The Regional Medical Center of Orangeburg and Calhoun Counties

Combined Financial Statements

Years Ended September 30, 2017 and 2016

Table of Contents

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

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 financial statements of The Regional Medical Center of Orangeburg and Calhoun Counties (the "Center") comprised of the combined statements of net position as of September 30, 2017 and 2016 and the related combined statements of revenues, expenses, and changes in net position and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit 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 combined financial position of the Center as of September 30, 2017 and 2016, and its changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

DIXON HUGHES GOODMAN LLP

Other Matters

Required Supplemental Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedules of Changes in Net Pension Liability and Related Ratios, and the Schedules of Contributions be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information in the supplemental schedules listed in the foregoing table of contents are presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual organizations and are not a required part of the combined financial statements. Such 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.

Dixon Hughes Goodman LLP

Greenville, South Carolina
January 23, 2018

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, 2017 and 2016. Please read this analysis in conjunction with the combined financial statements, which follow this section.

Overview of the Combined Financial Statements

The 2017 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, deferred outflows, and liabilities and provide information about the nature and amounts of investments in resources (assets and deferred outflows) 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 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, 2017, 2016, and 2015, is presented in Table A-1:

Table A-1
Condensed Combined Statements of Net Position
September 30, 2017, 2016, and 2015 (in thousands)

	2017	2016	2015
ASSETS			
Current assets	$ 52,226	$ 50,020	$ 44,941
Capital assets, net	60,656	62,332	69,914
Noncurrent assets	60,501	60,635	65,485
Deferred outflows	7,500	7,752	5,111
Total assets and deferred outflows	$ 180,883	$ 180,739	$ 182,451
LIABILITIES			
Current liabilities	$ 32,640	$ 23,240	$ 27,114
Long-term liabilities	63,920	66,566	65,775
Deferred inflows	534	-	-
Total liabilities and deferred inflows	97,094	89,806	92,889
Net investment in capital assets	29,771	30,357	33,919
Restricted for:			
Nonexpendable	681	645	548
By donor for specific activities or capital acquisitions	2,131	2,180	2,016
Unrestricted	51,206	57,751	53,079
Total net position	83,789	90,933	89,562
Total liabilities, deferred inflows, and net position	$ 180,883	$ 180,739	$ 182,451

The net position of the Center decreased $7,144 during 2017 and increased $1,371 during 2016.

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, 2017, 2016, and 2015 (in thousands)

	2017	2016	2015
Operating revenues:			
Net patient service revenues	$ 213,656	$ 219,621	$ 219,650
Other	3,321	5,267	3,771
Total operating revenues	216,977	224,888	223,421
Operating expenses:			
Salaries and benefits	120,313	129,136	126,828
Supplies	35,538	36,218	36,910
Professional fees and services	34,405	25,457	32,201
Other	19,143	19,895	20,461
Depreciation and amortization	13,198	13,129	11,789
Total operating expenses	222,597	223,835	228,189
Operating income (loss)	(5,620)	1,053	(4,768)
Nonoperating revenues (expenses)	(1,524)	318	1,314
Increase (decrease) in net position	(7,144)	1,371	(3,454)
Net position, beginning of year	90,933	89,562	93,016
Net position, end of year	$ 83,789	$ 90,933	$ 89,562

Fiscal 2017 compared to Fiscal 2016

The Center's total operating revenues decreased in fiscal 2017 due to decreased volumes in inpatient and outpatient services. Physician revenues decreased due to decreased emergency room visits and outsourcing anesthesia services.

The Center's operating expenses for fiscal 2017 decreased 0.6%. This is primarily related to a decrease in health insurance benefits expense.

Fiscal 2016 compared to Fiscal 2015

The Center's total operating revenues increased in fiscal 2016 due to growth in retail pharmacy and receipt of Medicare meaningful use incentives.

The Center's operating expenses for fiscal 2016 decreased 1.9%. This is primarily related to a decrease in professional fees of $4.8 million for use of contracted staff and physicians.

Capital Assets and Debt Administration

At the end of fiscal 2017, the Center had invested approximately $60.6 million in net capital assets as shown in Table A-3. The decrease of approximately $1.7 million is related to not having any major building or infrastructure projects during the fiscal year.

At the end of fiscal 2016, the Center had invested approximately $62.3 million in net capital assets as shown in Table A-3. The decrease of approximately $4.6 million is related to not having any major building or infrastructure projects during the fiscal year.

Table A-3
Capital Assets
September 30, 2017, 2016, and 2015 (in thousands)

	2017	2016	2015
Land and land improvements	$ 3,262	$ 3,166	$ 3,084
Buildings and improvements	97,016	94,555	92,202
Equipment	135,326	129,640	121,146
Construction-in-progress	5,495	2,255	4,635
	241,099	229,616	221,067
Accumulated depreciation	(180,443)	(167,284)	(154,153)
Capital assets, net	$ 60,656	$ 62,332	$ 66,914

Fiscal 2017 compared to Fiscal 2016

At September 30, 2017 and 2016, the Center has approximately $31.0 million and $32.0 million, respectively, of bonds payable principal outstanding, a decrease of approximately 3.4% during the year. The debt was refunded in 2017 with two new bond series totaling approximately $32.0 million. Additionally, the Center made principal payments of approximately $32.0 million and $1.0 million during fiscal 2017 and 2016.

Fiscal 2016 compared to Fiscal 2015

At September 30, 2016 and 2015, the Center has approximately $32.0 million and $33.0 million respectively, of bonds payable principal outstanding, a decrease of approximately 3.0% during the year. The decrease in bonds payable is due to not issuing any new bonds during the year. Additionally, the Center made principal payments of approximately $1.0 million and $1.3 million during fiscal 2016 and 2015.

