SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

Combined Financial Statements

September 30, 2014 and 2013

(with Independent Auditors' Report thereon)

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

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September 30, 2014 and 2013

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Independent Auditors' Report

The Board of Directors
Spartanburg Regional Health Services District, Inc.
Spartanburg, South Carolina

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Spartanburg Regional Health Services District, Inc. (the "District"), which comprise the combined balance sheets as of September 30, 2014 and 2013, 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 and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from 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 auditors' 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 District'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 District'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 Spartanburg Regional Health Services District, Inc. as of September 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – New Accounting Pronouncement

As discussed in Note 1 to the combined financial statements, during the year ended September 30, 2014, the District adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statement No. 65. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 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 supplementary 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
January 28, 2015

Spartanburg Regional Health Services District, Inc.

Management's Discussion and Analysis

Years Ended September 30, 2014 and 2013

This section of Spartanburg Regional Health Services District, Inc.'s (the "District") combined financial statements presents management's analysis of the District's financial performance during the fiscal year that ended on September 30, 2014. Please read it in conjunction with the combined financial statements, which follow this section.

Financial Highlights

Some highlights of the District's financial position in fiscal year 2014 include:

- Net patient service revenues increased from fiscal year 2013 to 2014 by approximately $112.7 million or 14.8% primarily due to volume increases, new services, and participation in the Medicaid Upper Payment Limit program ("UPL"). Premium revenues of approximately $73.4 million were earned during 2014 as Advicare, Corp. ("Advicare"), a Medicaid managed care organization, began its first year of operations.

- Operating expenses increased from fiscal year 2013 to fiscal year 2014 by $171.9 million or 22.2% primarily due to an increase in salaries and benefit expenses, supply expenses and other expenses. Other expenses increased approximately $118.2 million primarily due to the addition of medical claims expense incurred by Advicare of approximately $64.9 million and UPL expense of approximately $39.1 million. Salaries and benefit expenses increased approximately $39.7 million primarily due to the addition of full time employees, wage merit increases, market adjustments, and increased health insurance expenses. Supplies increased approximately $14.0 million primarily due to an increase in pharmaceutical costs of approximately $7.6 million.

- Net nonoperating revenues increased by $5.2 million from fiscal year 2013 to fiscal year 2014 primarily due to an increase in net investment income. For the year ended September 30, 2014, the District recognized a net unrealized gain on investments and assets whose use is limited of approximately $0.8 million. This is an increase of approximately $6.7 million from the prior year.

- From fiscal year 2013 to fiscal year 2014, the District's cash and cash equivalents, short term investments, and board designated cash and investments increased by $12.2 million or 3.9%.

Overview of the Combined Financial Statements

The combined financial statements consist of two parts: Management's Discussion and Analysis and the Required Basic Combined Financial Statements. The required basic combined financial statements also include notes that explain in more detail some of the information in the combined financial statements.

Required Basic Combined Financial Statements

The District uses accounting methods similar to those used by private sector companies. These combined financial statements offer short-term and long-term financial information about its activities. The Combined Balance Sheets include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. These combined financial statements also provide the bases for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

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 combined statements measure the performance of the District's operations for the years ended September 30, 2014 and 2013.

The final required statements are the Combined Statements of Cash Flows. The primary purpose of these combined statements is to provide information about the District's cash receipts and cash payments during the reporting period. The statements report cash receipts, cash payments, and net changes in cash resulting from operating, investing, noncapital financing, and capital and related financing activities and information concerning sources and uses of cash.

Financial Analysis

Table A-1

Condensed Combined Balance Sheets (In Thousands of Dollars)

	Fiscal Year 2014	Fiscal Year 2013 (As Adjusted)	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Current assets	**$ 292,477**	$ 201,492	$ 90,985	45.16%
Capital assets, net	**421,856**	418,420	3,436	0.82%
Other long-term assets	**254,482**	264,780	(10,298)	(3.89)%
Total assets	**968,815**	884,692	84,123	9.51%
Deferred outflows	**8,952**	10,030	(1,078)	(10.75)%
Total assets & deferred outflows	**$ 977,767**	$ 894,722	$ 83,045	9.28%

Current liabilities	**$ 160,412**	$ 106,082	$ 54,330	51.22%
Long-term liabilities	**228,809**	236,539	(7,730)	(3.27)%
Total liabilities	**389,221**	342,621	46,600	13.60%
Invested in capital assets, net	**181,205**	171,528	9,677	5.64%
Restricted	**6,141**	6,159	(18)	(0.29)%
Unrestricted	**401,200**	374,414	26,786	7.15%
Total net position	**588,546**	552,101	36,445	6.60%
Total liabilities & net position	**$ 977,767**	$ 894,722	$ 83,045	9.28%

As can be seen in Table A-1, net position increased approximately $36.4 million to approximately $588.5 million in fiscal year 2014. Total assets increased by approximately $84.1 million. Current assets increased approximately $91.0 million primarily due to increases in cash and cash equivalents, patient accounts receivable, and other current assets. Cash and cash equivalents increased approximately $25.9 million over the prior year. Patient accounts receivable increased from the prior year by approximately $4.8 million primarily due to increased volumes at Pelham Medical Center ("PMC") and new physician practices. Other current assets increased over the prior year approximately $59.9 million primarily due to a $60.1 million UPL receivable. Net capital assets increased approximately $3.4 million primarily due to the net activity of additions, deductions and depreciation. Total liabilities increased by approximately $46.6 million. Current liabilities increased by approximately $54.3 million over the prior year primarily due to a liability related to UPL of approximately $39.1 million. In addition, Advicare recorded a provision of approximately $7.8 million of incurred but not reported claims in its first year of operations. Long-term liabilities decreased approximately $7.7 million mainly due to the decrease in long-term debt of approximately $9.0 million, which was offset by an increase in capital lease obligations of approximately $2.1 million. Refer to Long-term Debt section below for more detail.

Financial Analysis

Table A-2

Condensed Combined Balance Sheets (In Thousands of Dollars)

	Fiscal Year 2013 (As Adjusted)	**Fiscal Year 2012 (As Adjusted)**	**Dollar Increase (Decrease)**	**Percentage Increase (Decrease)**
Current assets	**$ 201,492**	$ 215,289	$ (13,797)	(6.41)%
Capital assets, net	**418,420**	412,859	5,561	1.35 %
Other long-term assets	**264,780**	251,693	13,087	5.20%
Total assets	**$ 884,692**	$ 879,841	$ 4,851	0.55%

Table A-2 (continued)

Deferred outflows	**10,030**	11,108	(1,078)	(9.70)%
Total assets & deferred outflows	**$ 894,722**	$ 890,949	$ 3,773	0.42%
Current liabilities	**$ 106,082**	$ 109,535	$ (3,453)	(3.15)%
Long-term liabilities	**236,539**	247,831	(11,292)	(4.56)%
Total liabilities	**342,621**	357,366	(14,745)	(4.13)%
Invested in capital assets, net	**171,528**	155,359	16,169	10.41%
Restricted	**6,159**	4,642	1,517	32.68%
Unrestricted	**374,414**	373,582	832	0.22%
Total net position	**552,101**	533,583	18,518	3.47%
Total liabilities and net position	**$ 894,722**	$ 890,949	$ 3,773	0.42%

As can be seen in Table A-2, net position increased approximately $18.5 million to approximately $552.1 million in fiscal year 2013. Total assets increased by approximately $4.9 million. Other long-term assets increased by approximately $13.1 million primarily due to an increase in assets whose use is limited and goodwill, which increased approximately $6.9 million and $6.3 million, respectively, over the prior year. The increase in assets whose use is limited was due to an increase in plant fund cash as well as an increase the amount held by the District's trustee for debt service. Goodwill increased over the prior year from zero as result of the District's purchase of a Medicaid medical home network, PPC. Current assets decreased approximately $13.8 million primarily due to a decrease in cash and cash equivalents. Offsetting the decrease in cash and cash equivalents are increases in patient accounts receivable and other current assets. Patient accounts receivable has increased over the prior year by approximately $8.9 million primarily due to increased volumes at PMC, Gibbs Cancer Center and the new immediate care centers. Other current assets increased over the prior year approximately $8.4 million primarily due to a Medicare cost report receivable, electronic health records incentive receivables and a Medicaid teaching supplement receivable outstanding at September 30, 2013. Net capital assets increased approximately $5.6 million primarily due to the net activity of additions, deductions and depreciation. Total liabilities decreased by approximately $14.7 million. Current liabilities decreased by approximately $3.5 million over the prior year primarily due to the decrease in estimated third-party payor settlements. Long-term liabilities decreased approximately $11.3 million mainly due to the decrease in long-term debt of approximately $7.7 million.

