SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

Combined Financial Statements

September 30, 2012 and 2011

(with Independent Auditors' Report thereon)

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

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September 30, 2012 and 2011

Report of Independent Auditors

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

We have audited the accompanying combined balance sheets of Spartanburg Regional Health Services District, Inc. (the "District") as of September 30, 2012 and 2011, and the related combined statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the District's management. 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 General 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Spartanburg Regional Health Services District, Inc. at September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2013, on our consideration of the District's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

January 16, 2013

Dixon Hughes Goodman LLP

Spartanburg Regional Health Services District, Inc.

Management's Discussion and Analysis

Years Ended September 30, 2012 and 2011

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, 2012. 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 2012 include:

- Net patient service revenues increased from fiscal 2011 to 2012 by $11.5 million or 1.62% primarily due to volume increases and payment increases from managed care contracts. Other revenues increased from fiscal 2011 to 2012 by $9.0 million or 48.56% primarily due to the recognition of revenue for incentives earned under the Medicare and Medicaid programs for compliance with the applicable electronic health record meaningful use requirements. Additionally, other revenues increased due to the new employee pharmacy drug sales.

- Operating expenses increased from fiscal 2011 to fiscal 2012 by $7.8 million or 1.08% primarily due an increase in supplies of approximately $5.7 million and an increase in other expenses of approximately $3.4 million. The increase in supplies relates to increased pharmaceutical cost primarily due to the new employee pharmacy and increased ortho major medical supplies at Village Hospital. The increase in other expense relates to increased depreciation expense over prior year.

- Net nonoperating revenues decreased by $1.6 million or 53.55% from fiscal 2011 to fiscal 2012 primarily due to two new unconditional promises to give amounting to approximately $5.2 million combined. Offsetting this decrease is an increase in net investment income of approximately $1.9 million primarily due to the increase in net unrealized gains on investments and net realized gains on investments. Additionally, the loss on interest rate swap agreements decreased approximately $3.3 million.

- The District's days cash on hand is stronger in fiscal 2012 at 162, an increase of 11 over prior year. In addition to experiencing an increased level of collections in fiscal 2012, this improvement is also attributable to year over year increases in interest income and realized gains on long-term investments. The District's days in net patient accounts receivable increased 1 day in fiscal 2012 to 42 days. Volume increases over prior year causing increases in patient accounts receivable helped to contribute to this increase.

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 Assets. These combined statements measure the performance of the District's operations for the years ended September 30, 2012 and 2011.

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 2012	Fiscal Year 2011	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Current assets	**$ 215,289**	$ 204,802	$ 10,487	5.12%
Capital assets, net	**412,859**	427,291	(14,432)	(3.38)%
Other long-term assets	**255,231**	229,493	25,738	11.22%
Total assets	**$ 883,379**	$ 861,586	$ 21,793	2.53%
Current liabilities	**$ 109,535**	$ 102,339	$ 7,196	7.03%
Long-term liabilities	**236,723**	243,086	(6,363)	(2.62)%
Total liabilities	**346,258**	345,425	833	0.24%
Invested in capital assets, net	**166,467**	199,935	(33,468)	(16.74)%
Restricted	**4,642**	3,429	1,213	35.37%
Unrestricted	**366,012**	312,797	53,215	17.01%
Total net assets	**537,121**	516,161	20,960	4.06%
Total liabilities and net assets	**$ 883,379**	$ 861,586	$ 21,793	2.53%

As can be seen in Table A-1, net assets increased approximately $20.9 million to approximately $537.1 million in fiscal 2012. Total assets increased by approximately $21.8 million. Other long-term assets increased by approximately $25.7 million primarily due to an increase in assets whose use is limited, which increased approximately $32.4 million over prior year. This was due to an increase in plant fund cash, an increase in the market value of long-term investments, and interest earned and collected on long-term investments. Current assets increased approximately $10.5 million primarily due to an increase in patient accounts receivable and other current assets. Patient accounts receivable has increased over prior year approximately $6.0 million primarily due to increased volumes. Other current assets increased over prior year approximately $4.2 million primarily due to a Medicare cost report receivable outstanding at September 30, 2012. Offsetting these increases in other long-term assets and current assets is a decrease in net capital assets of approximately $14.4 million primarily due to the net activity of additions, deductions and depreciation. Total liabilities increased by approximately $833,000. Current liabilities increased by approximately $7.2 million over prior year primarily due to the difference in timing of vendor payments compared to the prior fiscal year, increases in the current portion of long-term debt and capital lease obligations, and current liabilities amounting to $2.2 million created as a result of two new unconditional promises to give. These current liability increases are offset by a decrease in estimated third-party payor settlements of approximately $4.1 million due to prior year cost report settlements. Long-term liabilities decreased approximately $6.4 million.

Long-term debt increased approximately $18.2 million. This increase is offset by a decrease in long-term liabilities of approximately $25.7 million due to the termination of interest rate swap agreements. 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 2011	Fiscal Year 2010	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Current assets	**$ 204,802**	$ 222,674	$ (17,872)	(8.03)%
Capital assets, net	**427,291**	430,459	(3,168)	(0.74)%
Other long-term assets	**229,493**	199,609	29,884	14.97%
Total assets	**$ 861,586**	$ 852,742	$ 8,844	1.04%
Current liabilities	**$ 102,339**	$ 109,537	$ (7,198)	(6.57)%
Long-term liabilities	**243,086**	236,969	6,117	2.58%
Total liabilities	**345,425**	346,506	(1,081)	(0.31)%
Invested in capital assets, net	**199,935**	204,181	(4,246)	(2.08)%
Restricted	**3,429**	4,856	(1,427)	(29.39)%
Unrestricted	**312,797**	297,199	15,598	5.25%
Total net assets	**516,161**	506,236	9,925	1.96%
Total liabilities and net assets	**$ 861,586**	$ 852,742	$ 8,844	1.04%

As can be seen in Table A-2, net assets increased approximately $9.9 million to approximately $516.2 million in fiscal 2011. Total assets increased by approximately $8.8 million. Assets whose use is limited increased approximately $32.6 million over prior year primarily due to an increase in plant fund cash, additional funding of long-term investments and interest earned and collected on long-term investments. Offsetting this increase in Assets whose use is limited are decreases from prior year in patient accounts receivable and other current assets. Patient accounts receivable decreased approximately $13.8 million primarily due to increased levels of collections over prior year and revenue cycle process improvements made. Other current assets decreased approximately $3.3 million primarily due to the difference in timing of the cash receipts of certain significant receivables compared to the prior fiscal year. Total liabilities decreased by approximately $1.1 million primarily due the difference in timing of the payroll liability payment and other vendor payments compared to the prior fiscal year. This decrease is offset by an increase in liabilities due to the addition of new capital lease obligations amounting to $10.2 million.

