actuarial cost method is used to determine the annual required contribution of the employer for the Plan. Because the method does not identify or separately amortize unfunded actuarial liabilities, information about the Plan's funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and the information presented is intended to serve as a surrogate for the funded status and funding progress of the Plan. The unfunded actuarial accrued liability is being amortized over a straight-line 30-year period on an open basis using the level-dollar method.

The schedule of funding progress, presented as required supplementary information following the notes to the combined financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Three-year trend information:

Fiscal Years Ending September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
2012	$ 2,306,579	119%	$ 830,988
2013	$ 2,287,000	131%	$ 1,529,731
2014	$ 2,099,049	154%	$ 2,657,076

The Center also has a retirement savings plan under Section 403(b) of the Internal Revenue Code ("IRC") that covers substantially all employees. The retirement and savings 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. Participants are fully vested in the Center's matching contributions after five years of service. The Center contributed approximately $574,000 and $571,000 to the retirement and savings plan for the years ended September 30, 2014 and 2013, respectively.

The Center established a defined contribution plan effective January 1, 2010. All employees who work at least 1,000 hours in a year will earn vesting service time in the define contribution plan. The Center makes contributions to the defined contribution plan on the employee's behalf based on years of vesting service as defined in the defined contribution plan document. Contributions to the defined contribution plan were approximately $1,857,000 and 1,727,000 for the years ended September 30, 2014 and 2013.

10. Commitments and Contingencies

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, 2014. 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 combined financial position or combined 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, 2014 and 2013, the Center has recorded an accrual for incurred but not reported claims of approximately $1,335,000 and $1,138,000, respectively.

Workers' Compensation - The Center has 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, 2014 and 2013, the Center has recorded an accrual for expected future claim costs of approximately $272,000 and $276,000, respectively.

Litigation - The Center is involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Center's future combined financial position or combined results from operations.

Industry - The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulation by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services billed.

On January 9, 2013, the Center submitted a voluntary self-disclosure to the Centers for Medicare and Medicaid Services ("CMS") under the CMS Voluntary Self-Referral Disclosure Protocol regarding a potential technical Stark violation that the Center discovered as a part of its routine compliance review. It is believed that any settlement resulting from the disclosure will not be material but it is difficult to predict the amount of any settlement due to the limited information available regarding such settlements.

11. Unconditional Promises to Give

Unconditional promises to give are included in other receivables in the accompanying combined statements of net position and consisted of the following at September 30, 2014 and 2013:

	2014	2013
Receivable in less than one year	$ 843,495	$ 462,181
Receivable in one to five years	973,591	1,388,560
Discount to net present value	(31,489)	(43,647)
Allowance for uncollectible pledges	(181,708)	(90,355)
	$ 1,603,889	$ 1,716,739

12. Management Agreement

The Center has a management contract with Quorum Health Resources, Inc. ("QHR"). 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 whose salary is paid in addition to the above-mentioned fee. The management fee for the years ended September 30, 2014 and 2013, was approximately $743,000 and $727,000, respectively.

13. Vendor Negotiated Settlement

In 2014, the Center negotiated a $29,000,000 multi-year settlement agreement with a vendor. According to governmental accounting rules, the professional fees related to the transaction must be recorded in the year incurred and the benefits of the settlement be recorded in the year the benefit is received. Approximately $2,500,000 was recorded as revenue on the combined statement of revenues, expenses, and changes in net position for the year ended September 30, 2014. Also, approximately $7,693,000 of professional fees were expensed on the combined statements of revenues, expenses, and changes in net position for the year ended September 30, 2014.

14. Subsequent Events

Subsequent events have been evaluated through January 27, 2015, which is the date the combined financial statements were available to be issued.

Required Supplemental Information

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Employees' Pension Plan - Schedule of Funding Progress

September 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2012	$ 38,778,832	$ 72,044,300	$ (33,265,468)	53.8%	$ 57,173,662	58.2%
2013	$ 40,011,325	$ 67,773,862	$ (27,762,537)	59.0%	$ 53,720,227	51.7%
2014	$ 39,627,173	$ 73,087,953	$ (33,460,780)	54.2%	$ 51,618,972	64.8%

* For purposes of this schedule, the AAL for the Plan is determined using the entry age actuarial cost method.
Note that the ARC for the Plan is calculated using the aggregate actuarial cost method.