<u>Table A-3</u>

Condensed Combined Statements of Revenues, Expenses, and Changes in Net position (In Thousands of Dollars)

	Fiscal Year 2014	Fiscal Year 2013 (As Adjusted)	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Net patient service revenues	**$ 872,296**	$ 759,552	$ 112,744	14.84%
Premium revenues	**73,391**	-	73,391	0.00%
Other revenues	**36,377**	37,932	(1,555)	(4.10)%
Total operating revenues	**982,064**	797,484	184,580	23.15%
Salaries, temporary personnel, and benefit expenses	**470,446**	430,757	39,689	9.21%
Supply expenses	**157,928**	143,940	13,988	9.72%
Other expenses	**319,552**	201,333	118,219	58.72%
Total operating expenses	**947,926**	776,030	171,896	22.15%
Operating income	**34,138**	21,454	12,684	59.12%
Net nonoperating revenues (expenses)	**2,307**	(2,936)	5,243	(178.58)%
Increase in net position	**36,445**	18,518	17,927	96.81%
Beginning net position	**552,101**	533,583	18,518	3.47%
Ending net position	**$ 588,546**	$ 552,101	$ 36,445	6.60%

Total operating revenues increased by approximately $184.6 million primarily due to the increase of net patient service revenue of $112.7 million and the addition of premium revenues of $73.4 million. The increase of net patient service revenues was due to volume increases, participation in UPL, and resolution of prior year Medicare and Medicaid cost report settlements. UPL increased net patient service revenue by approximately $60.1 million. During 2014, total operating revenues increased by approximately $184.6 million primarily due to the increase of net patient service revenue of $112.7 million and the addition of premium revenues of $73.4 million. The increase of net patient service revenues was due to volume increases and participation in UPL. The increase in net patient service revenue due to UPL is approximately $60.1 million. During 2014, Advicare began operations and earned premium revenue of approximately $73.4 million. The increase in total operating expenses of approximately $171.9 million over the prior year was due to increases in salaries and benefit expenses, supply expenses and other expenses. Salaries and benefit expenses increased approximately $39.7 million primarily due to the addition of full time employees, market adjustments, a two percent wage increase and increased health insurance expenses over the prior year. Supplies increased approximately $14.0 million primarily due to pharmaceutical costs and orthopedic supplies. Other expenses increased approximately $118.2 million primarily due to the addition of medical claims expense incurred by Advicare of approximately $64.9 million and UPL expense of approximately $39.1 million. In addition, other expenses include management and professional fees incurred by Advicare in its first year of operations. Net nonoperating revenues increased by $5.2 million compared to the prior year primarily due to an increase in net investment income.

Table A-4

Condensed Combined Statements of Revenues, Expenses, and Changes in Net position (In Thousands of Dollars)

	Fiscal Year 2013 (As Adjusted)	Fiscal Year 2012 (As Adjusted)	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Net patient service revenues	**$ 759,552**	$ 719,525	$ 40,027	5.56%
Other revenues	**37,932**	27,545	10,387	37.71%
Total operating revenues	**797,484**	747,070	50,414	6.75%
Salaries, temporary personnel, and benefit expenses	**430,757**	410,046	20,711	5.05%
Supply expenses	**143,940**	132,683	11,257	8.48%
Other expenses	**201,333**	184,524	16,809	9.11%
Total operating expenses	**776,030**	727,253	48,777	6.71%
Operating income	**21,454**	19,817	1,637	8.26%
Net nonoperating revenues (expenses)	**(2,936)**	1,413	(4,349)	(307.78)%
Increase in net position	**18,518**	21,230	(2,712)	(12.77)%
Beginning net position	**533,583**	512,353	21,230	4.14%
Ending net position	**$ 552,101**	$ 533,583	$ 18,518	3.47%

Total operating revenues increased by approximately $50.4 million primarily due to the increase of net patient service revenue of $40 million and an increase in other revenues of $10.4 million. This increase of net patient service revenue was primarily due to volume increases and resolution of prior year Medicare and Medicaid cost report settlements. The increase in other revenues was caused primarily by the electronic health record incentive revenue recognized by the physician practice network, revenue recognized under promissory note agreements as well as a settlement agreement and revenue recognized by the newly acquired Medicaid medical home network, PPC. Additionally, employee pharmacy drug sales increased over the prior year since fiscal year 2013 was its first full year of operations. The increase in total operating expenses of approximately $48.8 million over the prior year was due to increases in salaries and benefit expenses, supply expenses and other expenses. Salaries and benefit expenses increased approximately $20.7 million primarily due to the addition of full time employees, market adjustments, a two percent wage increase and increased health insurance expenses over the prior year. Supplies increased approximately $11.3 million primarily due to employee pharmacy costs since fiscal year 2013 was its first full year of operations. Additionally, changes in the administration of the 340B program resulted in net higher pharmaceutical costs in fiscal year 2013. Other expenses increased approximately $16.8 million primarily due to an increase in fees and purchased services such as increased consulting cost related to expansion of cancer research program, contracted physicians services, and clinical equipment maintenance costs.

Net nonoperating revenues decreased by $4.3 million compared to the prior year primarily due to the decrease in net investment income. For the year ended September 30, 2013, the District recognized a net unrealized loss on investments and assets whose use is limited of approximately $5.9 million. This is a change of approximately $10 million less than the prior year. This decrease in net investment income is offset by an increase in other income. No unconditional promises to give were pledged in fiscal year 2013, and a gain on capital asset disposals was recognized in fiscal year 2013. This is a change of approximately $5.9 million more than the prior year. Additionally, nonoperating revenues were not impacted in fiscal year 2013 by a loss on interest rate swap agreements since they were terminated during fiscal year 2012.

Capital Assets and Long-Term Debt

Capital Assets

As of September 30, 2014, the District had approximately $421.9 million invested in capital assets, as reflected in Table A-5, which represents a net increase (additions, deductions and depreciation) of approximately $3.4 million or 0.8% from the end of last year.

Table A-5

Capital Assets (In Thousands of Dollars)

	Fiscal Year 2014	Fiscal Year 2013 (As Adjusted)
Land and land improvements	**$ 60,578**	$ 57,163
Building and building fixtures	**274,579**	264,992
Equipment	**587,767**	571,315
Construction-in-progress	**3,720**	6,399
Equipment under capital lease obligations	**26,226**	17,607
Total capital assets	**952,870**	917,476
Less accumulated depreciation	**531,014**	499,056
Net capital assets	**$ 421,856**	$ 418,420

As of September 30, 2013, the District had approximately $418.4 million invested in capital assets, as reflected in Table A-6, which represents a net increase (additions, deductions and depreciation) of approximately $5.6 million or 1.35% from the end the previous year.

Table A-6

Capital Assets (In Thousands of Dollars)

	Fiscal Year 2013 (As Adjusted)	Fiscal Year 2012 (As Adjusted)
Land and land improvements	**$ 57,163**	$ 54,995
Building and building fixtures	**264,992**	258,218
Equipment	**571,315**	547,253
Construction-in-progress	**6,399**	5,258
Equipment under capital lease obligations	**17,607**	15,314
Total capital assets	**917,476**	881,038
Less accumulated depreciation	**499,056**	468,179
Net capital assets	**$ 418,420**	$ 412,859

Long-Term Debt

As of September 30, 2014, the District had approximately $230.3 million in outstanding long-term debt and as of September 30, 2013, the District had approximately $239.1 million in outstanding long-term debt. This represents a net decrease of approximately $8.8 million under the prior the fiscal year, primarily due to principal payments on long-term debt.

In the year ended September 30, 2014, the District adopted Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This Statement specifically requires certain balances currently being reported as assets and liabilities to be reported as deferred outflows of resources and deferred inflows of resources on the combined balance sheet. Amounts of deferred loss on defeased debt that was previously reported as a reduction in long-term debt was reclassified as a deferred outflow on the combined balance sheet as of September 30, 2013.

For more detailed information regarding the District's capital assets and long-term debt, refer to the accompanying notes to the combined financial statements.

Future Outlook

The Board of Directors and management believe that the District is well positioned to improve its strong financial condition and continue to provide excellent health care services to its service area. Increases in volume are expected to continue as the District continues to add new services, expand existing services, and increase its market share. There is ongoing legislative action on both the federal and state level addressing health care reform and the national budget deficit that have the potential for impacting Medicare and South Carolina Medicaid payments to healthcare providers. These legislative actions include continuing implementation of the Affordable Care Act, South Carolina's response to Medicaid expansion, the sequestration of Medicare payments, and the American Taxpayer Relief Act. Due to the District's ownership of a diverse selection of physician practices (Medical Group of the Carolinas), advanced information technology, medical staff and employee leadership, development of a Medicaid managed care organization, growth of cancer research, and relationship with Regional Health Plus, LLC, management believes that the District is well positioned to address the challenges and opportunities of health care reform. The District's prudent use of financial resources, cost-control efforts, and increases in patient volume will ensure that the District will continue as the primary provider of health care service in the area.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District.