Table A-3

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

	Fiscal Year 2012	Fiscal Year 2011	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Net patient service revenues	**$ 719,525**	$ 708,071	$ 11,454	1.62%
Other revenues	**27,545**	18,541	9,004	48.56%
Total operating revenues	**747,070**	726,612	20,458	2.82%
Salaries, temporary personnel, and benefit expenses	**410,046**	411,384	(1,338)	(0.33)%
Supply expenses	**132,683**	127,015	5,668	4.46%
Other expenses	**184,794**	181,369	3,425	1.89%
Total operating expenses	**727,523**	719,768	7,755	1.08%
Operating income	**19,547**	6,844	12,703	185.61%
Net nonoperating revenues (expenses)	**1,413**	3,042	(1,629)	(53.55)%
Capital grants and contributions	**0**	39	(39)	(100.00)%
Increase in net assets	**20,960**	9,925	11,035	111.18%
Beginning net assets	**516,161**	506,236	9,925	1.96%
Ending net assets	**$ 537,121**	$ 516,161	$ 20,960	4.06%

Total operating revenues increased by approximately $20.5 million primarily due to the increase of net patient service revenue of $11.5 million and an increase in other revenues of $9.0 million. This increase of net patient service revenue was primarily due to volume increases. Additionally, a 3.7% aggregate payment increase from managed care contracts was implemented on October 1, 2011. The increase in other revenues was caused primarily by the recognition of revenue for incentives earned under the Medicare and Medicaid programs for compliance with the applicable electronic health record meaningful use requirements. Additionally, other revenues increased due to the new employee pharmacy drug sales. The increase in total operating expenses of approximately $7.8 million over prior year was primarily due to an increase in supplies of approximately $5.7 million and an increase in other expenses of approximately $3.4 million. The increase in supplies relates to increased pharmaceutical cost primarily due to the new employee pharmacy and increased ortho major medical supplies at Village Hospital. The increase in other expense relates to increased depreciation expense over prior year.

Table A-4

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

	Fiscal Year 2011	Fiscal Year 2010	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Net patient service revenues	**$ 708,071**	$ 700,847	$ 7,224	1.03%
Other revenues	**18,541**	19,205	(664)	(3.46)%
Total operating revenues	**726,612**	720,052	6,560	0.91%
Salaries, temporary personnel, and benefit expenses	**411,384**	398,491	12,893	3.24%
Supply expenses	**127,015**	121,295	5,720	4.72%
Other expenses	**181,369**	187,416	(6,047)	(3.23)%
Total operating expenses	**719,768**	707,202	12,566	1.78%
Operating income	**6,844**	12,850	(6,006)	(46.74)%
Net nonoperating revenues (expenses)	**3,042**	4,591	(1,549)	(33.74)%
Capital grants and contributions	**39**	1,296	(1,257)	(96.99)%
Increase in net assets	**9,925**	18,737	(8,812)	(47.03)%
Beginning net assets	**506,236**	487,499	18,737	3.84%
Ending net assets	**$ 516,161**	$ 506,236	$ 9,925	1.96%

Total operating revenues increased by approximately $6.5 million primarily due to the increase of net patient service revenue of $7.2 million. This increase of net patient service revenue was due to an increase in managed care contract payment rates as well as a three percent price increase that was implemented in fiscal 2011. However, net patient service revenue was negatively impacted by a reduction of Medicaid payments of $2.4 million due to decreased Medicaid payment rates implemented during fiscal 2011. The increase in total operating expenses of approximately $12.6 million over prior year was primarily due to an increase in salaries, temporary personnel, and benefit expense caused by the addition of full time employees, market adjustments, a two percent wage increase, and increased health insurance expense over prior year.

Capital Assets and Long-Term Debt

Capital Assets

As of September 30, 2012, the District had approximately $412.9 million invested in capital assets, as reflected in Table A-5, which represents a net decrease (additions, deductions and depreciation) of approximately $14.4 million or 3.38% from the end of last year.

Table A-5

Capital Assets (In Thousands of Dollars)

	Fiscal Year 2012	Fiscal Year 2011
Land and land improvements	**$ 54,995**	$ 54,600
Building and building fixtures	**258,218**	256,387
Equipment	**547,253**	535,500
Construction-in-progress	**5,258**	6,850
Equipment under capital lease obligations	**15,314**	13,911
Total capital assets	**881,038**	867,248
Less accumulated depreciation	**468,179**	439,957
Net capital assets	**$ 412,859**	$ 427,291

As of September 30, 2011, the District had approximately $427.3 million invested in capital assets, as reflected in Table A-5, which represents a net decrease (additions, deductions and depreciation) of approximately $3.2 million or 0.74% from the end of last year.