See accompanying Independent Auditors' Report.

Supplemental Information

The Regional Medical Center of Orangeburg and Calhoun Counties

Combining Statement of Net Position Information

September 30, 2014

	The Medical Center	ERHS	Foundation	Combined Total	Eliminating Entries	Combined Total
Assets						
Current assets:						
Cash and cash equivalents	$ 12,708,231	$ 338,265	$ 2,014,390	$ 15,060,886	$ -	$ 15,060,886
Patient accounts receivable, net of estimated doubtful accounts of approximately $5,083,000	23,833,333	319,921	-	24,153,254	-	24,153,254
Drugs and supplies	4,784,579	-	-	4,784,579	-	4,784,579
Due from affiliate	266,438	-	-	266,438	(266,438)	-
Other receivables, net	1,570,052	18,993	843,495	2,432,540	-	2,432,540
Prepaid expenses	3,346,648	30,938	-	3,377,586	-	3,377,586
Estimated third party payor settlements	851,384	-	-	851,384	-	851,384
Total current assets	47,360,665	708,117	2,857,885	50,926,667	(266,438)	50,660,229
Assets limited as to use	65,958,807	-	22,910	65,981,717	-	65,981,717
Due from affiliate	25,072,782	-	-	25,072,782	(25,072,782)	-
Capital assets, net	69,496,253	495,094	-	69,991,347	-	69,991,347
Prepaid pension cost	2,657,706	-	-	2,657,706	-	2,657,706
Other receivables, net	-	-	760,394	760,394	-	760,394
Other assets	-	12,220	-	12,220	-	12,220
Total assets	$ 210,546,213	$ 1,215,431	$ 3,641,189	$ 215,402,833	$ (25,339,220)	$ 190,063,613

(continued)

The Regional Medical Center of Orangeburg and Calhoun Counties

Combining Statement of Net Position Information, (continued)

September 30, 2014

Liabilities and Net Position	**The Medical Center**	**ERHS**	**Foundation**	**Combined Total**	**Eliminating Entries**	**Combined Total**
Current liabilities:						
Current maturities of long-term debt	$ 1,295,000	$ -	$ -	$ 1,295,000	$ -	$ 1,295,000
Accounts payable	12,611,449	103,953	-	12,715,402	-	12,715,402
Accrued salaries and wages	5,916,697	375,250	-	6,291,947	-	6,291,947
Accrued vacation	5,494,155	336,261	-	5,830,416	-	5,830,416
Accrued employee medical	1,244,897	90,351	-	1,335,248	-	1,335,248
Other accrued expenses	444,503	-	-	444,503	-	444,503
Due to affiliate	-	-	266,438	266,438	(266,438)	-
Estimated third party payor settlements	3,627,878	-	-	3,627,878	-	3,627,878
Total current liabilities	30,634,579	905,815	266,438	31,806,832	(266,438)	31,540,394
Due to affiliate	-	25,072,782	-	25,072,782	(25,072,782)	-
Long-term debt, net of current maturities	32,995,000	-	-	32,995,000	-	32,995,000
Total liabilities	63,629,579	25,978,597	266,438	89,874,614	(25,339,220)	64,535,394
Net position:						
Net investment in capital assets	35,206,253	495,094	-	35,701,347	-	35,701,347
Restricted for:						
Nonexpendable	30,000	-	-	30,000	-	30,000
By donor for specific activites or capital acquisitons	266,438	-	3,142,576	3,409,014	-	3,409,014
Unrestricted	111,413,943	(25,258,260)	232,175	86,387,858	-	86,387,858
Total net position	146,916,634	(24,763,166)	3,374,751	125,528,219	-	125,528,219
Total liabilities and net position	$ 210,546,213	$ 1,215,431	$ 3,641,189	$ 215,402,833	$ (25,339,220)	$ 190,063,613

See accompanying Independent Auditors' Report.