Economic and other factors

The Center continues to be challenged by issues of government regulation, declining reimbursement, changing technology, increasing pharmaceutical costs and staffing shortages. The Center continues to strive towards transforming its healthcare delivery system in order to further the mission to deliver high quality, compassionate care to everyone they touch every day.

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.

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.

Quantifiable Benefits
September 30, 2017, 2016, and 2015 (in thousands)

	2017	2016	2015
Benefits for person living in poverty and the Broader community:			
Charity care at cost	$ 5,565	$ 5,629	$ 5,484
Bad debt, Medicaid shortfall, and ambulance	7,947	4,514	8,369
Safe Kids	2	6	5
Health Professional Education Scholarships	100	71	44
Physician coverage of EDs	1,964	1,694	1,757
Foundation and Community Outreach	548	811	796
Total quantifiable benefit	$ 16,126	$ 12,725	$ 16,455

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 Liza Porterfield, Chief Financial Officer, The Regional Medical Center of Orangeburg and Calhoun Counties, 3000 St. Matthews Road, Orangeburg, South Carolina 29118.

	2017	2016
ASSETS AND DEFERRED OUTFLOWS		
Current assets:		
Cash and cash equivalents	$ 17,838,869	$ 12,483,886
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately $5,008,000 in 2017 and $3,847,000 in 2016	26,131,707	27,215,979
Drugs and supplies	4,397,002	4,912,347
Other receivables, net	1,356,494	968,124
Prepaid expenses	1,933,871	3,862,664
Estimated third-party payor settlements	568,373	576,983
Total current assets	52,226,316	50,019,983
Assets limited as to use	60,407,150	60,168,081
Capital assets, net	60,656,185	62,332,060
Other receivables, net	93,600	466,920
Total assets	173,383,251	172,987,044
Deferred outflows:		
Pension deferrals	7,500,294	7,752,151
Total deferred outflows	7,500,294	7,752,151
Total assets and deferred outflows	$ 180,883,545	$ 180,739,195

(Continued)

	2017	2016
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	$ 790,000	$ 1,060,000
Accounts payable	10,491,447	8,074,126
Accrued salaries and wages	4,050,499	4,184,529
Accrued vacation	6,180,189	6,429,849
Accrued employee medical	1,556,056	1,804,043
Other accrued expenses	47,180	5,307
Estimated third-party payor settlements	9,525,121	1,681,879
Total current liabilities	32,640,492	23,239,733
Net pension liability	33,824,797	35,651,682
Long-term debt, net of current maturities	30,095,000	30,915,000
Total liabilities	96,560,289	89,806,415
Deferred inflows:		
Pension deferrals	533,929	-
Total deferred inflows	533,929	-
Net position:		
Net investment in capital assets	29,771,185	30,357,060
Restricted for:		
Nonexpendable	681,249	645,110
By donor for specific activities or capital acquisitions	2,131,183	2,179,466
Unrestricted	51,205,710	57,751,144
Total net position	83,789,327	90,932,780
Total liabilities, deferred inflows, and net position	$ 180,883,545	$ 180,739,195

	2017	2016
Operating revenues:		
Net patient service revenue, net of provision for bad debts of approximately $28,532,000 in 2017 and $29,040,000 in 2016.	$ 213,655,677	$ 219,621,292
Other	3,321,568	5,266,624
Total operating revenues	216,977,245	224,887,916
Operating expenses:		
Salaries and wages	99,604,503	104,525,757
Employee benefits	20,708,526	24,609,853
Supplies	35,537,882	36,217,898
Professional fees and services	34,405,554	25,457,224
Other	19,142,620	19,895,295
Depreciation	13,198,299	13,129,069
Total operating expenses	222,597,384	223,835,096
Operating income (loss)	(5,620,139)	1,052,820
Nonoperating revenues (expenses):		
Investment income (loss), net	(298,503)	1,291,066
Noncapital grants and contributions	1,089,842	1,020,495
Foundation expenses	(547,354)	(274,107)
Other	(391,291)	(692,122)
Interest expense	(1,376,008)	(1,027,286)
Total nonoperating revenues (expenses)	(1,523,314)	318,046
Increase (decrease) in net position	(7,143,453)	1,370,866
Net position, beginning of the year	90,932,780	89,561,914
Net position, end of the year	$ 83,789,327	$ 90,932,780

	2017	2016
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 222,591,801	$ 218,152,251
Payments to suppliers and contractors	(86,517,399)	(82,659,376)
Payments to employees	(120,944,706)	(130,877,717)
Other receipts and payments, net	4,092,304	2,826,981
Net cash provided by operating activities	19,222,000	7,442,139
Cash flows from noncapital financing activities:		
Noncapital grants and contributions	1,089,842	1,020,495
Other receipts and payments, net	(391,291)	(692,122)
Payments for Foundation operations	(547,354)	(274,107)
Net cash provided by noncapital financing activities	151,197	54,266
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	30,885,000	-
Principal paid on long-term debt	(31,975,000)	(1,020,000)
Interest paid on long-term debt	(1,423,188)	(1,032,593)
Purchase of capital assets	(10,967,454)	(8,088,979)
Net cash used by capital and related financing activities	(13,480,642)	(10,141,572)
Cash flows from investing activities:		
Increase (decrease) in assets limited as to use, net of earnings and fees	(537,572)	5,803,924
Net cash provided (used) by investing activities	(537,572)	5,803,924
Increase in cash and cash equivalents	5,354,983	3,158,757
Cash and cash equivalents, beginning of year	12,483,886	9,325,129
Cash and cash equivalents, end of year	$ 17,838,869	$ 12,483,886