Table A-6

Capital Assets (In Thousands of Dollars)

	Fiscal Year 2011	Fiscal Year 2010
Land and land improvements	**$ 54,600**	$ 52,647
Building and building fixtures	**256,387**	250,150
Equipment	**535,500**	533,543
Construction-in-progress	**6,850**	8,272
Equipment under capital lease obligations	**13,911**	4,767
Total capital assets	**867,248**	849,379
Less accumulated depreciation	**439,957**	418,920
Net capital assets	**$ 427,291**	$ 430,459

Long-Term Debt

As of September 30, 2012, the District had approximately $237.7 million in outstanding long-term debt and as of September 30, 2011, the District had approximately $217.2 million in outstanding long-term debt. This represents a net increase of approximately $20.5 million over the prior fiscal year, primarily due to Hospital Revenue and Refunding Bonds, Series 2012A (Series 2012A) and Hospital Revenue and Refunding Bonds, Series 2012B (Series 2012B), that were issued on July 19, 2012 to advance refund the Hospital Revenue and Refunding Bonds, Series 2002, the Hospital Revenue and Refunding bonds, Series 2008B (Series 2008B), and the

Hospital Revenue and Refunding bonds, Series 2008C (Series 2008C). Additionally, the Series 2012A and Series 2012B were issued to terminate the interest rate swap agreements relating to the variable rate Series 2008B and Series 2008C.

As noted above, the District terminated its interest rate swap agreements relating to the variable rate Series 2008B and Series 2008C on July 19, 2012 as part of the advance refunding by the Series 2012A and Series 2012B. At September 30, 2012, the fair value of the interest rate swap agreements was zero as the agreements were terminated. At September 30, 2011, the fair value of the interest rate swap agreements was a liability of approximately $25.7 million. As of the years ended September 30, 2012 and 2011, the combined statements of revenues and expenses include a loss of approximately $3.0 million and $6.3 million, respectively, related to the change in fair value of the interest rate swap agreements.

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 implementation of the Affordable Care Act, South Carolina's response to Medicaid expansion, the potential sequestration of Medicare payments, and the recently enacted American Taxpayer Relief Act. Due to the District's diverse Regional Physician Network, advanced information technology, medical staff and employee leadership, and relationship with Regional HealthPlus, 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, 2012	September 30, 2011
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 78,110**	$ 80,668
Short term investments	**22,128**	18,105
Patient accounts receivable, net of allowance for uncollectible accounts of approximately $92,596 (2012) and $90,281 (2011)	**90,293**	84,332
Drugs and supplies	**6,604**	7,739
Other current assets	**18,154**	13,958
Total current assets	**215,289**	204,802
Assets whose use is limited:		
Board designated cash and investments	**236,594**	205,354
Board designated other assets	**1,095**	1,133
Funds held by trustee	**4,642**	3,429
Total assets whose use is limited	**242,331**	209,916
Capital assets, net	**412,859**	427,291
Other assets:		
Other long term investments	**-**	4,024
Investments in joint ventures	**9,362**	10,039
Debt issue costs, net	**3,538**	5,514
Total other assets	**12,900**	19,577
Total assets	**$ 883,379**	$ 861,586

(continued)

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

Combined Balance Sheets (continued)

	September 30, 2012	September 30, 2011
	(In Thousands)	
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 23,669**	$ 19,900
Accrued expenses	**60,984**	58,112
Estimated third-party payor settlements	**10,241**	14,324
Current portion of obligations under capital leases	**3,016**	2,847
Current portion of unconditional promises to give	**2,200**	-
Current portion of long-term debt	**9,425**	7,156
Total current liabilities	**109,535**	102,339
Long-term debt, less current portion	**228,317**	210,100
Long-term obligations under capital leases, less current portion	**5,634**	7,253
Long-term unconditional promises to give, less current portion	**2,772**	-
Interest rate swap agreements	**-**	25,733
Total liabilities	**346,258**	345,425
Net assets:		
Unrestricted	**366,012**	312,797
Restricted:		
Expendable for debt service	**4,642**	3,429
Invested in capital assets, net of related debt	**166,467**	199,935
Total net assets	**537,121**	516,161
Total liabilities and net assets	**$ 883,379**	$ 861,586

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

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

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

	Year Ended September 30, 2012	2011
	(In Thousands)	
Operating revenues:		
Net patient service revenues, net of provision for bad debts of approximately $68,359 (2012) and $53,238 (2011)	**$ 719,525**	$ 708,071
Other operating revenues	**27,545**	18,541
Total operating revenues	**747,070**	726,612
Operating expenses:		
Professional care of patients	**470,109**	462,584
Fiscal and administrative	**183,434**	185,747
Household and plant operations	**19,816**	19,404
Dietary	**7,387**	7,309
Depreciation	**46,777**	44,724
Total operating expenses	**727,523**	719,768
Operating income	**19,547**	6,844
Nonoperating revenues (expenses):		
Interest expense	**(10,495)**	(10,023)
Net investment income	**9,474**	7,604
Loss on joint ventures	**(171)**	(27)
Loss on interest rate swap agreements	**(3,014)**	(6,273)
Noncapital grants and contributions	**10,301**	10,719
Other income (loss)	**(4,682)**	1,042
Total nonoperating revenues	**1,413**	3,042
Excess of revenues over expenses	**20,960**	9,886
Capital grants and contributions	**–**	39
Increase in net assets	**20,960**	9,925
Net assets at beginning of year	**516,161**	506,236
Net assets at end of year	**$ 537,121**	$ 516,161

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

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

Combined Statements of Cash Flows

	Year Ended September 30, 2012	2011
	(In Thousands)	
Cash flows from operating activities:		
Receipts from patients	**$ 709,481**	$ 722,340
Payments to vendors	**(267,235)**	(267,331)
Claims and self-insurance payments	**(42,504)**	(44,763)
Payments for salaries and benefits	**(365,031)**	(372,185)
Other receipts for operations	**23,940**	20,644
Net cash provided by operating activities	**58,651**	58,705
Cash flows from noncapital financing activities:		
Noncapital grants and contributions	**10,301**	10,719
Unconditional pledges to give	**5,600**	–
Payment of unconditional pledges to give	**(200)**	–
Other	**(4,682)**	1,042
Net cash provided by noncapital financing activities	**11,019**	11,761
Cash flows from capital and related financing activities:		
Capital contributions received	**–**	39
Payment of debt issue costs	**(1,733)**	–
Purchase and construction of capital assets	**(29,491)**	(31,080)
Proceeds from issuance on long-term debt	**161,022**	–
Principal payments on long-term debt, net	**(137,811)**	(7,494)
Interest payments on long-term debt	**(10,311)**	(9,428)
Termination of interest rate swap agreements	**(28,747)**	–
Principal payments on capital lease obligations	**(2,853)**	(2,367)
Net cash used in capital and related financing activities	**(49,924)**	(50,330)
Cash flows from investing activities:		
Net change in investments	**1**	(75)
Net change in assets whose use is limited	**4,402**	(18,596)
Net investment income	**9,474**	7,604
Proceeds from sale of capital assets	**130**	49
Net change in investments in joint ventures	**506**	2,352
Net cash provided by (used in) investing activities	**14,513**	(8,666)
Net increase in cash and cash equivalents	**34,259**	11,470
Cash and cash equivalents at beginning of year	**118,270**	106,800
Cash and cash equivalents at end of year	**$ 152,529**	$ 118,270