The Regional Medical Center of Orangeburg and Calhoun Counties

Combining Statement of Revenues, Expenses, and Changes in Net Position Information

For the Year Ended September 30, 2014

	The Medical Center	ERHS	Foundation	Combined Total	Eliminating Entries	Combined Total
Operating revenues:						
Net patient service revenue, net of provision for bad debts of approximately $29,158,000	$ 209,928,462	$ 4,427,975	$ -	$ 214,356,437	$ -	$ 214,356,437
Other	6,582,399	3,049,053	-	9,631,452	(2,981,210)	6,650,242
Total operating revenues	216,510,861	7,477,028	-	223,987,889	(2,981,210)	221,006,679
Operating expenses:						
Salaries and wages	95,942,570	6,642,010	-	102,584,580	-	102,584,580
Employee benefits	19,612,205	1,255,692	-	20,867,897	-	20,867,897
Supplies	33,037,367	280,325	-	33,317,692	-	33,317,692
Professional fees and services	37,295,029	1,258,170	-	38,553,199	(2,981,210)	35,571,989
Other	20,914,367	766,023	-	21,680,390	-	21,680,390
Depreciation and amortization	10,256,423	132,089	-	10,388,512	-	10,388,512
Total operating expenses	217,057,961	10,334,309	-	227,392,270	(2,981,210)	224,411,060
Operating income (loss)	(547,100)	(2,857,281)	-	(3,404,381)	-	(3,404,381)
Nonoperating revenues (expenses):						
Investment income (loss), net	1,188,201	-	4,781	1,192,982	-	1,192,982
Noncapital grants and contributions	50,686	-	443,671	494,357	-	494,357
Foundation expenses	-	-	(179,590)	(179,590)	-	(179,590)
Interest expense	(918,876)	-	-	(918,876)	-	(918,876)
Total nonoperating revenues	320,011	-	268,862	588,873	-	588,873
Increase (decrease) in net position	(227,089)	(2,857,281)	268,862	(2,815,508)	-	(2,815,508)
Net position (deficit), beginning of the year	147,143,723	(21,905,885)	3,105,889	128,343,727	-	128,343,727
Net position (deficit), end of the year	$ 146,916,634	$ (24,763,166)	$ 3,374,751	$ 125,528,219	$ -	$ 125,528,219

See accompanying Independent Auditors' Report.

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Schedules of Other Expenses Information

For the Years Ended September 30, 2014 and 2013

Management service contracts	$ 1,188,934	$ 1,126,652
Utilities	3,240,725	2,847,567
Sales tax	2,297,094	1,994,903
Insurance	1,793,120	1,669,281
Advertising	261,495	304,518
License tax	4,677,542	4,283,746
Equipment rentals	2,133,536	1,617,799
Minor equipment	488,291	569,312
Outside lab services	672,051	648,657
Repairs	406,213	337,441
Employee scholarships	105,649	490,071
Recruiting	830,258	864,435
Hospice	199,577	166,031
Employee recognition	82,245	116,886
Memberships and dues	308,100	316,054
Freight and shipping	423,339	399,582
Education	235,566	204,006
Computers and software	35,036	34,034
Books and subscriptions	569,880	430,009
Microfilming and storage	93,584	65,169
Linens	24,880	12,536
Bank charges	120,664	193,290
Pest control	33,570	26,926
Auto	9,467	11,559
Miscellaneous	1,449,574	1,093,795
Total	$ 21,680,390	$ 19,824,259

See accompanying Independent Auditors' Report.

THE REGIONAL MEDICAL CENTER OF ORANGEBURG AND CALHOUN COUNTIES

Combined Schedules of Professional Fees and Services Information

For the Years Ended September 30, 2014 and 2013

Outside services	$ 9,341,600	$ 9,569,238
Physician fees	5,462,964	4,677,085
Contract labor	2,664,946	2,376,287
Maintenance Contracts	5,488,232	5,053,416
Collection expenses	1,986,447	2,100,966
Legal expenses	8,564,443	431,602
Consultants	1,219,181	978,677
Management contract - Quorum	747,704	726,113
Audit fees	75,000	72,415
Rental expense	21,472	11,138
Total	$ 35,571,989	$ 25,996,937

See accompanying Independent Auditors' Report.