(Continued)

	2017	2016
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (5,620,139)	$ 1,052,820
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	13,198,299	13,129,069
Provision for bad debts	28,531,538	29,040,015
Pension deferrals	785,786	(2,640,715)
Change in net operating assets and liabilities:		
Patient accounts receivable	(27,447,266)	(30,153,770)
Other receivables, net	(15,050)	201,072
Drugs and supplies and prepaid expenses	2,444,138	(1,119,256)
Estimated third-party payor settlements	7,851,852	(355,286)
Accounts payable	1,862,351	(1,455,336)
Accrued liabilities and other liabilities	(2,369,509)	(256,474)
Net cash provided by operating activities	$ 19,222,000	$ 7,442,139
Noncash transactions:		
Capital assets acquired through accounts payable	$ 554,970	$ 458,020

1. Organization and 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 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*, TRMC, ERHS, and the Foundation are shown using a blended presentation; that is, the activity of TRMC, 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 TRMC, 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 and assumptions.

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, 2017 and 2016, the Center's deposits had a carrying amount of approximately $19,542,000 and $13,991,000, respectively, and bank balances of approximately $21,929,000 and $16,824,000, respectively. The Center had cash on hand of approximately $4,000 at September 30, 2017 and 2016, respectively.

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 donors for specific activities or capital acquisitions.

Investments

Investments in debt securities are reported at fair value. Investment income, including both realized and unrealized gains and losses, is included in nonoperating revenue (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.

Deferred Inflows and Outflows

Deferred inflows and outflows of resources represent a consumption or acquisition of net position that applies to a future period. The Center has pension deferrals that result from the implementation of GASB Statement 68.

Net Position

Net position is classified in four components. *Net investment in capital assets* consists 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 unconditional promises beyond one year are discounted to their present value using treasury rates (1.16% as of September 30, 2016) consistent with the life of the pledge. There was no discount recorded in the combined financial statements for the year ended September 30, 2017.

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 on the accompanying combined statements of net position and in nonoperating revenues on the accompanying combined 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 service 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.

Charges excluded from revenue under the Center's charity care policy were approximately $19,970,000 and $20,103,000 in 2017 and 2016, 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 $5,565,000 and $5,629,000 for 2017 and 2016, respectively.

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, 2017 and 2016.

Risk Management

The Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled clams have not exceeded this commercial insurance coverage in preceding years.

2. Deposits and Investments

The Center's investments are reported at fair value, as discussed in Note 1, and included in the assets limited as to use on the combined statements of net position. At September 30, 2017 and 2016, the Center had the following investments:

September 30, 2017		**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.	$ 8,357,894	$ -	$ 8,303	$ 354,054	$ 7,995,537
Federal National Mortgage Association	22,054,929	16	19,261	218,093	21,817,559
Government National Mortgage Association	22,676,628	-	67,300	1,215,847	21.393,481
U.S. Treasury Securities	5,614,196	2,871,385	1,829,204	221,557	692,050
Total investments	$ 58,703,647	$ 2,871,401	$ 1,924,068	$ 2,009,551	$ 51,898,627

September 30, 2016		**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.	$ 9,395,006	$ -	$ 20,276	$ 249,586	$ 9,125,144
Federal National Mortgage Association	20,902,373	466	8,537	292,474	20,600,896
Government National Mortgage Association	25,461,560	-	-	817,201	24,644,359
U.S. Treasury Securities	2,901,542	546,132	2,355,410	-	-
Total investments	$ 58,660,481	$ 546,598	$ 2,384,223	$ 1,359,261	$ 54,370,399

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.

All investments in are U.S. Government Obligations and Agencies or those obligations explicitly guaranteed by the U.S. Government. As of September 30, 2017 and 2016, 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 U.S. Government, and its agencies or instrumentalities, and unless the investment committee approves. As of September 30, 2017, 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 on the Center's combined statements of net position are as follows:

	2017	2016
Carrying amount:		
Deposits	$ 19,542,372	$ 13,991,486
Investments	58,703,647	58,660,481
Total	$ 78,246,019	$ 72,651,967
Included in the following combined statements of net position captions:		
Cash and cash equivalents	$ 17,838,869	$ 12,483,886
Assets limited as to use	60,407,150	60,168,081
	$ 78,246,019	$ 72,651,967

Assets limited as to use include assets designated by the Center for the following for the years ended September 30, 2017 and 2016:

	2017	2016
Capital acquisitions over which the Center has control	$ 58,703,647	$ 58,660,481
Nursing and other health scholarships	128,031	97,873
Principal of a permanent endowment	651,249	615,110
Restricted by donor for specific activities or capital acquisitions	924,223	794,617
	$ 60,407,150	$ 60,168,081

Investment income (loss), net, for assets limited as to use and cash equivalents are comprised of the following for the years ended September 30, 2017 and 2016:

	2017	2016
Interest and dividend income	$ 3,405,689	$ 3,351,220
Realized losses on sales of investments, net	(1,773,277)	(1,601,994)
Unrealized losses on investments, net	(1,481,366)	(18,383)
Custodian fees	(449,549)	(439,777)
Investment income (loss), net	$ (298,503)	$ 1,291,066

3. Fair Value of Financial Instruments

The Fair Value Measurements and Application Standard addresses accounting and financial reporting issues related to fair value measurements. The standard describes fair value as an exit price. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The statement establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets or liabilities, inputs that are observable for the asset or liability, and market-corroborated inputs. Level 3 inputs are unobservable inputs and take into account all information about market participant assumptions that are reasonably available. The Center categorizes its fair value measurements within the fair value hierarchy established by this standard.

