

**BEAUFORT MEMORIAL
HOSPITAL AND OTHER
COMBINED ENTITY**

Combined Financial Statements

September 30, 2009 and 2008

(with Independent
Auditors' Report thereon)

**BEAUFORT MEMORIAL HOSPITAL
AND OTHER COMBINED ENTITY**

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September 30, 2009 and 2008

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Independent Auditors' Report

To the Board of Trustees
Beaufort Memorial Hospital and Other Combined Entity

We have audited the accompanying combined financial statements of Beaufort Memorial Hospital and Other Combined Entity, a public agency, (the "Hospital") and its discretely presented component unit, Beaufort Memorial Hospital Endowment Foundation, (the "Foundation") as of September 30, 2009 and 2008, which comprise the Hospital's and Foundation's basic financial statements, as presented on pages 10 through 35. These combined financial statements are the responsibility of the Hospital's and Foundation'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. 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 Hospital's and Foundation'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 and includes assessing the accounting principles used and significant estimates made by management, as well as 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 Beaufort Memorial Hospital and Other Combined Entity and its discretely presented component unit as of September 30, 2009 and 2008, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic combined financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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To the Board of Trustees
Beaufort Memorial Hospital and Other Combined Entity
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Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplementary combining information on pages 36 and 37 is presented only for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual organizations, and is not a required part of the basic combined financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual organizations. However, the supplementary combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Dixon Hughes PLLC

January 22, 2010

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY

Annual Financial Report

The annual financial report of Beaufort Memorial Hospital (“BMH”) and Other Combined Entity (the “Hospital”) provides an overview of the Hospital’s financial activities for the fiscal years ended September 30, 2009 and 2008. The combined financial statements include the independent auditors’ opinion, the required combined financial statements and accompanying explanatory notes. The required combined financial statements include a combined balance sheet, a combined statement of revenues, expenses, and changes in net assets, and a combined statement of cash flows. Management’s discussion and analysis should be read in conjunction with the combined financial statements and notes.

Beaufort Memorial Hospital Endowment Foundation (the “Foundation”) is a legally separate, tax-exempt discretely presented component unit of the Hospital. The Foundation is a South Carolina corporation whose purpose is to support and encourage, through financial and fundraising assistance, the healthcare services and interests of the Hospital. Complete financial statements for the Foundation can be obtained from the Beaufort Memorial Hospital Endowment Foundation.

Management’s Discussion and Analysis

Mission and Organizational Structure

Beaufort Memorial Hospital is a not-for-profit, freestanding rural referral center, with a sole community hospital (Medicare) designation, located in Beaufort, South Carolina. The Hospital has 197 licensed beds, of which, 169 are medical/surgical acute, 14 are rehabilitation and 14 are mental health beds. The mission of the Hospital is to deliver superior healthcare services to our patients and to improve the health of our community. This mission embraces the charitable focus of the organization, which is to provide healthcare services regardless of the patient’s ability to pay. The Hospital continues to be active in the community through its wellness and healthy community efforts. The Hospital’s vision is to exceed expectations for quality and compassionate care.

In addition to the financial statements and operations of Beaufort Memorial Hospital, the “Other Combined Entity” includes the information and accounts of Broad River Healthcare, Inc. (“Broad River”), which is a blended component unit of BMH. Broad River is a private, not-for-profit South Carolina corporation organized to assist BMH meet its mission and operational goals. The Hospital’s related entity company, Broad River, has a non-controlling interest in an outpatient surgery center, manages a mobile PET, and has a 100% interest in Beaufort Medical Imaging, LLC, which was created in 2007. Beaufort Medical Imaging, LLC ceased to operate during fiscal year 2009 due to the State of South Carolina’s Certificate of Need ruling allowing the business elements of this entity to be transferred to Beaufort Memorial Hospital. In addition, the mobile PET

was upgraded to a mobile PET CT and this business entity was also transferred to the Hospital during fiscal year 2009.

Financial Highlights

Net assets increased to \$139.2 million in 2009 from \$129.8 million in 2008, a \$9.4 million or 7.2% increase. The Hospital has had sound financial operations over the past five years, with consistently increasing net assets, primarily due to growing operating income. Inpatient activity has increased 2.8% and outpatient volumes have increased 8.2% over 2008. Reimbursement issues have reduced net patient revenues but the increases in gross patient revenues allowed for a 12.5% increase over the 2008 level. Operating expenses increased 12.3% over the prior year. Thus the 2009 operating income increased \$.68 million from the 2008 operating income of \$5.7 million. Nonoperating revenues, net of expenses, decreased from \$3.2 million in 2008 to \$2.7 million in 2009, a 15.6% decline. This decline was primarily due to the decline in interest earnings caused by lower interest rates in 2009.

Required Combined Financial Statements

The required combined financial statements are presented on an “enterprise” basis. Entities accounted for on an enterprise basis are primarily financed by charges for services to their users rather than tax receipts.

The combined balance sheet is a statement of the investments in resources (assets) and obligations to creditors (liabilities) on the last day of the fiscal year. The net asset balance is the value of the Hospital’s assets less its liabilities (net assets). The combined balance sheet classifies assets and liabilities as current and non-current, and can be used to evaluate the Hospital’s liquidity and ability to meet its future financial obligations.