(continued)

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

Combined Statements of Cash Flows (continued)

	Year Ended September 30, 2012	2011
	(In Thousands)	
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents on the balance sheet	**$ 78,110**	$ 80,668
Cash and cash equivalents in assets whose use is limited	**74,419**	37,602
Total cash and cash equivalents	**$ 152,529**	$ 118,270
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 19,547**	$ 6,844
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of bond discount and bond premium	**102**	(42)
Amortization of debt issue costs	**270**	300
Provision for bad debts	**68,359**	53,238
Depreciation	**46,777**	44,724
Loss on sale of capital assets	**1,505**	1,489
Changes in operating assets and liabilities:		
Patient accounts receivable	**(74,320)**	(38,098)
Drugs and supplies	**1,135**	(1,621)
Other current assets	**(4,196)**	1,931
Accounts payable	**683**	(5,415)
Estimated third-party payor settlements	**(4,083)**	(871)
Accrued expenses	**2,872**	(3,774)
Net cash provided by operating activities	**$ 58,651**	$ 58,705
Supplemental non-cash information:		
Capital assets acquired under capital lease obligations	**$ 1,403**	$ 10,233
Capital assets included in accounts payable	**$ 3,086**	$ 1,781

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

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 Regional Medical Center ("SRMC"), Spartanburg Hospital for Restorative Care ("SHRC"), the Village Hospital ("VH") and the Home Office, which provides common services for the District. The District also owns and operates the Regional Physician Group, a network of physician practices. In addition, the District owns SRMC Holdings, LLC; SRMC Ventures, LLC; Regional Management Services, LLC; and, Greer Group, LLC, which are organized as limited liability companies under South Carolina limited liability company statutes. The District also owns SRHS Capital which is organized as a South Carolina corporation and NC Network, Inc., which is organized as a North Carolina corporation. These affiliated entities are reported as blended component units of the District. SRMC Holdings, LLC; SRMC Ventures, LLC; Regional Management Services, LLC; Greer Group, LLC; and SRHS Capital operate on a calendar year end. All intercompany transactions have been eliminated in the combined financial statements. As of September 30, 2012, SRMC Holdings, LLC; Regional Management Services, LLC; and SRHS Capital were legally dissolved and all assets were transferred to other entities within the District.

SRMC 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.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary and Fund Accounting*, the District has elected to apply the provisions of all relevant pronouncements from the Financial Accounting Standards Board ("FASB") that do not conflict with or contradict GASB pronouncements, including those issued after November 30, 1989.

Use of Estimates - The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States 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, debt securities, and equity securities. Investments in debt and equity securities are reported at fair value. Interest, dividends and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue 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, 2012 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 Assets.

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 SRMC Ventures, LLC and 50% by area physicians. The District accounts for the investment in RHP using the equity method.

Upstate Linen Services, LLC is a limited liability company formed to offer a collaborative linen supplier service. Upstate Linen Services, LLC is owned 33% by SRMC Ventures, LLC and 67% by other area hospitals. The District accounts for the investment in Upstate Linen Services, LLC 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 SRMC 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 SRMC 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 are as follows:

	September 30	
	2012	**2011**
	(In Thousands)	
Regional HealthPlus, LLC	**$ 3,569**	$ 3,511
Upstate Linen Services, LLC	**1,718**	1,889
Ambulatory Surgery Center of Spartanburg, LLC	**2,444**	2,956
Ambulatory Surgery Center of Pelham, LLC	**1,631**	1,683
	$ 9,362	$ 10,039

Debt Issue Costs - Debt issue costs are amortized over the life of the related bonds utilizing a straight-line method, which approximates the effective interest method. Accumulated amortization was approximately $2.1 million and $1.9 million at September 30, 2012 and 2011, respectively.

Derivative Instruments - The District entered into derivatives, exclusively interest rate swap agreements, to manage interest rate exposures on variable rate Hospital Revenue Bonds. Interest rate swaps allow the District to swap variable interest rates on a stated notional amount for fixed rates. The gain or loss for the period associated with the fair market value of the agreements is included in nonoperating revenues and expenses. These interest rate swap agreements were terminated in 2012 in conjunction with the 2012 bond refundings.

Net Assets - Net assets of the District are classified in three components. Net assets 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 net assets include amounts deposited with trustees as required by revenue bond indentures. Unrestricted net assets are remaining net assets 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.

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, 2012 and 2011 were approximately $81.6 million and $89.9 million, respectively. The net cost of charity care provided was approximately $27.6 million in 2012 and $31.6 million in 2011. The District uses the cost to charge ratio to estimate the cost of charity care.

Operating Revenues and Expenses - The District's combined statements of revenues, expenses, and changes in net assets 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. SRMC Holdings, LLC; SRMC Ventures LLC; Regional Management Services, LLC; and SRHS Capital, nonexempt affiliates that file informational tax returns with appropriate federal and state taxing authorities in compliance with Internal Revenue Service and state provisions, are current on all tax payments. Greer Group, LLC and the NC Network Inc. are reported within SRMC Ventures, LLC. The District has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2012. Fiscal years ending on or after September 30, 2009 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, 2012 and 2011, the District included a liability of $2.5 million included in accounts payable related to an ongoing U.S. Department of Justice investigation.