For assets carried at fair value, the following table provides fair value information as of September 30, 2017 and 2016:

	Fair value measurements at September 30, 2017 using			
	Fair value at September 30, 2017	Quoted prices In active markets for identical assets and liabilities (Level 1)	Quoted prices for similar assets and liabilities (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level				
US Treasury & Agencies	$ 58,703,647	$ 58,703,647	$ -	$ -

	Fair value measurements at September 30, 2016 using			
	Fair value at September 30, 2016	Quoted prices In active markets for identical assets and liabilities (Level 1)	Quoted prices for similar assets and liabilities (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level				
US Treasury & Agencies	$ 58,660,481	$ 58,660,481	$ -	$ -

Assets whose use is limited, described in Note 2, are held at fair value and included in the table above except cash and cash equivalents totaling approximately $1,704,000 and $1,508,000 at September 30, 2017 and 2016, respectively. Money markets accounts and US Treasury and Agencies classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

4. Accounts Receivable and Accounts Payable

Patient accounts receivable reported as current assets by the Center consisted of the following as of September 30, 2017 and 2016:

Accounts Receivable	**2017**	**2016**
Receivable from patients	$ 6,658,264	$ 4,774,594
Receivable from third-party payors and others	7,134,080	8,853,671
Receivable from Medicare	13,050,472	12,087,423
Receivable from Medicaid	4,296,654	5,346,869
Total patient accounts receivable	31,139,470	31,062,557
Less: allowance for uncollectible accounts	(5,007,763)	(3,846,578)
Patient accounts receivable, net	$ 26,131,707	$ 27,215,979

Accounts payable (including accrued expenses) reported as current liabilities by the Center consisted of the following as of September 30, 2017 and 2016:

Accounts Payable and Accrued Expenses	**2017**	**2016**
Payable to suppliers and others	$ 10,538,627	$ 8,079,433
Payable to employees (including payroll taxes)	11,786,744	12,418,421
Total accounts payable and accrued expenses	$ 22,325,371	$ 20,497,854

5. Capital Assets

Capital asset additions, retirements, transfers and balances for the years ended September 30, 2017 and 2016 were as follows:

	Balance September 30, 2016	**Additions**	**Retirements & Transfers**	**Balance September 30, 2017**
Land	$ 706,617	$ -	$ -	$ 706,617
Land improvements	2,459,589	95,135	-	2,554,724
Buildings	94,555,047	584,295	1,876,943	97,016,285
Equipment	129,639,704	3,481,758	2,204,800	135,326,262
Totals at historical cost	227,360,957	4,161,188	4,081,743	235,603,888
Less accumulated depreciation:				
Land improvements	(2,243,028)	(32,551)	-	(2,275,579)
Buildings	(64,665,202)	(4,302,976)	-	(68,968,178)
Equipment	(100,375,921)	(8,862,772)	39,633	(109,199,060)
Total accumulated depreciation	(167,284,151)	(13,198,299)	39,633	(180,442,817)
Construction in progress	2,255,254	7,361,236	(4,121,376)	5,495,114
Capital assets, net	$ 62,332,060	$ (1,675,875)	$ -	$ 60,656,185

	Balance September 30, 2015	Additions	Retirements & Transfers	Balance September 30, 2016
Land	$ 654,617	$ -	$ 52,000	$ 706,617
Land improvements	2,429,665	-	29,924	2,459,589
Buildings	92,202,379	203,118	2,149,550	94,555,047
Equipment	121,145,634	2,154,371	6,339,699	129,639,704
Totals at historical cost	216,432,295	2,357,489	8,571,173	227,360,957
Less accumulated depreciation:				
Land improvements	(2,183,825)	(30,538)	(28,665)	(2,243,028)
Buildings	(59,548,514)	(4,293,623)	(823,065)	(64,665,202)
Equipment	(92,421,161)	(8,804,908)	850,148	(100,375,921)
Total accumulated depreciation	(154,153,500)	(13,129,069)	(1,582)	(167,284,151)
Construction in progress	4,635,335	6,189,510	(8,569,591)	2,255,254
Capital assets, net	$ 66,914,130	$ (4,582,070)	$ -	$ 62,332,060

At September 30, 2017, the Center has a signed contract for approximately $16,664,000 for various projects of which approximately $12,811,000 remains to be expended through 2019.

6. Long-Term Debt

A schedule of changes in the Center's long-term debt for 2017 and 2016 follows:

	September 30, 2016	Additions	Reductions	September 30, 2017	Current Portion
2009 bonds	$ 7,545,000	$ -	$ (7,545,000)	$ -	$ -
2012 bonds	24,430,000	-	(24,430,000)	-	-
2017A bonds	-	6,680,000	-	6,680,000	265,000
2017B bonds	-	24,205,000	-	24,205,000	525,000
	$ 31,975,000	$ 30,885,000	$ (31,975,000)	$ 30,885,000	$ 790,000

	September 30, 2015	Additions	Reductions	September 30, 2016	Current Portion
2009 bonds	$ 8,155,000	$ -	$ (610,000)	$ 7,545,000	$ 615,000
2012 bonds	24,840,000	-	(410,000)	24,430,000	445,000
	$ 32,995,000	$ -	$ (1,020,000)	$ 31,975,000	$ 1,060,000

During fiscal year ended September 30, 2017, the Center issued South Carolina Jobs-Economic Development Authority Fixed Rate Hospital Revenue Bond Series 2017A (the "2017A Bonds") in the principal amount of $6,680,000 for the purpose of refunding the 2009 Bonds. The 2017A Bond principal payments are due annually through 2028 in amounts ranging from $265,000 to $650,000. The interest rate on the 2017A Bonds is fixed at 2.35% per annum. Interest is payable monthly. The gross receipts of the Center are pledged as security on the 2017A Bonds.