The combined statement of revenues, expenses, and changes in net assets reports the revenue the Hospital generated from providing services to patients and the expenses required providing these services. Enterprise basis financial statements are prepared on an “accrual” basis, in which revenue is recorded for charges not yet received in cash and for obligations to creditors not yet paid in cash. Enterprise accounting requires that a portion of the cost of capital assets be recorded as depreciation expense. The statement also reports the changes in net assets attributable to nonoperating activities and from other transactions.

The combined statement of cash flows reports cash inflows and outflows from operations, financing activities, and investing activities, and their effect on the change in cash from the combined balance sheet.

Analysis of Overall Financial Position and Results of Operations

A summary of the Hospital's condensed combined balance sheets at September 30 is presented below:

| <i>(In thousands of dollars)</i> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|-------------------|-------------------|-------------------|
| Current assets | \$ 92,426 | \$ 95,283 | \$ 81,846 |
| Capital assets, net | 73,003 | 72,629 | 68,801 |
| Other non-current assets | 13,438 | 3,465 | 13,578 |
| Total Assets | <u>178,867</u> | <u>171,377</u> | <u>164,225</u> |
| Current liabilities | 25,240 | 25,884 | 26,990 |
| Long-term debt | 14,410 | 15,722 | 16,956 |
| Total Liabilities | <u>39,650</u> | <u>41,606</u> | <u>43,946</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 47,672 | 44,570 | 39,961 |
| Restricted for debt service | 2,314 | 2,314 | 2,376 |
| Expendable for specific operating activities | 425 | 481 | 545 |
| Unrestricted | 88,806 | 82,406 | 77,397 |
| Total Net Assets | <u>\$ 139,217</u> | <u>\$ 129,771</u> | <u>\$ 120,279</u> |

Current assets, which consist primarily of cash, investments and accounts receivable, totaled \$92.4 million in 2009 and \$95.3 million in 2008. The Hospital's total current assets cover current liabilities 3.7 times in 2009, remaining unchanged from 2008. This indicates the Hospital's liquidity has remained stable. Current assets decreased \$2.9 million or 3.0% in 2009 compared to 2008 primarily due to decreases in short-term investments. The Hospital maintains all investments in fully secured instruments, primarily in FDIC insured banks. Certificate of deposits are collateralized and therefore the stock market will have no impact on the Hospital's cash position other than reduction in interest earnings. Cash and short-term investments increased from \$61.8 million in 2007 to \$73.0 million in 2008 and decreased 6.7 million in 2009 to 66.3 million. The decrease represents a shift from investment maturities of less than one year to maturities one year or greater. Long term investments increased 10.0 million in 2009 resulting in a three year combined increase in cash and total investments of 23.4%. The Hospital's day's cash on hand has decreased from 201 days in 2008 to 189 days in 2009, down 7.4%. The primary cause of this reduction in cash was from property purchases and reduction in our line of credit, both using cash to purchase and liquidate. Current liabilities decreased slightly in 2009 due to reductions in our line of credit and in estimated amounts due to third-party payors. Long-term debt was reduced due to the annual bond principal payment made in November. Overall, total liabilities decreased \$2.0 million or 4.7% in 2009. The 2009 increase in our accounts payables was more than offset by a one million dollar reduction in both our bonds payable and estimated amounts due third party payors.

Net assets represent the residual interest in the Hospital's assets after liabilities are deducted. Total net assets in 2009 increased \$9.4 million or 7.3% over 2008, 2008 increased 7.9% over 2007, and 2007 increased 14.9% over 2006. Although the 2009 increase is slightly lower than the 2008 increase, Beaufort Memorial Hospital continues to show sound growth in our net assets. Investments in capital assets (net) increased from \$44.6 million in 2008 to \$47.7 million in 2009, an increase of 7.0%. In addition to building improvements and expansions and equipment purchases, the Hospital also purchased land across the street from the main campus to facilitate future growth. The Hospital continues to maintain its plant. The average age of plant for the Hospital is 8.0 years in 2009, up slightly from 7.8 years in 2008, and 7.2 years in 2007 and 2006. The capital budget for 2010 is approximately \$4.9 million, up from the 2008 capital budget.

The Hospital's current and long-term debt includes Hospital Revenue and Refinancing Bonds, Series 1997 with an outstanding balance of \$15.9 million as of September 30, 2009. Additionally, two lines of credit were combined and reduced \$1.5 million in 2009. Amounts outstanding are \$9.5 million in 2009 and \$11.0 million in 2008. The Hospital's debt service coverage has increased to 4.7 times in 2009.