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

Combined Balance Sheets

	September 30, 2014	September 30, 2013 (As Adjusted)
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 67,440**	$ 41,501
Short term investments	**27,397**	27,174
Patient accounts receivable, net of allowance for uncollectible accounts of approximately $79,709 (2014) and $78,836 (2013)	**103,970**	99,161
Drugs and supplies	**7,188**	7,054
Other current assets	**86,482**	26,602
Total current assets	**292,477**	201,492
Assets whose use is limited:		
Board designated cash and investments	**228,138**	242,132
Board designated other assets	**896**	951
Funds held by trustee	**6,141**	6,159
Total assets whose use is limited	**235,175**	249,242
Capital assets, net	**421,856**	418,420
Other assets	**19,307**	15,538
Total assets	**968,815**	884,692
Deferred Outflows		
Deferred loss on defeased debt, net	**8,952**	10,030
Total deferred outflows	**8,952**	10,030
Total assets and deferred outflows	**977,767**	894,722

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

Combined Balance Sheets (continued)

	September 30, 2014	September 30, 2013 (As Adjusted)
	(In Thousands)	
Liabilities and Net Position		
Current liabilities:		
Accounts payable	**$ 91,820**	$ 43,568
Accrued expenses	**52,342**	46,029
Estimated third-party payor settlements	**2,610**	3,047
Current portion of obligations under capital leases	**4,037**	3,632
Current portion of unconditional promises to give	**1,000**	1,400
Current portion of long-term debt	**8,603**	8,406
Total current liabilities	**160,412**	106,082
Long-term debt, less current portion	**221,701**	230,651
Long-term obligations under capital leases, less current portic	**6,310**	4,203
Long-term unconditional promises to give, less current portio	**798**	1,685
Total liabilities	**389,221**	342,621
Net position:		
Unrestricted	**401,200**	374,414
Restricted:		
Expendable for debt service	**6,141**	6,159
Invested in capital assets, net of related debt	**181,205**	171,528
Total net position	**588,546**	552,101
Total liabilities and net position	**$ 977,767**	$ 894,722

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

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

	Year Ended September 30, 2014	Year Ended September 30, 2013 (As Adjusted)
	(In Thousands)	
Operating revenues:		
Net patient service revenues, net of provision for bad debts of approximately $85,157 (2014) and $61,853 (2013)	**$ 872,296**	$ 759,552
Premium revenues	**73,391**	-
Other operating revenues	**36,377**	37,932
Total operating revenues	**982,064**	797,484
Operating expenses:		
Salaries	**370,626**	342,026
Benefits	**99,820**	88,731
Supplies	**157,928**	143,940
Fees and purchased services	**89,497**	83,523
Medical claims	**64,931**	-
Depreciation	**51,400**	49,259
Other	**113,724**	68,551
Total operating expenses	**947,926**	776,030
Operating income	**34,138**	21,454
Non-operating revenues (expenses):		
Interest expense	**(11,647)**	(11,717)
Net investment income (loss)	**4,886**	(1,309)
Non-capital grants and contributions	**11,587**	9,446
Other income (loss)	**(2,519)**	644
Total non-operating revenues (expenses)	**2,307**	(2,936)
Excess of revenues over expenses	**36,445**	18,518
Increase in net position	**36,445**	18,518
Net position at beginning of year, as adjusted	**552,101**	533,583
Net position at end of year	**$ 588,546**	$ 552,101

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

Combined Statements of Cash Flows

	Year Ended September 30,	
	2014	**2013 (As Adjusted)**
	(In Thousands)	
Cash flows from operating activities:		
Receipts from patients	**$ 867,050**	$ 743,490
Payments to vendors	**(380,530)**	(293,910)
Claims and self-insurance payments	**(34,856)**	(39,615)
Payments for salaries and benefits	**(431,813)**	(389,092)
Other receipts for operations	**51,683**	27,402
Net cash provided by operating activities	**71,534**	48,275
Cash flows from non-capital financing activities:		
Non-capital grants and contributions	**11,587**	9,446
Payment of unconditional pledges to give	**(1,400)**	(2,000)
Other	**(2,519)**	644
Net cash provided by non-capital financing activities	**7,668**	8,090
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets	**(47,697)**	(49,818)
Principal payments on long-term debt, net	**(8,405)**	(9,375)
Interest payments on long-term debt	**(11,534)**	(11,604)
Principal payments on capital lease obligations	**(6,106)**	(3,108)
Net cash used in capital and related financing activities	**(73,742)**	(73,905)
Cash flows from investing activities:		
Net change in investments	**(223)**	(5,046)
Net change in assets whose use is limited	**(16,411)**	(11,152)
Net investment income (loss)	**4,886**	(1,309)
Proceeds from sale of capital assets	**268**	85
Purchase of Palmetto Physician Connections, LLC	**–**	(6,000)
Net change in investments in joint ventures	**1,481**	112
Net cash used in investing activities	**(9,999)**	(23,310)
Net decrease in cash and cash equivalents	**(4,539)**	(40,850)
Cash and cash equivalents at beginning of year	**111,679**	152,529
Cash and cash equivalents at end of year	**$ 107,140**	$ 111,679

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

Combined Statements of Cash Flows (continued)

	Year Ended September 30,	
	2014	**2013 (As Adjusted)**
	(In Thousands)	
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents on the balance sheet	**$ 67,440**	$ 41,501
Cash and cash equivalents in assets whose use is limited	**39,700**	70,178
Total cash and cash equivalents	**$ 107,140**	$ 111,679
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 34,138**	$ 21,454
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of bond discount and bond premium	**(348)**	660
Provision for bad debts	**85,157**	61,853
Depreciation	**51,400**	49,259
Loss on sale of capital assets	**1,808**	125
Changes in operating assets and liabilities:		
Patient accounts receivable	**(89,966)**	(70,721)
Drugs and supplies	**(134)**	(450)
Other current assets	**(58,802)**	(8,448)
Accounts payable	**42,405**	7,049
Estimated third-party payor settlements	**(437)**	(7,194)
Accrued expenses	**6,313**	(5,312)
Net cash provided by operating activities	**$ 71,534**	$ 48,275
Supplemental non-cash information:		
Capital assets acquired under capital lease obligations	**$ 8,618**	$ 2,293
Capital assets included in accounts payable	**$ 597**	$ 2,919

1. **Description of Reporting Entity and Summary of Significant Accounting Policies**

Reporting Entity - Spartanburg Regional Health Services District, Inc. (the "District") is a statutory public hospital corporation and a political subdivision of the state of South Carolina, and, as such, is exempt from federal and state income tax. The District is governed by an eleven member Board of Directors (the "Board") appointed by the Spartanburg County Council, the primary government.

The District operates a health care system in Spartanburg County consisting of Spartanburg Medical Center ("SMC"), Spartanburg Hospital for Restorative Care ("SHRC"), Pelham Medical Center ("PMC") and the Home Office, which provides common services for the District. The District also owns and operates the Medical Group of the Carolinas, a network of physician practices. In addition, the District owns SMC Ventures, LLC and Greer Group, LLC, which are organized as limited liability companies under South Carolina limited liability company statutes. The District also owns NC Network, Inc., which is organized as a North Carolina corporation. During the year ended September 30, 2013, the District formed Advicare, Corp. ("Advicare"), a Medicaid managed care organization, which purchased Palmetto Physician Connections, LLC ("PPC"), a Medicaid medical home network, PPC's covered lives converted to Advicare effective January 1, 2014. These affiliated entities are reported as blended component units of the District. SMC Ventures, LLC and Greer Group, LLC operate on a calendar year end. All intercompany transactions have been eliminated in the combined financial statements.

SMC Ventures, LLC holds investments in joint ventures as further described in this note under "Investments in Joint Ventures."

Accounting Standards and Methods - The District follows the provisions of the American Institute of Certified Public Accountants Audit and Accounting Guide, *Health Care Organizations* (the "Guide"). Under the provisions of the Guide, the District qualifies as a governmental organization and is subject to the pronouncements of the Governmental Accounting Standards Board ("GASB"). The District is reported as an enterprise fund under GASB pronouncements. The proprietary fund method of accounting is used whereby revenues and expenses are recognized on the accrual basis.

In 2014, the District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This Statement specifically requires certain balances currently being reported as assets and liabilities to be reported as deferred outflows of resources and deferred inflows of resources on the combined balance sheet. Amounts of deferred loss on defeased debt that was previously reported as a reduction in long-term debt were reclassified as a deferred outflow on the combined balance sheet as of September 30, 2013.

GASB Statement No. 65 further requires that costs associated with the issuance of long-term debt 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 restatement on previously reported combined financial statement amounts is summarized below:

In thousands (000)	2013 As Previously Reported	Adjustment	2013 As Adjusted
Combined Balance Sheets:			
Other assets	$ 18,861	$ (3,323)	$ 15,538
Deferred loss on defeased debt, net	--	10,030	10,030
Total assets and deferred outflows	888,015	6,707	894,722
Long-term debt, less current portion	220,621	(10,030)	230,651
Total net position, September 30, 2013	555,424	(3,323)	552,101
Combined Statements of Revenues, Expenses and Changes in Net Position:			
Other	$ 68,766	$ (215)	$ 68,551
Increase in net position	18,303	215	18,518
Total net position, September 30, 2012	537,121	(3,538)	533,583
Total net position, September 30, 2013	555,424	(3,323)	552,101

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.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less when purchased.

At various times throughout the year, the District maintains deposits at financial institutions in excess of amounts covered by the Federal Deposit Insurance Corporation ("FDIC") limits. Management believes the credit risk associated with these deposits is minimal.