During fiscal year ended September 30, 2017, the Center issued South Carolina Jobs-Economic Development Authority Fixed Rate Hospital Revenue Bond Series 2017B (the "2017B Bonds") in the principal amount of $24,205,000 for the purpose of refunding the 2012 Bonds. The 2017B Bond principal payments are due annually through 2037 in amounts ranging from $525,000 to $2,070,000. The interest rate on the 2017B Bonds is fixed at 2.86% per annum. Interest is payable monthly. The gross receipts of the Center are pledged as security on the 2017B Bonds.

During fiscal year ended September 30, 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 not to exceed $25,000,000 for the purpose of financing an expansion to the Center's facilities. The 2012 bonds were refunded as of September 30, 2017 by the 2017B Bonds.

During fiscal year ended September 30, 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 year ended September 30, 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 were refunded as of September 30, 2017 by the 2017A Bonds.

Under the terms of the 2017A and 2017B 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, 2017, and until maturity are as follows:

	Long-Term Debt	
Year Ending September 30:	**Principal**	**Interest**
2018	$ 790,000	$ 827,831
2019	1,205,000	828,815
2020	1,250,000	798,887
2021	1,295,000	763,263
2022	1,310,000	728,874
2023 – 2027	7,040,000	3,108,869
2028 – 2032	8,290,000	2,060,976
2033 – 2037	9,705,000	768,302
Total	$ 30,885,000	$ 9,885,817

7. 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 Center 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, 2013.

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, 2012.

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 program accounted for approximately 54% and 51% of the Center's net patient service revenue for the years ended 2017 and 2016, respectively. Revenue from the Medicaid program accounted for approximately 16% and 15% of the Center's net patient service revenue for the years ended 2017 and 2016, respectively. 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 2017 and 2016 net patient service revenue increased by approximately $2,173,000 and $1,657,000, 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:

	2017	2016
Gross patient service charges at established rates, net of charity care	$ 790,483,353	$ 824,885,772
Deductions:		
Contractual adjustments	(548,296,138)	(576,224,465)
Provision for bad debts	(28,531,538)	(29,040,015)
	(576,827,676)	(605,264,480)
Net patient service revenue	$ 213,655,677	$ 219,621,292

The Center qualified for disproportionate share payments from the South Carolina Medicaid Program ("Medicaid DSH") through September 30, 2017 and 2016. The Center received quarterly lump-sum payments totaling approximately $13,515,000 and $8,526,000 for the years ended September 30, 2017 and 2016, respectively. These amounts are reflected as a reduction of Medicaid contractual adjustments. TRMC also received an additional payment of $3,600,000 for the year ended September 30, 2017 to help support a free standing emergency department in Denmark, SC. Medicaid DSH contains a provision requiring the repayment of disproportionate funds received if the participating hospital is determined to be ineligible. The Center is also subject to audits performed by the South Carolina Medicaid Program and could have repayments due to Medicaid

DSH as a result of the audits which may result in significant impacts to net patient service revenue in the year of recognition.

The South Carolina Department of Health and Human Services ("SCDHHS") has selected the option to redistribute all Medicaid DSH funds for fiscal year (FY) 2012 and forward to/from all hospitals participating in the Medicaid DSH program based on final audit results. In August 2017, the Center received notification from SCDHHS regarding an overpayment for the Medicaid State Plan Year October 1, 2012 through September 30, 2013 for the Medicaid DSH program. The amount recouped in 2017 is approximately $2,423,000. Several factors contributed to the need for recoupment including a decline in the Center's cost to charge ratio, as well as changes and/or corrections to other South Carolina hospitals' reported uninsured and Medicaid charges. In April 2016, the Center received notification from SCDHHS regarding an overpayment for the Medicaid State Plan Year October 1, 2011 through September 30, 2012 for the Medicaid DSH program. The amount recouped in 2016 is approximately $1,918,000. Several factors contributed to the need for recoupment including a decline in the Center's cost to charge ratio, as well as changes and/or corrections to other South Carolina hospitals' reported uninsured and Medicaid charges.

The Center has reserved approximately $8,115,000 related to Medicaid DSH as of the years ended September 30, 2017. The 2017 reserve relates to anticipated redistributions related to FY 2013 to FY 2015.

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 $- and $954,000 of revenues related to EHR incentive reimbursements for the years ended September 30, 2017 and 2016, respectively. These revenues are reflected in other operating revenues on the accompanying combined 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.

8. Operating Leases

The Center leases medical and business equipment under operating leases expiring at various dates through 2021. Total rent expense in 2017 and 2016 for all operating leases was approximately $2,259,000 and $2,665,000, respectively.

The following is a schedule by year of future remaining lease payments under operating leases at September 30, 2017, that have initial remaining lease terms in excess of one year.

2018	$ 1,398,763
2019	942,460
2020	741,476
2021	160,695
	$ 3,243,394

9. Pension Plans

Pension Plan Description

The Plan is a single-employer defined benefit pension plan, which provides for retirement, death, and disability benefits to plan participants and beneficiaries. The Center reserves the right to amend the Plan at any time. If the Plan is terminated, the Plan assets will be distributed among the plan participants based upon a priority allocation procedure. The Center shall be liable for any unfunded vested benefits to the extent required by law.

Effective January 1, 2010, the Plan was amended to permanently suspend benefit accruals. No additional benefits accrue under the Plan for service on and after January 1, 2010. However, employees continue to accrue years of service for the purposes of qualifying for vesting, early retirement, and normal retirement.