The Combined Statement of Revenues, Expenses, and Changes in Net Assets present the Hospital's resulting financial activity for the year. A summary of the Hospital's condensed combined statements of revenues of revenues, expenses, and changes in net assets at September 30 is presented below:

| <i>(In thousands of dollars)</i> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|-------------------|-------------------|-------------------|
| Operating revenues | \$ 145,976 | \$ 129,999 | \$ 128,226 |
| Operating expenses | <u>139,592</u> | <u>124,292</u> | <u>116,593</u> |
| Operating income | 6,384 | 5,707 | 11,633 |
| Nonoperating revenues (net of expenses) | <u>2,696</u> | <u>3,151</u> | <u>3,241</u> |
| Excess revenues over expenses before capital grants and contributions | 9,080 | 8,858 | 14,874 |
| Capital grants and contributions | <u>366</u> | <u>634</u> | <u>756</u> |
| Increase in net assets | 9,446 | 9,492 | 15,630 |
| Net assets: | | | |
| Beginning of year | <u>129,771</u> | <u>120,279</u> | <u>104,649</u> |
| End of year | <u>\$ 139,217</u> | <u>\$ 129,771</u> | <u>\$ 120,279</u> |

Patient service revenues account for 98.5% of the Hospital's operating revenues. Operating revenues for 2009 increased 12.3% over 2008, compared to 2008's increase of 1.4% over the prior 2007. During 2009, contractual adjustments increased by 11.8% and

the Medicaid disproportionate share was increased by \$.77 million; the greatest influence on the Hospital's operating revenue growth was the increase in inpatient and outpatient activity. The Hospital's average daily census in 2009 increased 2.8% from the prior year while outpatient volumes increased 8.2%. Bad debts increased 6.9% in 2009 compared to 2008 and charity care as a percentage of gross patient charges remained 3.7% in 2009 as it was in 2008. Overall, revenue deductions increased from 64.0% in 2007 to 65.0% in 2008, and slightly decreased to 64.7% in 2009.

Total operating expenses increased 12.3%, 6.6% and 9.2% in 2009, 2008 and 2007, respectfully. Labor costs (salaries, benefits and contract labor) accounted for 55.3% of operating expenses during 2009, compared to 56.3% in 2008 and 56.0% in 2007. The Hospital made significant salary adjustments at the beginning of fiscal year 2009 based on a market study performed by the VP of Human Resources. These increases had a material impact on the overall increase in expenses during 2009. Although the Hospital continues to have an active and successful supply chain management program, continued drug cost increases and surgical hardware influenced the 15.6% increase in supply costs during 2009. Overall, supply costs as a percentage of net patient revenues increased to 19.0% in 2009, up from 18.5% in 2008 and from 17.5% in 2007. Nonoperating revenues, net of expenses decreased 14.4% during 2009 due mainly to changes in interest rates.

Excess revenues over expenses, before capital grants and contributions, increased 2.5% in 2009 as opposed to a decrease of 40.4% in 2008 and an increase of 24.2% in 2007. The Hospital's operating margin for 2009 as 4.0%, the same as in 2008.

The Combined Statement of Cash Flows provides additional information about the Hospital's financial results by reporting the major sources and uses of cash. A summary of the Hospital's condensed combined statements of cash flows at September 30 is presented below:

| <i>(In thousands of dollars)</i> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|--|------------------|------------------|------------------|
| Cash Flows | | | |
| Operating activities | \$ 12,740 | \$ 10,137 | \$ 23,486 |
| Capital and related financing activities | (13,182) | (14,227) | (7,428) |
| Investing activities | 234 | 3,761 | (13,223) |
| Noncapital financing activities | <u>900</u> | <u>1,269</u> | <u>1,132</u> |
| Net increase in cash | 692 | 940 | 3,967 |
| Cash and Cash Equivalents | | | |
| Beginning of year | <u>28,637</u> | <u>27,697</u> | <u>23,730</u> |
| End of year | <u>\$ 29,329</u> | <u>\$ 28,637</u> | <u>\$ 27,697</u> |

In 2009, the Hospital had cash generated by operating activities of \$12.7 million, an increase of \$2.6 million from 2008 or 25.7%. From 2008 to 2009, receipts from patients and others increased cash \$12.7 million while wages and benefits (payments to employees) increased 12.4% and payments to suppliers increased 4.9%, with a combined total outlay of \$10.1 million.

Budgets

Unlike for other government facilities, budgets for entities accounted for on the enterprise basis are not legally binding authorizing documents. The budget for an enterprise fund is a guide for management and the Board in evaluating the success of the institution in meeting its financial goals.

Future Opportunities and Challenges

Beaufort Memorial Hospital continues to focus on strategic market capture, particularly in the southern portion of Beaufort County. This includes Hilton Head Island and Bluffton, two of the fastest growing communities in the State. The Hospital has worked with a national consulting firm to assist us in identifying the best locations, as well as the best services for the communities. The Hospital's multi-specialty clinic located in Bluffton continues to grow with a second floor in its current building expanded to facilitate additional physicians and ancillary services, to include bone density, ultrasound and digital mammography. The Hospital purchased a primary care clinic, with two physicians, located west of the Sun City retirement community. These two physicians have now moved into the Hospital's Bluffton Primary Care Clinic. This facility now has three full-time physicians and a part-time physician, in addition to the ancillary services. The free-standing cancer center continues to grow and the relationship with Duke Medical University has assisted this program's development. The Hospital has extended its agreement with Duke Medical University to maintain this relationship through 2017. A new outpatient Woundcare Clinic was built in the Medical Office Plaza located on the campus of the Hospital. This clinic has continued to grow during the fiscal year. This program includes two bariatric chambers for oxygen treatments. The pediatric physical therapy program, HealthLink, has relocated to the same medical plaza which allows for easier access and improved facilities for these young patients. Orthopedic activity remains strong. Our community is a growing retirement area and this specialty remains a focus for the Hospital. The Hospital is currently in employment negotiations with an orthopedic surgeon in the community. During this fiscal year, the Hospital employed one primary care physician (in Bluffton) and six surgeons, including five general surgeons (one of which is a bariatric specialist) and a vascular surgeon. A defined physician recruitment plan is in place for future needs and growth opportunities. The State of South Carolina is a certificate of need state and the Hospital follows the rules and regulations associated with this protocol. New and additional heart services for our retirement community are an area of considerable need. The Hospital is currently recruiting two additional cardiologists. It is hoped that the Hospital will expand our heart catherizations program in the near future.