Patient Accounts Receivable - Patient accounts receivable are carried at the original charge less an estimate for bad debts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectability. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to provision for bad debts when received. Interest is not charged on patient accounts receivable.

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

Investments - Short term and long term investments consist principally of certificates of deposit and debt securities. Investments in debt securities are reported at fair value. Interest, dividends and gains and losses, both realized and unrealized, on investments in debt securities are included in nonoperating revenues when earned. Alternative investments are recorded at cost since the District does not have the ability to exert influence over the portfolio. Investments recorded at cost are evaluated for impairment on a monthly basis. At September 30, 2014, no impairment charges were recorded for cost-based alternative investments.

Assets Whose Use is Limited - Assets whose use is limited primarily includes assets designated by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and amounts held by Bond Trustees in accordance with indenture agreements.

Capital Assets - Capital assets are stated at cost, except for contributed property, which is recorded at its fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as determined by industry standards. Routine maintenance, repairs, and replacements are charged to expense. The District capitalizes all assets purchased individually that have a useful life of three or more years and a cost of $2,500. Items purchased as a group are capitalized if the purchase is for the same item, the individual item cost is equal to or exceeds $500, the total cost of the group purchase is equal to or exceeds $25,000, and the purchase occurs at one time.

The amortization of assets under capital leases is included in depreciation expense.

When properties are retired or otherwise disposed of, the cost of the assets and related allowances for depreciation are removed from the accounts, and any resulting gain or loss is recognized as an operating activity in the combined Statements of Revenues, Expenses and Changes in Net Position.

Interest costs incurred during the period of construction of qualifying capital assets are capitalized as a component of the cost of these assets and amortized over the life of the asset.

Investments in Joint Ventures - Regional HealthPlus, LLC ("RHP") is a limited liability company formed to organize a collaborative network of health care providers and execute and manage various contracts with third-party payors. RHP is owned 50% by SMC Ventures, LLC and 50% by area physicians. The District accounts for the investment in RHP using the equity method.

The Ambulatory Surgery Center of Spartanburg, LLC ("ASCS, LLC") is a limited liability company formed to assist the District in serving the ambulatory surgical needs of Spartanburg County residents. ASCS, LLC is owned 50% by SMC Ventures, LLC and 50% by area physicians. The District accounts for the investment in ASCS, LLC using the equity method.

The Ambulatory Surgery Center of Pelham, LLC ("ASC Pelham, LLC") is a limited liability company formed to assist the District in serving the ambulatory surgical needs of Spartanburg County residents. ASC Pelham, LLC is owned 50% by SMC Ventures, LLC and 50% by area physicians. The District accounts for the investment in ASC Pelham, LLC using the equity method.

The District's investments in joint ventures included in other assets are as follows:

	September 30	
	2014	**2013**
	(In Thousands)	
Regional HealthPlus, LLC	**$ 4,056**	$ 3,853
Upstate Linen Services, LLC	**--**	1,609
Ambulatory Surgery Center of Spartanburg, LLC	**2,038**	2,311
Ambulatory Surgery Center of Pelham, LLC	**1,675**	1,477
	$ 7,769	$ 9,250

Goodwill

Goodwill, included in other assets, is the amount by which the purchase price exceeds the fair value of assets acquired. Goodwill is reviewed annually, or more frequently if circumstances indicate, for potential impairment.

Net Position - Net position of the District classified as invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted components of net position include amounts deposited with trustees as required by revenue bond indentures. Unrestricted components of net position are remaining net position that do not meet the definition of invested in capital assets net of related debt or restricted.

Net Patient Service Revenues - Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Third-party contractual revenue adjustments are accrued on an estimated basis in the period the related services are rendered. Such amounts are subject to audit by governmental agencies. Adjustments, if any, are included in contractual revenue adjustments in the year of determination. In compliance with governmental accounting standards, net patient service revenues have been reduced by the amount of bad debt expense incurred by the District.

The District's policy does not require collateral or other security for patient accounts receivable. The District 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.

Premium Revenues – Premium revenues are reported at the estimated net realizable amounts from Medicaid and other payors for services rendered through Advicare.

Charity Care - The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the District utilizes the generally recognized poverty income levels of South Carolina, and also includes certain cases where incurred charges are significant when compared to the patient's income. Patients that qualify for the state Medically Indigent Act Program are a component of charity care. The District receives no reimbursement for services provided to these patients. Charity care is not reflected in net patient service revenues. The gross amount of charges written off to charity care under these policies for the year ended September 30, 2014 and 2013 were approximately $80.2 million and $80.7 million, respectively. The net cost of charity care provided was approximately $22.6 million in 2014 and $26.5 million in 2013. The District uses the cost to charge ratio to estimate the cost of charity care.

Medical Claims – Medical claims represent the expense of covering the cost of care of insured patients. Included in accounts payable on the combined balance sheet, an estimated liability for medical claims incurred but not yet reported is at approximately $7.8 million at September 30, 2014. Medical claim payments made during the year-ended September 30, 2014 were approximately $57.1 million.

Operating Revenues and Expenses - The District's combined statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the District's principal activity. Nonexchange 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. Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, is reported as other revenues.

Grants and Contributions - From time to time, the District receives grants from Spartanburg County, the State of SC, and the Federal Government as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) 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.

Income Taxes - The District is a political subdivision of the State of South Carolina and also has been granted exemption from income taxes as an organization described in Section 115 of the Internal Revenue Code. Limited liability companies combined with the District are treated as a partnerships for Federal and state income tax purposes and are not taxed at the entity level. Advicare is a corporation with a tax year-end of December 31. Advicare files tax returns with appropriate Federal and state taxing authorities in compliance with Internal Revenue Service and state provisions and is current on all tax payments. The District has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2014. Fiscal years ending on or after September 30, 2011 remain subject to examination by federal and state tax authorities.

Risk Management - The District 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; and, natural disasters; medical malpractice claims and judgments; and employee health, dental and accident benefits. Insurance coverage is purchased to cover the majority of claims arising from such matters. The District is self-insured for amounts up to a specified level for health and medical coverages for its employees and medical malpractice claims. The estimated liability is the total estimated amount to be paid for all known claims or incidents and a reserve for incurred but not reported claims. As of September 30, 2014 and 2013, the District included a liability of $1.7 million and $2.5 million, respectively, in accounts payable related to an ongoing U.S. Department of Justice investigation.

Future Accounting and Reporting Requirements - In 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which requires enhanced note disclosure and supplementary information for both defined benefit and defined contribution pension plans as well as provide standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for pension plans. GASB Statement No. 68 must be adopted not later than the year ending September 30, 2015. The District has not yet determined the impact of the Statement on the basic combined financial statements.

Reclassification – Certain 2013 combined financial statement amounts have been reclassified to conform to the 2014 combined financial statement presentation.

2. Cash, Investments, and Assets Whose Use is Limited

At September 30, 2014 and 2013, the District had cash on hand and deposits as follows:

	September 30	
	2014	**2013**
	(In Thousands)	
Insured (FDIC) or collateralized with securities held by the District	**$ 2,208**	$ 2,673
Collateralized by securities held by the pledging financial institution's trust department, but not in the District's name	**65,232**	38,828
Total	**$ 67,440**	$ 41,501

The types of securities which are permitted investments for District funds are established by the District's Investment Policy in accordance with South Carolina Statutes. As of September 30, 2014, the District's funds are permitted to be invested in certain principal protected investment vehicles. The District's investments maintain a target allocation of one-third corporate bonds, one-third U.S. Intermediate Term Treasuries, and one-third Treasury Inflation Protected Securities as established by the District's Investment Policy.

Custodial Credit Risk - The District's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or are collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. The District's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. The deposit risk is that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

Concentration of Credit Risk - This is the risk associated with the amount of investments the District has with any one issuer that exceeds 5% or more of its total investments and assets whose use is limited. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The District's investment policy states that not more than 10% of a manager's portfolio may be invested in the securities of any one issuer, with the exception of the U.S. Government or its agencies and other sovereign government issuers.

Credit Risk - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced.

The credit risk profile of the District's investments and assets whose use is limited as of September 30, 2014 and 2013 is as follows:

Investment Type	**September 30, 2014**	**Rating: AAA-BBB**	**Rating: N/A**
	(In Thousands)		
Cash and cash equivalents	**$ 39,700**	**$ -**	**$ 39,700**
Corporate obligations	**49,346**	**49,346**	**-**
Foreign obligations	**18,371**	**18,371**	**-**
U.S. Treasury obligations	**109,237**	**-**	**109,237**
Certificates of Deposit	**2,000**	**-**	**2,000**
U.S. Agency obligations	**42,648**	**-**	**42,648**
Municipal	**1,152**	**1,152**	**-**
Alternative investments	**118**	**-**	**118**
Total	**$ 262,572**	**$ 68,869**	**$ 193,703**

Investment Type	September 30, 2013	Rating: A-AAA	Rating: N/A
	(In Thousands)		
Cash and cash equivalents	$ 70,178	$ -	$ 70,178
Corporate obligations	48,401	48,401	-
Foreign obligations	16,090	16,090	-
U.S. Treasury obligations	109,339	-	109,339
Certificates of Deposit	2,000	-	2,000
U.S. Agency obligations	30,032	-	30,032
Municipal	240	240	-
Alternative investments	136	-	136
Total	$ 276,416	$ 64,731	$ 211,685

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the District's investment horizon and within the District's risk tolerance and cash requirements.