The plan year is from October 1 to September 30 and actuarial assumptions and other information is presented based on plan years ended September 30, 2016 and 2015.

Pension Benefits

Participants with five or more years of service, as defined by the Plan, are entitled to pension benefits upon retirement when they meet the requirements of the Plan. If employees terminate before rendering five years of continuous service, they forfeit the right to receive pension benefits upon retirement. Pension benefits are provided to participants under several types of retirement options based upon years of service and age. Retirement benefits are paid to pensioners or beneficiaries in various forms of joint and survivor annuities, including a lump-sum payment option if the value is less than $5,000.

Death and Disability Benefits

In the event of a vested employee’s death, his or her designated beneficiary will be entitled to receive a survivor benefit equal to 50% of the participant’s accrued benefit (survivor annuity), according to Plan provisions. The survivor benefit commences on the earliest date that the deceased participant could have elected to receive retirement benefits. If a participant becomes disabled, he or she may elect disability retirement. Disabled participants are eligible for early retirement when the benefits under the Center’s long-term disability insurance expire.

Employees Covered by Benefit Terms

The following employees were covered by the benefit terms as of October 1, 2016 and 2015:

	2016	2015
Active employees	663	733
Inactive participants entitled to future benefits	605	588
Inactive participants receiving benefits	393	360
Beneficiaries receiving benefits	43	41
Disabled participants receiving benefits	6	6
	1,710	1,728

Contributions

Contributions to provide benefits under the Plan are made solely by the Center. The entire cost of the Plan is borne by the Center. Plan members are not required to contribute to the Plan. The Center contributes at an actuarially determined rate under the Plan sponsor's funding policy for the Plan year. The Center contributed approximately $4,341,000 in the fiscal year ended September 30, 2017 which is included in deferred outflows on the combined statement on net position.

Although it has not expressed any intent to do so, the Center has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth under ERISA.

Net Pension Liability

The most recent annual actuarial valuation reports are as of October 1, 2016. The net pension liability of the defined benefit pension plan was therefore determined based on the October 1, 2016 actuarial valuations, using membership data as of October 1, 2016, projected forward to the end of the fiscal year, and financial information of the pension funds as of October 1, 2016, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by the Center's consulting actuary.

For the years ended September 30, 2017 and 2016, the Center recognized pension expense of approximately $3,228,000 and $3,290,000, respectively.

The following represents the changes in the net pension liability as of September 30, 2017:

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at September 30, 2016	$ 77,161,089	$ 41,509,407	$ 35,651,682
Changes for the year:			
Interest	5,178,815	-	5,178,815
Differences between expected and actual experience	(631,443)	(588,514)	(42,929)
Contributions - employer	-	4,057,113	(4,057,113)
Return on assets	-	2,905,658	(2,905,658)
Benefits paid	(4,057,113)	(4,057,113)	-
Net changes	490,259	2,317,144	(1,826,885)
Balances at September 30, 2017	$ 77,651,348	$ 43,826,551	$ 33,824,797

Sensitivity Analysis

The following represents the sensitivity of the total pension liability and the net pension liability to changes in the interest rate based on values as of October 1, 2016:

	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
Total pension liability	$ 88,184,885	$ 77,651,348	$ 69,070,122
Fiduciary net position	43,826,551	43,826,551	43,826,551
Net pension liability	$ 44,358,334	$ 33,824,797	$ 25,243,571
Funded %	49.7%	56.4%	63.5%

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The total pension liability in the October 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	7.0%
Inflation	2.5%
Expected return on plan assets	7.0%
Mortality	RP-2014 Total Dataset Mortality Table with MP-2015 Projection Scale

The discount rate adopted by the Center for valuing plan liabilities was determined by the methods prescribed under applicable guidance which requires the use of a long term rate of return on plan assets, unless a projection of the net fiduciary position will not be sufficient to provide for projected benefit payments of the covered current and former employees.

The projected return on plan assets and inflation assumptions are developed through review of current and historical capital markets data and historical performance of investment strategies. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of September 30, 2017 are summarized in the following table:

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return
Bonds	52.0%	4.25%
Equities	48.0%	10.00%
	100.0%	

Deferred Inflows and Outflows of Resources Related to Pensions

At September 30, 2017, the Center reported deferred inflows and outflows of resources related to pensions from the following sources:

	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference between expected and actual experience	$ -	$ 285,121
Difference between expected and actual return on plan assets	-	2,424,415
Funding method change	(533,929)	450,225
Contributions made after measurement date	-	4,340,533
	$ (533,929)	$ 7,500,294

The amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2018	$ 5,295,815
2019	947,603
2020	605,244
2021	117,703
Net Balance of Deferred Outflows of Resources	$ 6,966,365

Other Plans

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 $678,000 and $646,000 to the retirement and savings plan for the years ended September 30, 2017 and 2016, 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 defined 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 $2,082,000 and $2,245,000 for the years ended September 30, 2017 and 2016.

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, 2017. 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 $1,000,000 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, 2017 and 2016, the Center has recorded an accrual for incurred but not reported claims of approximately $1,096,000 and $1,419,000, respectively.

Workers' Compensation

The Center has a high-deductible insurance policy under which the Center is responsible for the first $100,000 of cost on each claim, and is fully covered for any claim over the deductible amount. At September 30, 2017 and 2016, the Center has recorded an accrual for expected future claim costs of approximately $460,000 and $386,000, 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.