Moody's Not-for-Profit Healthcare Medians for Fiscal Year 2008 continues to show weakening across all major financial ratios and all rating categories. Medicare and Medicaid managed care programs continue to penetrate our State with obvious denial rates increasing and overall payment processing slowing down dramatically. Additionally, as the only not-for-profit hospital in Beaufort County, we see continued increases in charity care adjustments, bad debts and account adjustments for uninsured patients. Our single greatest challenge for the foreseeable future is managing our growing uninsured population. Our inpatient and outpatient uninsured mix is currently 9.0% and 15.9%, respectively. The Hospital is focusing on revenue generation and cost control. One very successful cost containment effort during this fiscal year was to reduce or eliminate the use of contract labor. As of the end of this fiscal year the Hospital had completely eliminated all nursing contract labor needs. This effort was benefited from the two nursing programs in our community.

Contacting the Hospital's Financial Management

If you have questions about this report or need additional financial information, contact the Hospital's Senior Vice President and Chief Financial Officer, at Beaufort Memorial Hospital, 955 Ribaut Road, Beaufort, South Carolina 29902.

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY

Combined Balance Sheets

September 30, 2009 and 2008

| <u>Assets</u> | <u>2009</u> | <u>2008</u> |
|--|-----------------------|-----------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 29,328,978 | \$ 28,636,964 |
| Short-term investments | 36,921,148 | 44,378,800 |
| Patient accounts receivable, net of allowance for uncollectible accounts of \$10,325,683 in 2009 and \$8,619,795 in 2008 | 21,155,045 | 16,616,163 |
| Other accounts receivable | 691,862 | 1,612,687 |
| Physician receivable, current portion | 76,815 | 130,270 |
| Inventories of drugs and supplies | 2,754,188 | 2,700,770 |
| Prepaid expenses | <u>1,497,476</u> | <u>1,207,981</u> |
| Total current assets | 92,425,512 | 95,283,635 |
| Assets limited as to use | 2,314,000 | 2,314,094 |
| Investments | 10,004,669 | - |
| Long-term equity investments | 972,760 | 970,536 |
| Capital assets, net | 73,002,660 | 72,629,245 |
| Physician receivable, less current portion | 1,000 | 84,816 |
| Deferred financing costs, net | 75,695 | 95,396 |
| Goodwill | <u>70,700</u> | <u>-</u> |
| Total assets | \$ <u>178,866,996</u> | \$ <u>171,377,722</u> |
| <u>Liabilities and Net Assets</u> | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 1,490,000 | \$ 1,415,000 |
| Line of credit | 9,505,929 | 11,017,542 |
| Accounts payable | 4,342,317 | 4,337,283 |
| Accrued expenses | 9,631,773 | 7,803,364 |
| Estimated third-party payor settlements | <u>269,679</u> | <u>1,311,429</u> |
| Total current liabilities | 25,239,698 | 25,884,618 |
| Long-term debt, less current portion | <u>14,410,637</u> | <u>15,721,840</u> |
| Total liabilities | <u>39,650,335</u> | <u>41,606,458</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 47,671,789 | 44,570,259 |
| Restricted: | | |
| For debt service | 2,314,000 | 2,314,094 |
| Expendable for specific operating activities | 424,559 | 481,152 |
| Unrestricted | <u>88,806,313</u> | <u>82,405,759</u> |
| Total net assets | <u>139,216,661</u> | <u>129,771,264</u> |
| Total liabilities and net assets | \$ <u>178,866,996</u> | \$ <u>171,377,722</u> |

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

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY
Component Unit - Beaufort Memorial Hospital Endowment Foundation

Statements of Position

September 30, 2009 and 2008

| <u>Assets</u> | <u>2009</u> | <u>2008</u> |
|--|----------------------|---------------------|
| Cash and cash equivalents | \$ 1,256,446 | \$ 621,162 |
| Certificates of deposit | 1,590,980 | 2,050,000 |
| Pledges receivable, net | 167,807 | 210,053 |
| Investments | 7,846,597 | 6,014,619 |
| Other assets | <u>30,268</u> | <u>25,988</u> |
| Total assets | <u>\$ 10,892,098</u> | <u>\$ 8,921,822</u> |
| <u>Liabilities and Net Assets</u> | | |
| Liabilities: | | |
| Payable to Beaufort Memorial Hospital | \$ 484,888 | \$ 660,080 |
| Obligation under gift annuity | <u>7,049</u> | <u>8,911</u> |
| Total liabilities | 491,937 | 668,991 |
| Net assets: | | |
| Unrestricted | 1,912,955 | 1,721,061 |
| Board designated for endowment | <u>8,000,807</u> | <u>6,072,777</u> |
| Total unrestricted | 9,913,762 | 7,793,838 |
| Temporarily restricted net assets | <u>486,399</u> | <u>458,993</u> |
| Total net assets | <u>10,400,161</u> | <u>8,252,831</u> |
| Total liabilities and net assets | <u>\$ 10,892,098</u> | <u>\$ 8,921,822</u> |