Reclassification – Certain 2011 combined financial statement amounts have been reclassified to conform to the 2012 combined financial statement presentation.

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

At September 30, 2012 and 2011, the District had cash on hand and deposits as follows:

	September 30	
	2012	**2011**
	(In Thousands)	
Insured (FDIC) or collateralized with securities held by the District	**$ 2,176**	$ 2,680
Collateralized by securities held by the pledging financial institution's trust department, but not in the District's name	**75,934**	77,988
Total	**$ 78,110**	$ 80,668

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, 2012, 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, 2012 and 2011 is as follows:

		Rating	
Investment Type	**September 30, 2012**	**A-AAA**	**N/A**
	(In Thousands)		
Cash and cash equivalents	**$ 74,419**	**$ -**	**$ 74,419**
Corporate obligations	**42,852**	**42,852**	**-**
Foreign obligations	**10,142**	**10,142**	**-**
U.S. Treasury obligations	**124,837**	**-**	**124,837**
Certificates of Deposit	**2,000**	**-**	**2,000**
U.S. Agency obligations	**10,018**	**-**	**10,018**
Alternative investments	**191**	**-**	**191**
Total	**$ 264,459**	**$ 52,994**	**$ 211,465**

		Rating	
Investment Type	September 30, 2011	A-AAA	N/A
	(In Thousands)		
Cash and cash equivalents	$ 37,602	$ -	$ 37,602
Corporate obligations	39,327	39,327	-
Foreign obligations	8,195	8,195	-
U.S. Treasury obligations	133,660	-	133,660
Certificates of Deposit	2,100	-	2,100
U.S. Agency obligations	10,874	-	10,874
Alternative investments	287	-	287
Total	$ 232,045	$ 47,522	$ 184,523

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, 2012 and 2011 are as follows (in thousands):

Investment Type	**September 30, 2012**	**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	**$ 74,419**	**$ 74,419**	$ -	**$ -**	**$ -**	**$ -**
Corporate obligations	**42,852**	**3,281**	**3,069**	**14,282**	**22,220**	**-**
Foreign obligations	**10,142**	**679**	**1,079**	**4,941**	**3,443**	**-**
U.S. Treasury obligations	**124,837**	**15,138**	**17,431**	**52,201**	**40,067**	**-**
Certificates of Deposit	**2,000**	**2,000**	**-**	**-**	**-**	**-**
U.S. Agency obligations	**10,018**	**694**	**2,467**	**6,462**	**395**	**-**
Alternative investments	**191**	**-**	**-**	**-**	**-**	**191**
Total	**$ 264,459**	**$ 96,211**	**$ 24,046**	**$ 77,886**	**$ 66,125**	**$ 191**

Investment Type	September 30, 2011	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	$ 37,602	$ 37,602	$ -	$ -	$ -	$ -
Corporate obligations	39,327	2,071	5,676	16,922	14,658	-
Foreign obligations	8,195	-	1,149	4,386	2,660	-
U.S. Treasury obligations	133,660	22,815	22,461	40,959	47,425	-
Certificates of Deposit	2,100	2,100	-	-	-	-
U.S. Agency obligations	10,874	175	6,619	3,508	572	-
Alternative investments	287	-	-	-	-	287
Total	$ 232,045	$ 64,763	$ 35,905	$ 65,775	$ 65,315	$ 287

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

	September 30 2012		September 30 2011	
	(In Thousands)			
Short term investments	**$**	**22,128**	$	18,105
Assets whose use is limited		**242,331**		209,916
Other long term investments		**-**		4,024
	$	**264,459**	$	232,045

For the years ended September 30, 2012 and 2011, net investment income is comprised of the following:

	September 30 2012		September 30 2011	
	(In Thousands)			
Interest and dividends, net of fees	**$**	**4,334**	$	4,069
Net unrealized gain		**4,093**		2,990
Net realized gain		**1,047**		545
	$	**9,474**	$	7,604

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, 2012 and 2011 consisted of these amounts:

Patient Accounts Receivable

	September 30 2012		September 30 2011	
	(In Thousands)			
Receivable from patients and their insurance carriers	**$**	**137,285**	$	136,328
Receivable from Medicare		**36,176**		31,382
Receivable from Medicaid		**9,428**		6,903
Total patient accounts receivable		**182,889**		174,613
Less allowance for uncollectible amounts		**(92,596)**		(90,281)
Patient accounts receivable, net	**$**	**90,293**	$	84,332

Accounts Payable and Accrued Expenses

	September 30 2012	September 30 2011
	(In Thousands)	
Payable to employees (including payroll taxes)	**$ 42,666**	$ 40,128
Payable to suppliers	**15,217**	10,445
Other	**26,770**	27,439
Total accounts payable and accrued expenses	**$ 84,653**	$ 78,012

4. **Capital Assets**

A summary of capital assets and the related accumulated depreciation for 2012 and 2011 is as follows:

	Balance September 30, 2011	**Additions**	**Transfers**	**Disposals**	**Balance September 30, 2012**
			(In Thousands)		
Land and land improvements	**$ 54,600**	**$ 25**	**$ 370**	**$ -**	**$ 54,995**
Buildings and building fixtures	**256,387**	**83**	**1,748**	**-**	**258,218**
Fixed equipment	**268,508**	**4,459**	**4,318**	**(926)**	**276,359**
Major movable equipment	**266,992**	**15,858**	**7,308**	**(19,264)**	**270,894**
Equipment under capital lease obligations	**13,911**	**1,403**	**-**	**-**	**15,314**
Construction-in-progress	**6,850**	**12,152**	**(13,744)**	**-**	**5,258**
	867,248	**33,980**	**-**	**(20,190)**	**881,038**
Less accumulated depreciation	**(439,957)**	**(46,777)**	**-**	**18,555**	**(468,179)**
Capital assets, net	**$ 427,291**	**$ (12,797)**	**$ -**	**$ (1,635)**	**$ 412,859**

	Balance September 30, 2010	Additions	Transfers	Disposals	Balance September 30, 2011
			(In Thousands)		
Land and land improvements	$ 52,647	$ 641	$ 1,312	$ -	$ 54,600
Buildings and building fixtures	250,150	1,108	5,148	(19)	256,387
Fixed equipment	272,611	676	1,535	(6,314)	268,508
Major movable equipment	260,932	12,534	11,329	(17,803)	266,992
Equipment under capital lease obligations	4,767	10,233	-	(1,089)	13,911
Construction-in-progress	8,272	17,902	(19,324)	-	6,850
	849,379	43,094	-	(25,225)	867,248
Less accumulated depreciation	(418,920)	(44,724)	-	23,687	(439,957)
Capital assets, net	$ 430,459	$ (1,630)	$ -	$ (1,538)	$ 427,291

The District had outstanding commitments of approximately $3.7 million at September 30, 2012, for completion of construction-in-progress and for the purchase of equipment. The projects are expected to be completed in May 2013.