11. Unconditional Promises to Give

Unconditional promises to give are included in other receivables on the accompanying combined statements of net position and consisted of the following at September 30, 2017 and 2016:

	2017	2016
Receivable in less than one year	$ 1,003,829	$ 840,036
Receivable in one to five years	148,471	552,673
Discount to net present value	-	(16,118)
Allowance for uncollectible pledges	(54,871)	(69,635)
	$ 1,097,429	$ 1,306,956

12. 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. For the years ended September 30, 2017 and 2016, the Center recognized approximately $2,290,000 and $3,369,000, respectively, in reduction of professional fees in the combined statements of revenues, expenses, and changes in net position.

13. Subsequent Events

Subsequent events have been evaluated through January 23, 2018, 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
Schedules of Required Supplemental Information
Schedules of Changes in Net Pension Liability and Related Ratios

	September 30, 2017	September 30, 2016	September 30, 2015	September 30, 2014
Total pension liability:				
Interest	$ 5,178,815	$ 5,178,815	$ 5,095,316	$ 4,846,904
Differences between expected and actual experience	(631,443)	1,051,521	159,276	(517,200)
Assumption changes	-	-	-	3,672,658
Benefits paid	(4,057,113)	(3,718,954)	(3,227,024)	(2,985,743)
Administrative expenses	-	-	(168,342)	-
Net change in total pension liability	490,259	2,511,382	1,859,226	5,016,619
Total pension liability - beginning	77,161,089	74,649,707	72,790,481	67,773,862
Total pension liability - ending (a)	$ 77,651,348	$ 77,161,089	$ 74,649,707	$ 72,790,481
Plan fiduciary net position:				
Contributions - employer	$ 4,057,113	$ 3,718,954	$ 3,227,024	$ 2,985,743
Return on plan assets	2,905,658	2,905,658	2,750,999	2,800,793
Benefits paid	(4,057,113)	(3,718,954)	(3,227,024)	(2,985,743)
Difference between expected and actual	(588,514)	(2,246,640)	(1,583,246)	(3,102,727)
Administrative expenses	-	-	(26,755)	-
Net change in plan fiduciary net position	2,317,144	659,018	1,140,998	(301,934)
Total plan fiduciary net position - beginning	41,509,407	40,850,389	39,709,391	40,011,325
Total plan fiduciary net position - ending (b)	$ 43,826,551	$ 41,509,407	$ 40,850,389	$ 39,709,391
Net pension liability - ending (a) - (b)	$ 33,824,797	$ 35,651,682	$ 33,799,318	$ 33,081,090
Plan fiduciary net position as a percentage of the total pension liability	56.44%	53.80%	54.72%	54.55%
Covered-employee payroll	$ 37,437,572	$ 47,176,672	$ 53,720,277	$ 57,173,662
Net pension liability as a percentage of covered-employee payroll	90.35%	75.57%	62.92%	57.86%

	September 30, 2017	September 30, 2016	September 30, 2015	September 30, 2014
Actuarially determined contribution	$ 4,300,126	$ 3,734,542	$ 2,520,078	$ 2,090,919
Contributions in relation to the actuarially determined contribution	4,057,113	4,078,654	3,718,954	3,227,024
Contribution deficit (excess)	$ 243,013	$ (344,112)	$ (1,198,876)	$ (1,136,105)
Covered-employee payroll	$ 37,437,572	$ 47,176,672	$ 53,720,277	$ 57,173,662
Contributions as a percentage of covered-employee payroll	10.84%	8.65%	6.92%	5.64%

Notes to Schedule:

Measurement date	October 1, 2016
Valuation date	October 1, 2016
Salary increases	N/A, plan frozen in 2010
Discount rate	7.00%
Expected rate of return on plan assets	7.00%
Inflation rate	2.5%
Mortality	RP-2014 Total Dataset Mortality Table with MP-2015 Projection Scale

Supplemental Information

The Regional Medical Center of Orangeburg and Calhoun Counties
Combining Statement of Net Position Information
September 30, 2017

	The Medical Center	ERHS	Foundation	Combined Total	Eliminating Entries	Combined Total
Assets and Deferred Outflows						
Current assets:						
Cash and cash equivalents	$ 17,354,584	$ 228,717	$ 255,568	$ 17,838,869	$ -	$ 17,838,869
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately $5,008,000	25,639,247	492,460	-	26,131,707	-	26,131,707
Drugs and supplies	4,397,002	-	-	4,397,002	-	4,397,002
Other receivables, net	348,277	4,388	1,003,829	1,356,494	-	1,356,494
Prepaid expenses	1,888,867	45,004	-	1,933,871	-	1,933,871
Estimated third-party payor settlements	568,373	-	-	568,373	-	568,373
Total current assets	50,196,350	770,569	1,259,397	52,226,316	-	52,226,316
Assets limited as to use	58,949,789	-	1,457,361	60,407,150	-	60,407,150
Due from affiliate	30,612,497	-	-	30,612,497	(30,612,497)	-
Capital assets, net	60,298,983	357,202	-	60,656,185	-	60,656,185
Other receivables, net	-	-	93,600	93,600	-	93,600
Total assets	200,057,619	1,127,771	2,810,358	203,995,748	(30,612,497)	173,383,251
Deferred outflows:						
Pension deferrals	7,500,294	-	-	7,500,294	-	7,500,294
Total deferred outflows	7,500,294	-	-	7,500,294	-	7,500,294
Total assets and deferred outflows	$ 207,557,913	$ 1,127,771	$ 2,810,358	$ 211,496,042	$ (30,612,497)	$ 180,883,545

(Continued)