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

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY

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

For the Years Ended September 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|------------------------------|------------------------------|
| Operating revenues: | | |
| Net patient service revenue, net of provision for bad debts of \$16,486,393 in 2009 and \$15,424,973 in 2008 | \$ 143,850,041 | \$ 127,811,525 |
| Other operating revenue | <u>2,126,140</u> | <u>2,187,866</u> |
| Total operating revenues | <u>145,976,181</u> | <u>129,999,391</u> |
| Operating expenses: | | |
| Salaries and wages | 59,016,689 | 52,101,204 |
| Employee benefits | 16,945,980 | 13,937,448 |
| Contract labor | 1,195,533 | 3,932,154 |
| Supplies | 27,351,824 | 23,661,313 |
| Purchased services | 9,829,925 | 8,761,725 |
| Physician fees | 3,846,888 | 2,724,206 |
| Depreciation and amortization | 9,653,274 | 8,653,998 |
| Other | <u>11,752,480</u> | <u>10,520,014</u> |
| Total operating expenses | <u>139,592,593</u> | <u>124,292,062</u> |
| Operating income | <u>6,383,588</u> | <u>5,707,329</u> |
| Nonoperating revenues (expenses): | | |
| Investment income | 1,953,020 | 3,068,568 |
| Interest expense | (1,084,863) | (1,359,280) |
| Gain (loss) on disposal of capital assets | 7,950 | (812,487) |
| Share of income of investees, net | 919,737 | 985,245 |
| County apportionment | 643,382 | 643,382 |
| Noncapital gifts and bequests | <u>256,365</u> | <u>626,011</u> |
| Total nonoperating revenues | <u>2,695,591</u> | <u>3,151,439</u> |
| Excess of revenues over expenses before capital grants and contributions | 9,079,179 | 8,858,768 |
| Capital grants and contributions | <u>366,218</u> | <u>633,757</u> |
| Increase in net assets | 9,445,397 | 9,492,525 |
| Net assets, beginning of year | <u>129,771,264</u> | <u>120,278,739</u> |
| Net assets, end of year | \$ <u><u>139,216,661</u></u> | \$ <u><u>129,771,264</u></u> |

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

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY
Component Unit - Beaufort Memorial Hospital Endowment Foundation

Statements of Activities and Changes in Net Assets

For the Years Ended September 30, 2009 and 2008

| | <u>Year Ended September 30, 2009</u> | | | <u>Year Ended September 30, 2008</u> | | |
|--------------------------------------|--------------------------------------|---------------------|-------------------------------|--------------------------------------|---------------------|-------------------------------|
| | <u>Total</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> |
| Support and revenue | | | | | | |
| Interest, dividends, and other | \$ 309,713 | \$ 309,713 | \$ - | \$ 367,577 | \$ 367,577 | \$ - |
| Gains (losses) on investments | 127,445 | 127,445 | - | (1,367,381) | (1,367,381) | - |
| Donations, gifts and bequests | 2,171,698 | 2,053,457 | 118,241 | 998,125 | 699,996 | 298,129 |
| Fundraising income | 84,611 | 84,611 | - | 91,728 | 91,728 | - |
| Satisfaction of program restrictions | - | 90,835 | (90,835) | - | 385,102 | (385,102) |
| | <u>2,693,467</u> | <u>2,666,061</u> | <u>27,406</u> | <u>90,049</u> | <u>177,022</u> | <u>(86,973)</u> |
| Total support and revenue | | | | | | |
| Expenses | | | | | | |
| Fundraising events | 77,475 | 77,475 | - | 55,606 | 55,606 | - |
| General and administrative | 41,437 | 41,437 | - | 46,490 | 46,490 | - |
| Grants to Beaufort Memorial Hospital | 427,225 | 427,225 | - | 648,404 | 648,404 | - |
| Total expenses | <u>546,137</u> | <u>546,137</u> | <u>-</u> | <u>750,500</u> | <u>750,500</u> | <u>-</u> |
| | | | | | | |
| Increase (decrease) in net assets | 2,147,330 | 2,119,924 | 27,406 | (660,451) | (573,478) | (86,973) |
| | | | | | | |
| Net assets, beginning of year | <u>8,252,831</u> | <u>7,793,838</u> | <u>458,993</u> | <u>8,913,282</u> | <u>8,367,316</u> | <u>545,966</u> |
| | | | | | | |
| Net assets, end of year | <u>\$ 10,400,161</u> | <u>\$ 9,913,762</u> | <u>\$ 486,399</u> | <u>\$ 8,252,831</u> | <u>\$ 7,793,838</u> | <u>\$ 458,993</u> |