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 $8.5 million remains unamortized at September 30, 2012.

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 accompanying combined financial statements as a reduction of long-term debt, 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, 2012, the total unamortized loss on refunding is approximately $5.3 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 accompanying combined financial statements as a reduction of long-term debt, 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, 2012, the unamortized loss on refunding is approximately $0.4 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 $0.6 million remains unamortized at September 30, 2012.

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&B bonds resulted in a loss on refunding of approximately $6.2 million. This difference, reported in the accompanying combined financial statements as a deduction from long-term debt, 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, 2012, the unamortized loss on refunding is approximately $3.7 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 accompanying combined financial statements as a reduction of long-term debt, 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, 2012, 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 accompanying combined financial statements as a deduction from long-term debt, 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, 2012, 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 accompanying combined financial statements as a deduction from long-term debt, 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, 2012, the unamortized loss on refunding is approximately $1.1 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, 2012.

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.

Interest Rate Swap Agreements
On June 25, 2008, the District entered into an interest rate swap agreement on the notional amount of $90.8 million relating to the variable rate Hospital Revenue and Refunding Bond Series 2008B. The District is the fixed rate payer and the swap agreement fixes the interest rate on the Series 2008B bonds at 3.50% through April 2037. This swap was terminated on July 19, 2012 as part of the Series 2008B advance refunding by the Series 2012A bonds.

On June 25, 2008, the District entered in an interest rate swap agreement on the notional amount of $20.0 million relating to the variable rate Hospital Revenue and Refunding Bonds Series 2008C. The District is the fixed rate payer and the swap agreement fixes the interest rate on the Series 2008C bonds at 3.28% through April 2023. This swap was terminated on July 19, 2012 as part of the Series 2008C advance refunding by the Series 2012B bonds.

In accordance with the provisions of GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*, since these interest rate swap agreements were evaluated by the District as ineffective in the first reporting period of the interest rate swap agreements, fiscal 2008, the District has recorded the change in fair market value of the interest rate swaps as a component of nonoperating revenues and expenses in the combined statements of revenues, expenses, and changes in net assets. At September 30, 2012 and 2011, the fair value of the interest rate swap agreements was a liability of approximately $0 million and $25.7 million, respectively. As of the years ended September 30, 2012 and 2011, the combined statements of revenues and expenses include a loss of approximately $3.0 million and $6.3 million, respectively, related to the change in fair value of the interest rate swap agreements.

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 $0.2 million of the principal balance remained outstanding at September 30, 2012.

On August 23, 2005, the District entered into a loan agreement with a financial institution that provided $5,000,000 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 the Village at Pelham. The loan is being repaid over ten years in monthly installments of interest and principal and will mature in 2015. Approximately $1.7 million of the principal balance remained outstanding at September 30, 2012.

Future principal and interest payments, excluding the unamortized losses on advance refundings of the Series 1992A&B, 1995, 1997A&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)	
2013	$ 9,425	$ 9,154	$ 18,579
2014	8,409	10,529	18,938
2015	8,550	10,219	18,769
2016	8,312	9,892	18,204
2017	8,630	9,579	18,209
2018 – 2022	42,956	42,592	85,548
2023 – 2027	48,651	33,078	81,729
2028 – 2032	55,855	20,365	76,220
2033 – 2037	48,819	7,554	56,373
	$ 239,607	$ 152,962	$ 392,569

Activity related to long-term debt excluding capital lease obligations for the years ended September 30, 2012 and 2011, is summarized as follows (in thousands):

	2011	Additions	Reductions	2012	Amounts Due Within 1 Year
			(In Thousands)		
Hospital Revenue and Refunding Bonds, Series 2012A	$ -	$ 132,520	$ -	$ 132,520	$ 2,710
Hospital Revenue and Refunding Bonds, Series 2012B	-	19,977	-	19,977	1,158
Hospital Revenue Bonds, Series 2009	12,422	-	(1,341)	11,081	1,396
Hospital Revenue and Refunding Bonds, Series 2008A	49,530	-	(1,920)	47,610	1,950
Hospital Revenue and Refunding Bonds, Series 2008B	90,520	-	(90,520)	-	-
Hospital Revenue and Refunding Bonds, Series 2008C	18,105	-	(18,105)	-	-
Hospital Revenue and Refunding Bonds, Series 2008D	28,035	-	(1,515)	26,520	1,555
Hospital Revenue and Refunding Bonds, Series 2002	23,790	-	(23,790)	-	-
Notes Payable	2,519	-	(620)	1,899	656
Add : Unamortized bond premium	929	8,525	(124)	9,330	-
Less: Unamortized refunding loss	8,281	3,648	(821)	11,108	-
Unamortized bond discount	313	-	(226)	87	-
Total	$ 217,256	$ 157,374	$ (136,888)	$ 237,742	$ 9,425