The distribution of the District's investments and assets whose use is limited by maturity as of September 30, 2014 and 2013 is as follows (in thousands):

Investment Type	**September 30, 2014**	**Remaining Maturity (In Months)** 12 Months or Less	13 Months to 24 Months	25 Months to 60 Months	Greater than 60 Months	N/A
			(In Thousands)			
Cash and cash equivalents	**$ 39,700**	**$ 39,700**	**$ -**	**$ -**	**$ -**	**$ -**
Corporate obligations	**49,346**	**3,925**	**5,110**	**17,731**	**22,580**	**-**
Foreign obligations	**18,371**	**879**	**2,111**	**8,217**	**7,164**	**-**
U.S. Treasury obligations	**109,237**	**9,304**	**19,238**	**40,543**	**40,152**	**-**
Certificates of Deposit	**2,000**	**2,000**	**-**	**-**	**-**	**-**
U.S. Agency obligations	**42,648**	**1,781**	**3,575**	**5,109**	**32,183**	**-**
Municipal	**1,152**	**465**	**435**	**252**	**-**	**-**
Alternative investments	**118**	**-**	**-**	**-**	**-**	**118**
Total	**$ 262,572**	**$ 58,054**	**$ 30,469**	**$ 71,852**	**$ 102,079**	**$ 118**

Investment Type	September 30, 2013	Remaining Maturity (In Months) 12 Months or Less	13 Months to 24 Months	25 Months to 60 Months	Greater than 60 Months	N/A
			(In Thousands)			
Cash and cash equivalents	$ 70,178	$ 70,178	$ -	$ -	$ -	$ -
Corporate obligations	48,401	1,921	7,212	17,882	21,386	-
Foreign obligations	16,090	1,276	1,072	7,326	6,416	-
U.S. Treasury obligations	109,339	14,481	15,330	48,666	30,862	-
Certificates of Deposit	2,000	2,000	-	-	-	-
U.S. Agency obligations	30,032	456	4,283	8,921	16,372	-
Municipal	240	-	101	139	-	-
Alternative investments	136	-	-	-	-	136
Total	$ 276,416	$ 90,313	$ 27,998	$ 82,934	$ 75,036	$ 136

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

	September 30 2014	2013
	(In Thousands)	
Short term investments	**$ 27,397**	$ 27,174
Assets whose use is limited	**235,175**	249,242
	$ 262,572	$ 276,416

For the years ended September 30, 2014 and 2013, net investment income (loss) is comprised of the following:

	September 30 2014	2013
	(In Thousands)	
Interest and dividends, net of fees	**$ 3,958**	$ 3,712
Net unrealized gain (loss)	**820**	(5,866)
Net realized gain	**108**	845
	$ 4,886	$ (1,309)

3. **Accounts Receivable and Payable**

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the District at September 30, 2014 and 2013 consisted of these amounts:

Patient Accounts Receivable

	September 30 2014	2013
	(In Thousands)	
Receivable from patients and their insurance carriers	**$ 131,996**	$ 125,854
Receivable from Medicare	**36,421**	37,512
Receivable from Medicaid	**15,262**	14,631
Total patient accounts receivable	**183,679**	177,997
Less allowance for uncollectible amounts	**(79,709)**	(78,836)
Patient accounts receivable, net	**$ 103,970**	$ 99,161

Accounts Payable and Accrued Expenses

	September 30 2014	2013
	(In Thousands)	
Payable to employees (including payroll taxes)	**$ 45,268**	$ 40,130
Payable to suppliers	**19,581**	20,486
Payable for Medicaid Upper Payment Limit program	**39,070**	-
Payable for Advicare medical claims	**7,814**	-
Other	**32,429**	28,891
Total accounts payable and accrued expenses	**$ 144,162**	$ 89,597

4. **Capital Assets**

A summary of capital assets and the related accumulated depreciation for 2014 and 2013 is as follows:

	Balance September 30, 2013	**Additions**	**Transfers**	**Disposals**	**Balance September 30, 2014**
			(In Thousands)		
Land and land improvements	**$ 57,163**	**$ 1,239**	**$ 2,269**	**$ (93)**	**$ 60,578**
Buildings and building fixtures	**264,992**	**527**	**9,140**	**(80)**	**274,579**
Fixed equipment	**284,258**	**951**	**4,197**	**(489)**	**288,917**
Major movable equipment	**287,057**	**18,620**	**14,397**	**(21,224)**	**298,850**
Equipment under capital lease obligations	**17,607**	**8,619**	**-**	**-**	**26,226**
Construction-in-progress	**6,399**	**27,324**	**(30,003)**	**-**	**3,720**
	917,476	**57,280**	**-**	**(21,886)**	**952,870**
Less accumulated depreciation	**(499,056)**	**(51,769)**	**-**	**19,811**	**(531,014)**
Capital assets, net	**$ 418,420**	**$ 5,511**	**$ -**	**$ (2,075)**	**$ 421,856**

	Balance September 30, 2012	Additions	Transfers	Disposals	Balance September 30, 2013
			(In Thousands)		
Land and land improvements	$ 54,995	$ 831	$ 1,812	$ (475)	$ 57,163
Buildings and building fixtures	258,218	347	6,553	(126)	264,992
Fixed equipment	276,359	54	8,716	(871)	284,258
Major movable equipment	270,894	26,104	7,179	(17,120)	287,057
Equipment under capital lease obligations	15,314	2,293	-	-	17,607
Construction-in-progress	5,258	25,401	(24,260)	-	6,399
	881,038	55,030	-	(18,592)	917,476
Less accumulated depreciation	(468,179)	(49,259)	-	18,382	(499,056)
Capital assets, net	$ 412,859	$ 5,771	$ -	$ (210)	$ 418,420

The District had outstanding commitments of approximately $4.9 million at September 30, 2014, for completion of construction-in-progress and for the purchase of equipment. The projects are expected to be completed in April 2015.

5. Long-Term Debt and Capital Lease Obligations

Series 2012A

Hospital Revenue and Refunding bonds, Series 2012A were issued on July 19, 2012 in the amount of $132.5 million consisting of: (i) $27.8 million of serial bonds with interest rates ranging from 2.0% to 5.0% maturing in 2027; (ii) $55.9 million of term bonds with an interest rate of 5.0% due in 2032; and (iii) $48.8 million of term bonds with an interest rate of 5.0% due in 2037. Interest is payable semi-annually on October 15 and April 15. The bonds are secured by a pledge of the revenues of the District. The term bonds maturing in 2032 are subject to mandatory sinking fund redemption from 2028 to 2032 ranging in amounts from approximately $8.3 million to $12.7 million. The term bonds maturing in 2037 are subject to mandatory sinking fund redemption from 2033 to 2037 ranging in amounts from approximately $8.9 million to $10.7 million.

The Series 2012A Bonds were issued with a premium of approximately $8.5 million of which approximately $7.7 million remains unamortized at September 30, 2014.

The advance refunding of the Series 2008B and Series 2002 bonds from the issuance of Series 2012A Bonds resulted in losses on refunding of approximately $4.5 million and $0.9 million, respectively. This difference, reported in the combined balance sheets as a deferred outflow of resources, is being charged as a component of interest expense through the years 2022 and 2032 using the straight line method, which approximates the effective interest method. At September 30, 2014, the total unamortized loss on refunding is approximately $4.3 million.

Series 2012B

Hospital Revenue and Refunding bonds, Series 2012B were issued on July 19, 2012 in the amount of $20.0 million. Interest is payable monthly at an annual fixed rate of 1.93%, commencing on August 15, 2012. Principal is paid annually on April 15, commencing on April 15, 2013. The bonds are secured by a pledge of the revenues of the District. The Series 2012B bonds mature on April 15, 2023.

The advance refunding of the Series 2008C from the issuance of the Series 2012B Bonds resulted in a loss on refunding of approximately $0.4 million. This difference, reported in the combined balance sheets as a deferred outflow of resources, is being charged as a component of interest expense through the year 2023 using the straight line method, which approximates the effective interest method. At September 30, 2014, the unamortized loss on refunding is approximately $0.3 million.

Series 2009

Hospital Revenue bonds, Series 2009 were issued on May 21, 2009 in the amount of $15.0 million. The Series 2009 bonds are term bonds bearing interest at an annual rate of 4.11%. Principal and interest installments are payable semi-annually on October 15 and April 15, commencing October 15, 2009. The bonds are secured by a pledge of the revenues of the District. The Series 2009 bonds mature on April 15, 2019.