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

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY

Combined Statements of Cash Flows

For the Years Ended September 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Receipts from and on behalf of patients | \$ 138,269,409 | \$ 125,583,828 |
| Other receipts and payments, net | (8,568,244) | (8,685,268) |
| Payments to employees | (74,134,260) | (65,947,791) |
| Payments to suppliers | <u>(42,826,552)</u> | <u>(40,813,568)</u> |
| Net cash provided by operating activities | <u>12,740,353</u> | <u>10,137,201</u> |
| Cash flows from capital and related financing activities: | | |
| Principal paid on long-term debt | (1,415,000) | (1,345,000) |
| Payments on lines of credit | (1,731,613) | (2,340,680) |
| Borrowing on lines of credit | 220,000 | 3,277,455 |
| Interest paid on long-term debt | (828,590) | (907,762) |
| Interest paid on lines of credit | (256,273) | (451,518) |
| Purchases of capital assets | (9,545,056) | (13,327,599) |
| Proceeds from sale of capital assets | 7,950 | 234,075 |
| Capital grants and contributions | <u>366,218</u> | <u>633,757</u> |
| Net cash used in capital and related financing activities | <u>(13,182,364)</u> | <u>(14,227,272)</u> |
| Cash flows from investing activities: | | |
| Increase (decrease) in investments, net of earnings | (596,154) | 2,857,575 |
| Distribution from investees | 919,737 | 903,649 |
| Purchase of physical therapy practice | <u>(89,305)</u> | <u>-</u> |
| Net cash provided by investing activities | <u>234,278</u> | <u>3,761,224</u> |
| Cash flows from noncapital financing activities: | | |
| Noncapital gifts and bequests | 256,365 | 626,011 |
| County apportionment | <u>643,382</u> | <u>643,382</u> |
| Net cash provided by noncapital financing activities | <u>899,747</u> | <u>1,269,393</u> |
| Net increase in cash and cash equivalents | 692,014 | 940,546 |
| Cash and cash equivalents, beginning of year | <u>28,636,964</u> | <u>27,696,418</u> |
| Cash and cash equivalents, end of year | \$ <u>29,328,978</u> | \$ <u>28,636,964</u> |

(continued)

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY

Combined Statements of Cash Flows, Continued

For the Years Ended September 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 6,383,588 | \$ 5,707,329 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 9,653,274 | 8,653,998 |
| Provision for bad debts | 16,486,393 | 15,424,973 |
| Changes in assets and liabilities: | | |
| Patient accounts receivable, net | (21,025,275) | (16,928,452) |
| Other receivables | 1,058,096 | (353,120) |
| Prepaid expenses and inventories of drugs and supplies | (342,913) | (255,257) |
| Accounts payable | (259,469) | (1,478,913) |
| Accrued expenses and estimated third party payor settlements | <u>786,659</u> | <u>(633,357)</u> |
| Net cash provided by operating activities | \$ <u>12,740,353</u> | \$ <u>10,137,201</u> |
| <u>Schedule of non-cash investing and financing activities</u> | | |
| Purchases of capital assets through accounts payable | \$ <u>264,503</u> | <u>-</u> |

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

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY
Component Unit - Beaufort Memorial Hospital Endowment Foundation

Statements of Cash Flows

For the Years Ended September 30, 2009 and 2008

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|-------------------|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | \$ 2,147,330 | \$ (660,451) |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Unrealized and realized (gains) losses on investments | (127,445) | 1,367,381 |
| Other assets | (4,280) | (31) |
| Pledges receivable, net | 42,246 | 27,820 |
| Liabilities | <u>(177,054)</u> | <u>(466,045)</u> |
| Net cash provided by operating activities | <u>1,880,797</u> | <u>268,674</u> |
| Cash flows from investing activities: | | |
| Decrease (increase) in certificates of deposit | 459,020 | (1,537,034) |
| Decrease (increase) in investments, net of earnings | <u>(1,704,533)</u> | <u>546,246</u> |
| Net cash used in investing activities | <u>(1,245,513)</u> | <u>(990,788)</u> |
| Net increase (decrease) in cash and cash equivalents | 635,284 | (722,114) |
| Cash and cash equivalents, beginning of year | <u>621,162</u> | <u>1,343,276</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,256,446</u> | <u>\$ 621,162</u> |

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

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY

Notes to Combined Financial Statements

September 30, 2009 and 2008

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

Reporting Entity - The combined financial statements of Beaufort Memorial Hospital (“BMH”) and Other Combined Entity (the “Hospital”) include the accounts of Broad River Healthcare, Inc. (“Broad River”) and Beaufort Medical Imaging, LLC (“BMI”), which are blended component units of BMH. The Hospital’s related entity company, Broad River, has a non-controlling interest in limited liability companies (“LLC’s”). The Hospital’s combined financial statements are prepared using the accrual basis of accounting. All significant intercompany accounts have been eliminated.

During 2009, BMI’s assets, liabilities, net assets, and income were transferred to the Hospital and BMI was dissolved.

Beaufort Memorial Hospital Endowment Foundation (the “Foundation”) is a legally separate, tax-exempt component unit of the Hospital. The Foundation is a South Carolina corporation, the purpose of which is to support and encourage, through financial and fundraising assistance, the health care services and interests of the Hospital. The Foundation is governed by a self-perpetuating board of trustees. Although the Hospital does not control the timing or amount of receipts from the Foundation, significantly all of the resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the Hospital by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital’s combined financial statements.

Beaufort Memorial Hospital, Other Combined Entity, and Beaufort Memorial Hospital Endowment Foundation are collectively referred to as the “Organizations” throughout the notes to the combined financial statements.