	2010	Additions	Reductions	2011	Amounts Due Within 1 Year
			(In Thousands)		
Hospital Revenue Bonds, Series 2009	$ 13,709	$ -	$ (1,287)	$ 12,422	$ 1,341
Hospital Revenue and Refunding Bonds, Series 2008A	49,530	-	-	49,530	1,920
Hospital Revenue and Refunding Bonds, Series 2008B	90,645	-	(125)	90,520	95
Hospital Revenue and Refunding Bonds, Series 2008C	18,770	-	(665)	18,105	760
Hospital Revenue and Refunding Bonds, Series 2008D	29,470	-	(1,435)	28,035	1,515
Hospital Revenue and Refunding Bonds, Series 2002	24,675	-	(885)	23,790	905
Hospital Revenue and Refunding Bonds, Series 1997B	1,845	-	(1,845)	-	-
Notes Payable	3,771	-	(1,252)	2,519	620
Add : Unamortized bond premium	992	-	(63)	929	-
Less: Unamortized refunding loss	9,029	-	(748)	8,281	-
Unamortized bond discount	334	-	(21)	313	-
Total	$ 224,044	$ -	$ (6,788)	$ 217,256	$ 7,156

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, 2012 are approximately $8.4 million and $5.8 million, respectively, and at September 30, 2011 are approximately $10.2 million and $2.6 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, 2012 and 2011, is summarized as follows (in thousands):

	2011	Additions	Reductions	2012	Amounts Due Within 1 Year
			(In Thousands)		
Capital lease obligations	$ 10,100	$ 1,403	$ (2,853)	$ 8,650	$ 3,016

	2010	Additions	Reductions	2011	Amounts Due Within 1 Year
			(In Thousands)		
Capital lease obligations	$ 2,234	$ 10,233	$ (2,367)	$ 10,100	$ 2,847

The District leases certain equipment used in its operations under capital leases with interest rates varying from 4.62% to 7.19% that have noncancelable terms in excess of one year. Future minimum capital lease payments as of September 30, 2012 are as follows:

Fiscal Year	**Capital Leases**
	(In Thousands)
2013	$ 3,392
2014	3,390
2015	2,329
2016	192
Total minimum lease payments	9,303
Less amounts representing interest	653
Present value of minimum lease payments	8,650
Less current portion	3,016
	$ 5,634

6. **Net Patient Service Revenues**

Net patient service revenues for the years ended September 30, 2012 and 2011 consisted of the following:

	2012	**2011**
	(In Thousands)	
Gross patient charges at established rates, including charges foregone for charity care	**$ 2,069,330**	$ 1,973,317
Deductions:		
Contractual adjustments	**(1,199,817)**	(1,122,132)
Charity care provided at established billing rates	**(81,629)**	(89,876)
Provision for bad debts	**(68,359)**	(53,238)
Net patient service revenues	**$ 719,525**	$ 708,071

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. SRMC's Medicare cost reports have been audited by the Medicare fiscal intermediary through 2008; however, final settlements have only been determined through 2006. The Medicare cost reports for SHRC and VH have been audited and final settlements have been determined through 2010 and 2009, respectively. Approximately 39% of the District's net patient service revenues for both the years ended September 30, 2012 and 2011 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 SRMC and VH 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 2004. Approximately 8% and 10% of the District's net patient service revenues for the years ended September 30, 2012 and 2011, respectively, were derived from Medicaid.

  The District receives payments for serving a disproportionately high volume of Medicaid patients. The District received approximately $23.1 million and had a net receivable included in other current assets of approximately $0.2 million related to the Medicaid disproportionate share program for the year ended September 30, 2012. The District received approximately $25.1 million and had a receivable included in other current assets of approximately $0.1 million related to the Medicaid disproportionate share program for the year ended September 30, 2011. 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 $14.6 million and $14.8 million for the years ended September 30, 2012 and 2011, respectively. The Hospital Tax is included as a fiscal and administrative expense.

- Other: 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 $7.9 million and $5.0 million for the years ended September 30, 2012 and 2011, 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 EHR meaningful use 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 ("CMS") 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 the Year 1 meaningful use requirements under the Medicare program during fiscal year 2012 and, accordingly, recognized other operating revenues of approximately $3,597,000 in the accompanying combined statement of revenues, expenses, and changes in net assets for the year ended September 30, 2012. The District achieved compliance with the Year 1 meaningful use requirements under the Medicaid program during fiscal year 2012 and, accordingly, recognized other operating revenues of approximately $1,380,000 in the accompanying combined statement of revenues, expenses, and changes in net assets for the year ended September 30, 2012.

7. 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 was approximately $322.0 million and $331.1 million respectively, for the years ended September 30, 2012 and 2011. The gross wages for District employees covered by the SCRS for the years ended September 30, 2012 and 2011 was approximately $271.0 million and $275.8 million, respectively or approximately 84% and 83%, respectively, of total District payroll in 2012 and 2011. The contribution from the District for the years ended September 30, 2012 and 2011 was approximately $26.2 million and $25.6 million, respectively. The District's 2012 contributions represented approximately 1.9% of total contributions to SCRS.

Under SCRS, employees 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. Vested employees may 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 6.5% of their total earnings. The District is required to contribute 9.385% 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, 2011, the most recent valuation date for retired and active members, determined through an actuarial valuation performed as of that date, was approximately $14.4 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, 2012 Component Unit Comprehensive Annual Financial Report issued by the SCRS.

8. Commitments and Contingencies

Operating Leases

The District leases certain equipment and facilities used in its operations under operating leases that have noncancelable terms in excess of one year. Future minimum lease payments as of September 30, 2012 under leases classified as operating leases are as follows:

Fiscal Year	Operating Leases
	(In Thousands)
2013	$ 4,653
2014	3,045
2015	272
2016	160
2017	152
2018 – 2022	235
Total minimum lease payments	$ 8,517

Lease expense relating to operating leases was approximately $6.1 million and $7.0 million in 2012 and 2011, 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 $600,000 on an individual case basis. A liability of $11.9 million has been established for payment of all claims reported as of September 30, 2012 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 $600,000 or in the aggregate of $10,000,000.

At September 30, 2012, 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 $5.3 million for estimated incurred but not reported claims as of September 30, 2012.