Series 2008A

Hospital Revenue and Refunding bonds, Series 2008A were issued on June 25, 2008 in the amount of $49.5 million consisting of: (i) $23.3 million of serial bonds with interest rates ranging from 4.0% to 5.25% maturing in 2022; (ii) $10.3 million of term bonds with an interest rate of 5.25% due in 2025; and (iii) $15.9 million of term bonds with an interest rate of 4.5% due in 2027. Interest is payable semi-annually on October 15 and April 15. The bonds are secured by a pledge of the revenues of the District. The term bonds maturing in 2025 are subject to mandatory sinking fund redemption from 2023 to 2025 ranging in amounts from approximately $1.1 million to $4.7 million. The term bonds maturing in 2027 are subject to mandatory sinking fund redemption for 2026 and 2027 in the amount of approximately $7.8 million and $8.1 million, respectively.

The Series 2008A Bonds were issued with a premium of approximately $0.7 million of which approximately $0.5 million remains unamortized at September 30, 2014.

Series 2008B

Hospital Revenue and Refunding bonds, Series 2008B were issued on June 25, 2008 in the amount of $90.8 million. The Series 2008B are variable rate bonds initially bearing interest determined weekly by the remarketing agent under prevailing market conditions. In accordance with the Series 2008B bond indenture, the District converted the weekly interest rate to a long-term variable interest rate as defined by the bond indenture and interest is payable semi-annually on October 15 and April 15. The bonds are secured by a pledge of the revenues of the District and are subject to mandatory sinking fund redemption annually from 2010 to 2037 ranging in amounts from approximately $0.1 million to $8.9 million. The Series 2008B Bonds were refunded with the issuance of the Series 2012A Bonds.

A portion of the proceeds from the issuance of the Series 2008A and 2008B bonds was deposited in an irrevocable trust with an escrow agent to fully refund the Series 1997A bonds and refund approximately $31.4 million of the Series 1997B bonds. The refunding of the Series 1997A AND B bonds resulted in a loss on refunding of approximately $6.2 million. This difference, reported in the combined balance sheets as a deferred outflow of resources, is being charged as a component of interest expense through the year 2022 using the straight line method, which approximates the effective interest method. At September 30, 2014, the unamortized loss on refunding is approximately $2.9 million.

A portion of the proceeds from the issuance of the Series 2008B bonds refunded in advance of their maturity approximately $18.9 million of the Series 2002 bonds. The partial advance refunding of the Series 2002 bonds resulted in a loss on refunding of approximately $0.2 million. This difference, reported in the combined balance sheets as a deferred outflow of resources, is being charged as a component of interest expense through the year 2032 using the straight line method, which approximates the effective interest method. At September 30, 2014, the unamortized loss on refunding is approximately $0.1 million.

Series 2008C
Hospital Revenue and Refunding bonds, Series 2008C, were issued in the amount of $20.0 million on June 25, 2008. The Series 2008C are variable rate bonds initially bearing interest determined weekly by the remarketing agent under prevailing market conditions. In accordance with the Series 2008C bond indenture, the District converted the weekly interest rate to a long-term variable interest rate as defined by the bond indenture and interest is payable semi-annually on October 15 and April 15. The bonds are secured by a pledge of the revenues of the District and are subject to mandatory sinking fund redemption annually from 2009 to 2023 ranging in amounts from approximately $0.6 million to $4.8 million. The Series 2008C Bonds were refunded with the issuance of the Series 2012B Bonds.

A portion of the proceeds of the Series 2008C bonds was deposited in an irrevocable trust with an escrow agent to provide future debt service payments on the Series 1998 bonds. The advance refunding of the Series 1998 bonds resulted in a loss on refunding of approximately $0.4 million. This difference, reported in the combined balance sheets as a deferred outflow of resources, is being charged as a component of interest expense through the year 2023 using the straight-line method, which approximates the effective interest method. At September 30, 2014, the unamortized loss on refunding is approximately $0.3 million.

Series 2008D
Hospital Revenue and Refunding bonds, Series 2008D in the amount of $32.6 million were issued on July 30, 2008 consisting of: (i) $16.4 million of serial bonds with interest rates ranging from 4.0% to 5.0% maturing in 2018; (ii) $4.0 million of term bonds with an interest rate of 5.25% due in 2020; (iii) $4.5 million of term bonds with an interest rate of 5.25% due in 2022; and (iv) $7.7 million of term bonds with an interest rate of 4.5% due in 2025. Interest is payable semi-annually on October 15 and April 15. The bonds are secured by a pledge of the revenues of the District. The term bonds maturing in 2020 are subject to mandatory sinking fund redemption for 2019 and 2020 in the amount of $2.0 million and $2.2 million, respectively. The term bonds maturing in 2022 are subject to mandatory sinking fund redemption for 2021 and 2022 in the amount of approximately $2.2 million and $2.3 million, respectively.

A portion of the proceeds of the Series 2008D bonds was deposited in an irrevocable trust with an escrow agent to provide future debt service payments on the Series 1995 bonds. The refunding of the Series 1995 bonds resulted in a loss on refunding of approximately $1.4 million. This difference, reported in the combined financial statements as a deferred outflow of resources, is being charged as a component of interest expense through the year 2025 using the straight line method, which approximates the effective interest method. At September 30, 2014, the unamortized loss on refunding is approximately $0.9 million.

The Series 2008D bonds were issued with a premium of approximately $0.4 million of which approximately $0.3 million remains unamortized at September 30, 2014.

Series 2002
Hospital Revenue and Refunding Bonds, Series 2002 in the amount of $49.5 million were issued on May 15, 2002, consisting of: (i) $19.8 million of serial bonds with interest rates ranging from 3.5% to 5.5% maturing in 2022; (ii) $2.2 million of term bonds with an interest rate of 5.25% due in 2027; and (iii) $27.5 million of term bonds with an interest rate of 5.25% due in 2032. Interest is payable semi-annually on October 15 and April 15. The Series 2002 are secured by a pledge of revenues of the District. The Series 2002 Bonds were refunded with the issuance of the Series 2012A Bonds.

Trust agreements for Series 2012 A and B; Series 2009; and Series 2008 A and D contain certain restrictive covenants which, among other matters, require the District to maintain its rates, fees and charges to the extent necessary in order for the District to maintain certain earnings levels as defined. In addition, the Trust agreements name banks as Trustees to receive, transfer and disburse all monies.

Line of Credit Agreement
On June 17, 2014, the District entered into a revolving line of credit agreement with a financial institution. Under the revolving line of credit agreement, the District can borrow up to $75 million with an adjusted LIBOR rate equal to one-month LIBOR plus 0.55%. As of September 30, 2014, the District had not drawn on the revolving line of credit.

Loan Agreements
On December 29, 2008, the District entered into a promissory note agreement with G.B. Hodge, MD for $0.4 million with a fixed interest rate of 6.00%. The note is unsecured. The proceeds of the note were used to purchase the Hodge building and related land. The note is being repaid over six years in annual installments of interest and principal, commencing December 29, 2009, and will mature on December 29, 2014. Approximately $20,000 of the principal balance remained outstanding at September 30, 2014.

On August 23, 2005, the District entered into a loan agreement with a financial institution that provided $5 million with a fixed interest rate of 5.25%. The loan is unsecured. The proceeds of the loan were used to purchase a medical office and condo suite at PMC. The loan is being repaid over ten years in monthly installments of interest and principal and will mature in 2015. Approximately $0.6 million of the principal balance remained outstanding at September 30, 2014.

Future principal and interest payments, excluding the unamortized losses on advance refundings of the Series 1992A AND B, 1995, 1997A AND B, 1998, 2002, 2008B&C, the unamortized bond discount and the unamortized bond premium, under the District's long-term debt agreements are:

Year Ending September 30,	**Principal Payments**	**Interest Payments**	**Total Debt Service**
		(In Thousands)	
2015	8,603	10,219	18,821
2016	8,312	9,892	18,204
2017	8,630	9,579	18,209
2018	8,948	9,260	18,208
2019	9,294	8,892	18,186
2020 – 2024	43,035	38,938	81,973
2025 – 2029	52,985	28,494	81,479
2030 – 2034	51,355	14,889	66,244
2035 – 2037	30,665	3,115	33,781
	$ 221,827	$ 133,278	$ 355,105

Activity related to long-term debt excluding capital lease obligations for the years ended September 30, 2014 and 2013, is summarized as follows (in thousands):

	2013	Additions	Reductions	2014	Amounts Due Within 1 Year
			(In Thousands)		
Hospital Revenue and Refunding Bonds, Series 2012A	$ 129,810	$ -	$ (1,445)	$ 128,365	$ 1,470
Hospital Revenue and Refunding Bonds, Series 2012B	18,819	-	(1,218)	17,601	1,292
Hospital Revenue Bonds, Series 2009	9,685	-	(1,455)	8,230	1,515
Hospital Revenue and Refunding Bonds, Series 2008A	45,660	-	(1,985)	43,675	2,040
Hospital Revenue and Refunding Bonds, Series 2008D	24,965	-	(1,615)	23,350	1,680
Notes Payable	1,293	-	(687)	606	606
Add: Unamortized bond premium	8,903	-	(426)	8,477	-
Less :Unamortized bond discount	78	-	(78)	-	-
Total	$ 239,057	$ -	$ (8,753)	$ 230,304	$ 8,603

	2012	Additions	Reductions	2013	Amounts Due Within 1 Year
			(In Thousands)		
Hospital Revenue and Refunding Bonds, Series 2012A	$ 132,520	$ -	$ (2,710)	$ 129,810	$ 1,445
Hospital Revenue and Refunding Bonds, Series 2012B	19,977	-	(1,158)	18,819	1,218
Hospital Revenue Bonds, Series 2009	11,081	-	(1,396)	9,685	1,454
Hospital Revenue and Refunding Bonds, Series 2008A	47,610	-	(1,950)	45,660	1,985
Hospital Revenue and Refunding Bonds, Series 2008D	26,520	-	(1,555)	24,965	1,615
Notes Payable	1,899	-	(606)	1,293	689
Add : Unamortized bond premium	9,330	-	(427)	8,903	-
Less :Unamortized bond discount	87	-	(9)	78	-
Total	$ 248,850	$ -	$ (9,793)	$ 239,057	$ 8,406

Capital Lease Obligations

Equipment under capital lease obligations is included in major movable equipment and accumulated depreciation. The carrying value and related accumulated depreciation at September 30, 2014 are approximately $16.4 million and $6.1 million, respectively, and at September 30, 2013 are approximately $12.4 million and $7.3 million, respectively. The assets recorded under capital leases are pledged as collateral for the capital lease obligations.