Organization - The Hospital is a not-for-profit healthcare facility which owns and operates a 197-bed acute care community hospital, a 14-bed rehabilitation facility and 14 mental health beds located in Beaufort, South Carolina. The Hospital is governed by a nine member Board of Trustees (the “Board”), whose members are appointed by the County Council of Beaufort County. The Board also appoints the board of directors for Broad River, which is a supporting organization for BMH. The Hospital is a public agency as defined in Title 44, Chapter 7, of the Code of Laws of South Carolina, 1976, as amended, and is not included in the financial statements of Beaufort County.

Basis of Presentation - The Hospital utilizes enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (“GASB”) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (“FASB”), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The Foundation is a private nonprofit organization that reports under the Not-for-Profit Entities Topic of the FASB Accounting Standards Codification. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation standards. No modifications have been made to the Foundation’s financial information in the Hospital’s financial reporting entity for these differences.

Use of Estimates - The preparation of combined financial statements in conformity with generally accepted accounting principles 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. Significant estimates include allowances for uncollectible accounts, contractual allowances, estimated useful lives of capital assets, settlements with third party payors, and risk retention areas such as estimates for incurred but not reported employee medical claims.

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

The Organizations maintain bank accounts at various financial institutions covered by the FDIC. At times throughout the year, the Organizations may maintain bank account balances in excess of the FDIC insured limit. It is management’s opinion that these financial institutions are financially sound and that the Organizations are not exposed to any significant credit risk related to cash.

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

Investments – The Hospital’s investments consist primarily of interest earning investment contracts and certificates of deposit. Non-participating investment contracts and certificates of deposit are carried at cost. All other investments are carried at fair value except investments in debt securities with maturities less than one year at the time of purchase. These investments are carried at amortized cost, which approximates fair value. Investment income including realized and unrealized gains and losses are reported as nonoperating revenues (expenses).

The Foundation’s investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the Statements of Position. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the Statements of Activities and Changes in Net Assets. Securities or other investments donated are recorded at their market value at the date of the gift.

Long-Term Equity Investments - The Hospital records its interest in investments where the Hospital has a twenty to fifty percent interest in a corporation under the equity method of accounting. Under the equity method, original investments are recorded at cost and adjusted for the Hospital's share of undistributed earnings or losses and distributions.

Assets Limited as to Use - Assets limited as to use include assets held by bond trustees under bond indenture agreements. Amounts required to meet current liabilities of the Hospital are classified as current assets on the combined balance sheets.

Capital Assets - Capital assets are recorded at cost or, in the case of donated property, at fair market value at the time of donation. Assets are depreciated using the straight-line method based on the estimated useful lives of the assets, which range from three to forty years. Additions and improvements are capitalized and depreciated over the estimated remaining lives of the related assets.

| | |
|-------------------|----------------|
| Land improvements | 15 to 20 years |
| Buildings | 20 to 40 years |
| Equipment | 3 to 7 years |

Deferred Financing Costs - Deferred financing costs are amortized over the period the related obligation is outstanding. Accumulated amortization for deferred financing costs was \$324,619 and \$304,918 for September 30, 2009 and 2008, respectively. Losses on early extinguishment of debt are deferred and amortized over the remaining life of the old debt or the new debt, whichever is shorter.

Physician Receivable - The Hospital enters into loans to physicians as a method of recruiting certain physician specialties that are considered underserved in the community. If the physician complies with the provisions of the contract, the loan is forgiven by the Hospital over the term of the loan. The Hospital amortizes the amount of the loan forgiven over the remaining life of the contracts. The remaining contract lives range from one to three years at September 30, 2009. Physician loans outstanding totaled \$77,815 and \$215,086 at September 30, 2009 and 2008, respectively.

Net Assets - Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and deferred financing costs 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 and amounts expendable for specific operating purposes. 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 assets of the Foundation are classified in two components. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are transferred to unrestricted net assets when donor restrictions as to time and purpose have been met and are shown as net assets released from restrictions in the accompanying Statements of Activities and Changes in Net Assets. Unrestricted net assets are remaining net assets that do not meet the definition of temporarily restricted net assets.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Third-party contractual revenue adjustments are accrued on an estimated basis in the period the related services are rendered. Such amounts are subject to audit by the governmental agencies. Adjustments, if any, are included in contractual revenue adjustments in the year of determination. In compliance with GASB 34, net patient revenue has been reduced by the amount of bad debt expense incurred by the Hospital.

The Hospital's policy does not require collateral or other security for patient accounts receivable. The Hospital 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 Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Partial payments to which the Hospital is entitled

from public assistance on behalf of patients that meet the Hospital's charity care criteria are reported as patient service revenue.

Recognition of Revenue by Component Unit Foundation - Contributions are recognized as revenue when they are received or unconditionally pledged and are measured at their fair value and are reported as an increase in net assets.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are stipulated as support for future periods. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished or time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted gifts which are received and either spent or deemed spent within the same year are reported as unrestricted revenues. Expenses are reported as decreases in unrestricted net assets.