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 $2.4 million and $4.7 million as of September 30, 2012 and 2011, respectively, included in other current assets on the combined balance sheets. The amounts due to Regional HealthPlus, LLC ("RHP") are approximately $1.1 million and $2.4 million as of September 30, 2012 and 2011, 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 $1,402,000 and $1,162,000 in 2012 and 2011, respectively, on behalf of the Foundation. The Foundation issues grants to the District with approximately $1,565,000 and $1,961,000 granted during 2012 and 2011, 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 $658,000 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, 2012 and 2011 are approximately $237.7 million and $217.3 million, respectively. The fair values are approximately $256.0 million and $233.8 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, 2012, $0.2 million was paid by the District. The unamortized discount on the pledges as of September 30, 2012 was approximately $0.4 million. Future payments, not including unamortized discount, as of September 30, 2012 are as follows:

Fiscal Year	**Promises to Give**
	(In Thousands)
2013	$ 2,200
2014	1,200
2015	1,000
2016	1,000
Total	$ 5,400

12. **Subsequent Events**

Subsequent to year end, the District purchased a Medicaid Medical Home Network with the intention to convert to a Medicaid Managed Care Organization. The purchase price of the Medical Home Network is $6,750,000 with the potential for an additional payment not to exceed $5,250,000 when the Medical Home Network converts to a Managed Care Organization.

Subsequent events have been evaluated through January 16, 2013, which is the date the combined financial statements were available to be issued.

Spartanburg Regional Health Services District, Inc.

Compliance Reports

September 30, 2012

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

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September 30, 2012

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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 the combined financial statements of Spartanburg Regional Health Services District, Inc. (the "District") as of and for the year ended September 30, 2012, and have issued our report thereon dated January 16, 2013. We conducted our audit 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 General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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 audit 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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, pass-through entities, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

January 16, 2013

Independent Auditors' Report On Compliance With Requirements That Could Have a Direct and Material Effect on Each Major 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

Compliance

We have audited Spartanburg Regional Health Services District, Inc.'s (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* that could have direct and material effect on each of the District's major federal programs for the year ended September 30, 2012. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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; 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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-1.

The Board of Directors
Spartanburg Regional Health Services District, Inc.
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Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance 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 non-compliance 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 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.

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the combined financial statements of the District, as of and for the year ended September 30, 2012, and have issued our report thereon dated January 16, 2013, which contained unqualified opinions on those combined financial statements. Our audit was performed 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-l33 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 other 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 taken as a whole.

This report is intended solely for the information and use of management, the Board of Directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

January 16, 2013

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2012

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	$ 31,309
U. S. Department of Transportation			
Pass-Through Program from:			
Spartanburg County			
Federal Transit Formula Grants	20.507	SC-90-X256-01	674,242
Formula Grants for Other than Urbanized Areas	20.509	MT-21911-94	454,767
Total U. S. Department of Transportation			1,129,009
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	398,793
Cancer Control	93.399	5U10CA035119-27	1,719,366
Specially Selected Health Projects	93.888	D1DHP20346	495,000
Pass-Through Program from:			
University of Iowa			
Cardiovascular Diseases Research	93.837	W000193506	14,272
South Carolina Department of Health and Environmental Control:			
National Bioterrorism Hospital Preparedness Program	93.889	ER-0-516	8,034
National Bioterrorism Hospital Preparedness Program	93.889	ER-0-515	63,559
Total National Bioterrorism Hospital Preparedness Program			71,593
Total U. S. Department of Health and Human Services			2,699,024
U. S. Department of Homeland Security			
Pass-Through Program from:			
South Carolina Law Enforcement Division			
Homeland Security Grant	97.067	8SHDP15	166,624
Total expenditures of federal awards			$ 4,025,966

Note 1 – Significant Account Policies

The accompanying Schedule of Expenditures of Federal Awards includes the grant activity of Spartanburg Regional Health Services District, Inc. 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, Spartanburg Regional Health Services District, Inc. provided federal awards to subrecipients as follows:

Subrecepients	**Program Title**	**Federal CFDA Number**	**Amount Provided to Subrecipients**
Anderson Area Medical Center	Cancer Control	93.399	$ 129,000
University of South Carolina Upstate	Specially Selected Health Projects	93.399	$ 495,000

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, 2012

Section I—Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	___Yes __X__No
• Significant deficiency(ies)?	___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)?	___Yes __X__None reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	__X__Yes ______ No

Identification of major programs:

CFDA Numbers	*Name of Federal Program or Cluster*
93.918	Grants to Provide Outpatient Early Intervention Services with respect to HIV disease
93.888	Specially Selected Health Projects
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, 2012

Section II— Financial Statement Findings

There were none.

Section III— Federal Award Findings and Questioned Costs

2012-1 Finding: Reporting

Criteria:	The District submitted the financial report subsequent to the 90-day requirement.
Condition:	The District must report program outlays as prescribed by the Federal awarding Agency, which is 90 days after the budget period.
Effect:	The financial report was not provided in a timely manner.
Cause:	The deadline was missed due to a breakdown in administrative oversight and design of internal control.
Recommendation:	We recommend that the District set up specific procedures to ensure that all reporting requirements are being met.
Management Response:	See Corrective Action Plan

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2012

2011-1 Finding:	Audit adjustment was posted to capture all capital assets and related accrued liabilities in the combined balance sheets as of September 30, 2011.
Status:	Corrected
2010-1 Finding:	The District did not have proper controls over cash collections related to the Dial-A-Ride program.
Status:	Corrected

SPARTANBURG REGIONAL HEALTH SERVICES DISTRICT, INC.
Corrective Action Plan
For the Year Ended September 30, 2012

Section IV— Financial Statement Findings

None reported.

Section V—Federal Award Findings and Questioned Costs

2012-1 Finding:	Reporting
Contact Person:	Katie Turner
Management’s Response:	The responsibility of managing this award was not fully communicated when the award was received. The work was to be completed by the subrecpient but it was not understood that the financial report was the responsibility of the District. In addition, the award dates were extended thus requiring another financial report. In order to prevent oversights like this in the future, when a new award is received, there will be better communication surrounding where responsibility of reports lies and a calendar that shows the deadlines for said reports and the person responsible for completion.
Proposed Completion Date:	September 30, 2013