Activity related to capital lease obligations for the years ended September 30, 2014 and 2013, is summarized as follows (in thousands):

	2013	Additions	Reductions	2014	Amounts Due Within 1 Year
			(In Thousands)		
Capital lease obligations	$ 7,835	$ 8,619	$ (6,107)	$ 10,347	$ 4,037

	2012	Additions	Reductions	2013	Amounts Due Within 1 Year
			(In Thousands)		
Capital lease obligations	$ 8,650	$ 2,293	$ (3,108)	$ 7,835	$ 3,632

The District leases certain equipment used in its operations under capital leases with interest rates varying from 4.3% to 5.2% that have noncancellable terms in excess of one year. Future minimum capital lease payments as of September 30, 2014 are as follows:

Fiscal Year	Capital Leases
	(In Thousands)
2015	$ 4,416
2016	3,668
2017	2,564
2018	338
Thereafter	80
Total minimum lease payments	11,066
Less amounts representing interest	(719)
Present value of minimum lease payments	10,347
Less current portion	(4,037)
	$ 6,310

6. **Net Patient Service Revenues**

Net patient service revenues for the years ended September 30, 2014 and 2013 consisted of the following:

	2014	2013
	(In Thousands)	
Gross patient charges at established rates, including charges foregone for charity care	**$ 2,505,957**	$ 2,251,651
Deductions:		
Contractual adjustments	**(1,468,302)**	(1,349,575)
Charity care provided at established billing rates	**(80,203)**	(80,671)
Provision for bad debts	**(85,157)**	(61,853)
Net patient service revenues	**$ 872,296**	$ 759,552

The District has agreements with third-party payors for health care services that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. A summary of the payment arrangements with major third-party payors follows:

Medicare: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed under a prospective payment system called the Ambulatory Payment Classification System ("APCs"). Inpatient non-acute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. SMC's Medicare cost reports have been audited by the Medicare fiscal intermediary through 2011; however, final settlements have only been determined through 2009. The Medicare cost reports for SHRC and PMC have been audited and final settlements have been determined through 2011 and 2009, respectively. Approximately 37% and 39% of the District's net patient service revenues for both the years ended September 30, 2014 and 2013, respectively, were derived from Medicare.

Medicaid: Inpatient reimbursement is based upon prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under various reimbursement methodologies. The District is reimbursed for outpatient services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the fiscal intermediary. The Medicaid cost reports for SMC and PMC have been audited by the Medicaid fiscal intermediary through 2010. The Medicaid cost reports for SHRC have been audited by the Medicaid fiscal intermediary through 2007. Approximately 8% and 7% of the District's net patient service revenues for the years ended September 30, 2014 and 2013, respectively, were derived from Medicaid, excluding revenues derived from the Medicaid Upper Payment Limit program.

The District receives payments for serving a disproportionately high volume of Medicaid patients. The District received approximately $19.9 million related to the Medicaid disproportionate share program for the year ended September 30, 2014. There was no related receivable related to the Medicaid disproportionate share program for the year ended September 30, 2014. The District received approximately $20.7 related to the Medicaid disproportionate share program for the year ended September 30, 2013. There was no related receivable related to the Medicaid disproportionate share program for the year ended September 30, 2013. These amounts have been included in net patient service revenues. South Carolina requires that the District pay a Hospital Tax that is used as matching funds for the Medicaid disproportionate share program. The amount of Hospital Tax paid by the District was approximately $14.4 million and $14.7 million for the years ended September 30, 2014 and 2013, respectively. The Hospital Tax is included as a fiscal and administrative expense.

The State of South Carolina implemented the Medicaid Upper Payment Limit (“UPL”) program for certain providers participating in the state Medicaid program. The District has a receivable of $60.1 million from the UPL program as of September 30, 2014 included in other current assets on combined balance sheets. The District recorded a corresponding liability of $39.1 million to the program as of September 30, 2014 included in accounts payable on the combined balance sheet. The net benefit to the District associated with its participation in the UPL program totaled $21 million for the year ended September 30, 2014. There can be no assurance that the District will continue to quality for future participation in this program or that the program will not ultimately be discontinued or materially modified.

<u>Other</u>: The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The bases for payments to the District under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The District believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to further government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue increased by approximately $5.1 million and $6.9 million for the years ended September 30, 2014 and 2013, respectively, due to changes in allowances for prior years’ cost reports.

HITECH Funding for Meaningful Use of Electronic Health Records ("EHR") - The District recognizes revenue for incentives earned under the Medicare and Medicaid programs in the period in which it is reasonably assured that it will comply with the applicable Health Information Technology for Economic and Clinical Health "HITECH" Funding for Meaningful Use of EHR requirements. Incentive revenues are recognized ratably over the applicable meaningful use demonstration period. Incentive payments received under the Medicare program include a discharge-related portion, which is calculated by the Centers for Medicare & Medicaid Services based on the District's most recently filed cost report. Such amounts are subject to adjustment at the time of settling the 12-month cost report for the District's fiscal year that begins after the beginning of the payment year. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The District achieved compliance with meaningful use requirements under the Medicare program during fiscal years 2014 and 2013 and, accordingly, recognized other operating revenues of approximately $4.2 and $4.5 in the accompanying combined statement of revenues, expenses, and changes in net position for the years ended September 30, 2014 and 2013, respectively. The District achieved compliance with meaningful use requirements under the Medicaid program during fiscal years 2014 and 2013 and, accordingly, recognized other operating revenues of approximately $0.5 million and $2.0 million in the accompanying combined statement of revenues, expenses, and changes in net position for the years ended September 30, 2014 and 2013, respectively.

7. Retirement Plans

Retirement System

The District contributes to the South Carolina Retirement System ("SCRS"). SCRS is a cost-sharing multiple-employer defined benefit pension plan administered by South Carolina Retirement Systems, a Division of the State Budget and Control Board. The gross wages for all District employees were approximately $365.8 million and $337.7 million, respectively, for the years ended September 30, 2014 and 2013. The gross wages for District employees covered by the SCRS for the years ended September 30, 2014 and 2013 were approximately $281.8 million and $273.8 million, respectively or approximately 77% and 81%, respectively, of total District payroll in 2014 and 2013. The contribution from the District for the years ended September 30, 2014 and 2013 was approximately $29.7 million and $28.6 million, respectively. The District's 2014 contributions represented approximately 1.8% of total contributions to SCRS.

Under SCRS, employees who entered the plan before July 1, 2012, who retire at or after age sixty-five (65) or have twenty eight (28) years of service are entitled to an annual retirement benefit, payable monthly for life equal to 1.82% of their final compensation times years of credited service. Benefits are fully vested on reaching five (5) years of earned service. Employees who entered the plan on or after July 1, 2012, who retire at or after age sixty-five (65) or whose age plus years of service total at least ninety (90) years are also entitled to an annual retirement benefit, payable monthly for life equal to 1.82% of their final compensation times years of credited service. Benefits are fully vested on reaching eight (8) years of earned service. Vested employees may retire at or after age fifty-five (55) with at least twenty-five (25) years of service and receive reduced retirement benefits. Vested employees may also retire at or after age sixty (60) and receive reduced retirement benefits. SCRS also provides death and disability benefits. Benefits are established by state statute. A Comprehensive Annual Financial Report containing financial statements and required supplementary information of SCRS is issued and publicly available by writing the South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960 or at www.retirementsc.gov.

The employee and employer contribution rates are actuarially determined for SCRS. Covered employees are required by state statute to contribute 8.0% of their total earnings. The District is required to contribute 10.75% of earnable compensation.

The accrued liability is a standardized disclosure measure of the actuarial present value of the projected benefits of each individual allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The measure is intended to help users assess SCRS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. SCRS does not make separate measurements of assets and benefits payable for individual employers. The unfunded accrued liability at July 1, 2013, the most recent valuation date for retired and active members, determined through an actuarial valuation performed as of that date, was approximately $15.4 billion. Ten-year historical trend information showing SCRS's progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2014 Component Unit Comprehensive Annual Financial Report issued by the SCRS.