Liabilities, Deferred Inflows, and Net Position	The Medical Center	ERHS	Foundation	Combined Total	Eliminating Entries	Combined Total
Current liabilities:						
Current maturities of long-term debt	$ 790,000	$ -	$ -	$ 790,000	$ -	$ 790,000
Accounts payable	10,408,283	83,164	-	10,491,447	-	10,491,447
Accrued salaries and wages	3,794,287	256,212	-	4,050,499	-	4,050,499
Accrued vacation	5,861,500	318,689	-	6,180,189	-	6,180,189
Accrued employee medical	1,465,359	90,697	-	1,556,056	-	1,556,056
Other accrued expenses	47,180	-	-	47,180	-	47,180
Estimated third-party payor settlements	9,525,121	-	-	9,525,121	-	9,525,121
Total current liabilities	31,891,730	748,762	-	32,640,492	-	32,640,492
Due to affiliate	-	30,612,497	-	30,612,497	(30,612,497)	-
Net pension liability	33,824,797	-	-	33,824,797	-	33,824,797
Long-term debt, net of current maturities	30,095,000	-	-	30,095,000	-	30,095,000
Total liabilities	95,811,527	31,361,259	-	127,172,786	(30,612,497)	96,560,289
Deferred inflows:						
Pension deferrals	533,929	-	-	533,929	-	533,929
Total deferred inflows	533,929	-	-	533,929	-	533,929
Net position:						
Net investment in capital assets	29,413,983	357,202	-	29,771,185	-	29,771,185
Restricted for:						
Nonexpendable	30,000	-	651,249	681,249	-	681,249
By donor for specific activities or capital acquisitions	227,642	-	1,903,541	2,131,183	-	2,131,183
Unrestricted	81,540,832	(30,590,690)	255,568	51,205,710	-	51,205,710
Total net position	111,212,457	(30,233,488)	2,810,358	83,789,327	-	83,789,327
Total liabilities, deferred inflows, and net position	$ 207,557,913	$ 1,127,771	$ 2,810,358	$ 211,496,042	$ (30,612,497)	$ 180,883,545

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, 2017

	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 $28,532,000	$ 208,595,925	$ 5,059,752	$ -	$ 213,655,677	$ -	$ 213,655,677
Other	3,054,360	2,620,752	-	5,675,112	(2,353,544)	3,321,568
Total operating revenues	211,650,285	7,680,504	-	219,330,789	(2,353,544)	216,977,245
Operating expenses:						
Salaries and wages	93,374,097	6,230,406	-	99,604,503	-	99,604,503
Employee benefits	19,367,661	1,340,865	-	20,708,526	-	20,708,526
Supplies	35,163,647	374,235	-	35,537,882	-	35,537,882
Professional fees and services	35,936,044	823,054	-	36,759,098	(2,353,544)	34,405,554
Other	18,471,238	671,382	-	19,142,620	-	19,142,620
Depreciation	13,148,069	50,230	-	13,198,299	-	13,198,299
Total operating expenses	215,460,756	9,490,172	-	224,950,928	(2,353,544)	222,597,384
Operating loss	(3,810,471)	(1,809,668)	-	(5,620,139)	-	(5,620,139)
Nonoperating revenues (expenses):						
Investment income (loss), net	(341,021)	-	42,518	(298,503)	-	(298,503)
Noncapital grants and contributions	732,739	-	357,103	1,089,842	-	1,089,842
Foundation expenses	-	-	(547,354)	(547,354)	-	(547,354)
Other	(391,291)	-	-	(391,291)	-	(391,291)
Interest expense	(1,376,008)	-	-	(1,376,008)	-	(1,376,008)
Total nonoperating expenses	(1,375,581)	-	(147,733)	(1,523,314)	-	(1,523,314)
Decrease in net position	(5,186,052)	(1,809,668)	(147,733)	(7,143,453)	-	(7,143,453)
Net position (deficit), beginning of the year	116,398,509	(28,423,820)	2,958,091	90,932,780	-	90,932,780
Net position (deficit), end of the year	$ 111,212,457	$ (30,233,488)	$ 2,810,358	$ 83,789,327	$ -	$ 83,789,327

	2017	2016
Management service contracts	$ 945,053	$ 1,153,798
Utilities	3,055,355	3,097,419
Sales tax	2,018,143	1,929,488
Insurance	1,476,967	1,634,979
Advertising	255,292	222,027
License tax	4,592,754	4,569,464
Rental expense	2,258,859	2,664,755
Minor equipment	282,512	284,058
Repairs	297,300	397,398
Recruiting	739,809	812,253
Employee recognition	83,563	98,422
Memberships and dues	363,080	326,799
Freight and shipping	386,848	362,177
Travel and education	772,535	745,276
Computers and software	54,578	40,773
Books and subscriptions	891,147	805,999
Microfilming and storage	67,719	50,364
Uniforms	36,780	41,292
Bank charges	129,543	132,332
Pest control	40,838	35,409
Hazardous waste disposal	155,547	180,501
Auto	7,212	11,461
Vendor contract fees	123,791	125,635
Miscellaneous	107,395	173,216
Total	$ 19,142,620	$ 19,895,295

The Regional Medical Center of Orangeburg and Calhoun Counties
Combined Schedules of Professional Fees and Services Information
For the Years Ended September 30, 2017 and 2016

	2017	2016
Outside services	$ 13,675,788	$ 8,203,708
Physician fees	4,399,487	4,690,067
Contract labor	6,527,590	3,151,435
Maintenance Contracts	5,706,610	5,067,681
Collection expenses	1,856,962	1,925,928
Legal expenses	672,670	437,180
Consultants	658,920	1,113,367
Management contract - Quorum	814,778	776,848
Audit fees	92,749	91,010
Total	$ 34,405,554	$ 25,457,224