Alternative Retirement Plans

Employees who are not members of the SCRS are eligible for alternative retirement plans, which include a 401(k) plan and a 457(b) plan. These plans are provided through the South Carolina Deferred Compensation Program. Employees can contribute as much as the maximum allowed by the Internal Revenue Service ("IRS") and employees age 50 or older can contribute an additional amount per year under the "catch-up" provisions provided by the IRS. There is no District match associated with the 401(k) plan. Upon joining the 457(b) plan, employees receive an automatic membership payment of 1 percent of their base pay, which vests upon completion of the first year of plan membership. The District will match 100% of the first 3% of the pay that each employee places in the plan. Vesting of the 3 percent District match occurs after three full years of participation in the plan. Employee contributions are always 100 percent vested.

8. **Commitments and Contingencies**

Operating Leases

The District leases certain equipment and facilities used in its operations under operating leases that have noncancellable terms in excess of one year. Future minimum lease payments as of September 30, 2014 under leases classified as operating leases are as follows:

Fiscal Year	Operating Leases
	(In Thousands)
2015	$ 1,684
2016	1,199
2017	466
2018	348
2019	218
2020 – 2023	824
Total minimum lease payments	$ 4,739

Lease expense relating to operating leases was approximately $3.0 million and $4.1 million in 2014 and 2013, respectively.

Litigation

The District is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that any potential exposure related to these matters is adequately funded by the District and will be resolved without material adverse effect on the District’s combined financial position.

Professional Malpractice Liability Insurance

The District is self-insured for professional and general liability insurance coverage. The self-insurance program is responsible for payment of all claims and costs not to exceed $0.6 million on an individual case basis. A liability of $15.5 million has been established for payment of all claims reported as of September 30, 2014 including an accrual of estimated incurred but not reported claims. Stop-loss or excess liability insurance is in effect for any single claim in excess of $0.6 million or in the aggregate of $10 million.

At September 30, 2014, management is aware of no claims that might lead to significant amounts not adequately funded by the District or covered by insurance that would have a material adverse effect on the combined financial position of the District.

Self-Insurance Plan

The District's health insurance plan (Plan) is a self-insured plan that provides certain benefits for covered employees. The employee pays a monthly premium and the Plan will pay for certain medical expenses, as defined in the Plan document. The District has an accrual of approximately $4 million and $3.6 million for estimated incurred but not reported claims as of September 30, 2014 and 2013, respectively.

Workers' Compensation

The District participates in a workers' compensation self-insurance pool operating as Palmetto Hospital Trust (PHT). Beginning in January 2008, the District elected to accept legal and financial responsibility for a per claim deductible of $350,000 in exchange for a deductible credit against its deposit premium. In order to facilitate the efficient administration of the program and the payment of claims and expenses, PHT from time to time will advance funds on behalf of the District equal to the deductible obligation of the District.

Industry

The healthcare 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, governmental health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

9. Related Party Transactions

The amounts due from Regional HealthPlus, LLC ("RHP") are approximately $2.1 million as of September 30, 2014 and 2013, included in other current assets on the combined balance sheets. The amounts due to Regional HealthPlus, LLC ("RHP") are approximately $1.5 million and $1.2 million as of September 30, 2014 and 2013, respectively, included in accounts payable on the combined balance sheets. The District pays operating expenses for RHP for which RHP reimburses the District.

The District pays substantially all the operating expenses on behalf of Spartanburg Regional Healthcare System Foundation (the "Foundation"). The District paid approximately $1.2 million in 2014 and 2013, on behalf of the Foundation. The Foundation issues grants to the District with approximately $0.5 million granted during 2014 and 2013, respectively. The grant revenue is included in nonoperating revenues.

The District has entered into an agreement to lease medical office space to the Ambulatory Surgery Center of Pelham, LLC with monthly payments of approximately $55,000. Future lease revenue will be approximately $0.7 million per year through September 30, 2015, when the lease expires.

10. Fair Value of Financial Instruments

The fair value of the Series 2008A, 2008D, 2009, 2012A, and 2012B bonds were estimated using discounted cash flows based on market yield on comparable bonds for a similar type of borrowing arrangement. The carrying amount approximates fair value for the other long-term notes payable. The carrying values of the District's long-term debt at September 30, 2014 and 2013 are approximately $230.3 million and $229.0 million, respectively. The fair values are approximately $238.0 million and $234.0 million, respectively.

11. Unconditional Promises to Give

During 2012, the District signed agreements for unconditional promises to give totaling $5.6 million. As of September 30, 2014, $3.6 million was paid by the District. The unamortized discount on the pledges as of September 30, 2014 was approximately $0.2 million. Future payments, not including unamortized discount, as of September 30, 2014 are as follows:

Fiscal Year	**Promises to Give**
	(In Thousands)
2015	$ 1,000
2016	1,000
Total	$ 2,000

12. Subsequent Events

Subsequent events have been evaluated through January 28, 2015, which is the date the combined financial statements were available to be issued.

Spartanburg Regional Health Services District, Inc.

Compliance Reports

September 30, 2014

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

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September 30, 2014

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Spartanburg Regional Health Services District, Inc.
Spartanburg, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Spartanburg Regional Health Services District, Inc. (the "District") as of and for the years ended September 30, 2014 and 2013, and the related notes to the combined financial statements and have issued our report thereon dated January 28, 2015.

Internal Control over Financial Reporting

In planning and performing our audits of the combined financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
January 28, 2015

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

The Board of Directors
Spartanburg Regional Health Services District, Inc.
Spartanburg, South Carolina

Report on Compliance for Each Major Federal Program
We have audited Spartanburg Regional Health Services District, Inc.'s (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended September 30, 2014. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program
In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Report on Internal Control Over Compliance
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over

compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by *OMB Circular A-133*

We have audited the combined financial statements of the District as of and for the year ended September 30, 2014, and have issued our report thereon dated January 28, 2015, which contained an unmodified opinion on those combined financial statements. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and is 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the combined financial statements as a whole.

Dixon Hughes Goodman LLP

Charlotte, North Carolina
January 28, 2015

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U. S. Department of Agriculture			
Pass-Through Program from:			
South Carolina Department of Social Services			
Child and Adult Care Food Program	10.558	C10242F	$ 29,684
U. S. Department of Transportation			
Pass-Through Program from:			
Spartanburg County			
Federal Transit Formula Grants	20.507	SC-90-X256-01	854,911
Formula Grants for Other Than Urbanized Areas	20.509	MT-21911-94	585,210
Total U. S. Department of Transportation			1,440,121
U. S. Department of Health and Human Services			
Direct Program:			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00818	495,843
Cancer Control	93.399	5U10CA035119-27	830,000
Individualizing Colon Cancer Therapy	93.394	UCA157960B	487,279
South Carolina Department of Health and Environmental Control:			
National Bioterrorism Hospital Preparedness Program	93.889	ER-0-516	116,251
Total U. S. Department of Health and Human Services			1,929,373
U. S. Department of Homeland Security			
Pass-Through Program from:			
South Carolina Law Enforcement Division			
Homeland Security Grant	97.067	8SHDP15	70,959
Total expenditures of federal awards			$ 3,470,137

Note 1 – Significant Account Policies

The accompanying Schedule of Expenditures of Federal Awards includes the grant activity of Spartanburg Regional Health Services District, Inc. (the “District”) and is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U. S. Office of Management and Budget (“OMB”) Circular A-133 *Compliance Supplement, Audits of State, Local Governments, and Non-Profit Organizations.*

Note 2 – Subrecipients

Of the federal expenditures presented in this schedule, the District provided federal awards to subrecipients as follows:

Subrecepients	**Program Title**	**Federal CFDA Number**	**Amount Provided to Subrecipients**
Moffit Cancer Center	Colon Cancer Therapy	93.394	$ 67,492
Anderson Area Medical Center	Cancer Control	93.399	$ 23,600
Carolina Blood and Cancer Care	Cancer Control	93.399	$ 1,500
St. Francis Hospital	Cancer Control	93.399	$ 22,300
Park Ridge Health	Cancer Control	93.399	$ 3,000

Note 3 – Contingencies

The District’s federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the District’s continued participation in specific programs. The amount if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2014

Section I—Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	____Yes __X__No
• Significant deficiency(ies) identified?	____Yes __X__None reported
Noncompliance material to combined financial statements noted?	____Yes __X__No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	____Yes __X__No
• Significant deficiency(ies) identified?	____Yes __X__None reported
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	____Yes __X__No

Identification of major programs:

CFDA Numbers	*Name of Federal Program or Cluster*
93.394	Individualizing Colon Cancer Therapy
93.399	Cancer Control

Dollar threshold used to distinguish between type A and type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	_X_Yes ___No

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.
Schedule of Findings and Questioned Costs (continued)
For the Year Ended September 30, 2014

Section II— Financial Statement Findings

There were none.

Section III— Federal Award Findings and Questioned Costs

There were none.