Operating Revenues and Expenses - The statement 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 Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions - From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Under the FASB Accounting Standards Codification, the Foundation records contribution expense and a payable to the Hospital when the Foundation's board approves the future payment of funds to the Hospital for specified purposes. The Foundation considers these restricted contributions to the Hospital because the funds must be spent for the purposes specified by the Foundation. In accordance with GASB Statement No. 33, *Accounting and Reporting for Non-exchange Transactions*, the Hospital records contribution revenue when the funds are spent for the specified purpose, that is, when the reimbursable costs have been incurred. As a result of the different accounting treatment required under the FASB Accounting Standards Codification and GASB No. 33, the Foundation has payable of approximately \$485,000 and \$660,000 as of September 30, 2009 and 2008, respectively, for which a corresponding receivable has not been recorded by the Hospital.

Compensated Absences - The Hospital's employees earn paid days off ("PDO") at varying rates depending on years of service. Accumulated PDO time may be carried over each year up to a maximum of 480 hours. The employee may elect to use PDOs or cash in PDO hours at that time.

If an employee has given proper notice, upon termination, the employee will receive pay at the regular hourly rate for all unused PDO, providing the employee has completed three months of service.

All full-time employees must use a minimum of 40 PDO hours each calendar year and part time employees must use a minimum of 20 PDO hours. Failure to use these mandatory PDO hours will result in the forfeiture of these hours.

The estimated amount of the PDO payable is reported as a current accrued expense in both the 2009 and 2008 years.

Restricted Resources - When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Income Taxes - Beaufort Memorial Hospital, Broad River Healthcare, Inc., and Beaufort Memorial Hospital Endowment Foundation are exempt from Federal income tax as organizations described in Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes has been included in the combined financial statements for Beaufort Medical Imaging, LLC since, as an LLC, all taxable income and losses are allocated to the respective owners that are exempt from Federal income tax.

The Income Tax Topic of the FASB Accounting Standards Codification clarified the accounting for the recognition and measurement of uncertainties in income taxes for all entities, including not-for-profit entities. In accordance with this Topic, the Organizations have elected to defer application of the provisions of this Topic as of and for the year ended September 30, 2009. The Organizations continue to account for uncertain tax positions in accordance with the Contingencies Topic of the FASB Accounting Standards Codification, under which liabilities for uncertain tax positions are recognized in the combined financial statements when it becomes probable a liability has been incurred and the amount can be reasonably estimated. The Organizations will be required to adopt the provisions of the Income Tax Topic for the year ended September 30, 2010. The Organizations have not yet determined the effects the adoption of this provision will have on the combined financial statements.

Risk Management - The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice claims and judgments; and

employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. The Hospital is self-insured for amounts up to a specified level for health and medical coverage for its employees. 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. The Hospital purchases professional and general liability insurance to cover medical malpractice claims. Claims under such coverage are covered based on the date of occurrence.

2. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at September 30, 2009 and 2008 consisted of the following amounts:

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| <u>Patient Accounts Receivable</u> | | |
| Receivable from patients | \$ 16,564,528 | \$ 14,262,806 |
| Receivable from third-party payors and other | 6,445,260 | 5,506,681 |
| Receivable from Medicare | 5,432,859 | 3,862,376 |
| Receivable from Medicaid | <u>3,038,081</u> | <u>1,604,095</u> |
| Total patient accounts receivable | 31,480,728 | 25,235,958 |
| Less: allowance for uncollectible accounts | <u>(10,325,683)</u> | <u>(8,619,795)</u> |
| Net patient accounts receivable | <u>\$ 21,155,045</u> | <u>\$ 16,616,163</u> |
| <u>Accounts Payable and Accrued Expenses</u> | | |
| Payable to suppliers | \$ 4,452,896 | \$ 4,435,944 |
| Payable to employees (including payroll taxes) | 9,247,611 | 7,405,818 |
| Accrued interest payable | <u>273,583</u> | <u>298,885</u> |
| Total accounts payable and accrued expenses | <u>\$ 13,974,090</u> | <u>\$ 12,140,647</u> |

3. Foundation Pledges Receivable

Foundation pledges receivable consist of the following at September 30:

| | <u>2009</u> | <u>2008</u> |
|-------------------------------------|-------------------|-------------------|
| Receivable in less than one year | \$ 230,872 | \$ 193,118 |
| Receivable in one to five years | 250,000 | 220,000 |
| Receivable after five years | 290,000 | 400,000 |
| Discounts to present value | (16,822) | (69,396) |
| Allowance for uncollectible pledges | <u>(586,243)</u> | <u>(533,669)</u> |
| Net pledges receivable | <u>\$ 167,807</u> | <u>\$ 210,053</u> |

Pledges have been discounted at a 0.45% and 3.44% annual rate of interest at September 30, 2009 and 2008, respectively.

4. **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the reimbursement arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. 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 a cost reimbursement methodology. The Hospital is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2007.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 created the Recovery Audit Contractors (RAC) program to detect and correct improper payments in the Medicare program. This began as a 3-year demonstration program in New York, Massachusetts, Florida, South Carolina, and California that ended in March 2008. This program is now being phased into all 50 states through 2009. As of September 30, 2009, the Hospital is not aware of any amounts due to the Medicare program as a result of the RAC audits, and no amounts are recorded on the Hospital's combined financial statements.

Medicaid - Inpatient services rendered to Medicaid 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 at prospectively determined rates per procedures. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2005.

Revenue from Medicare and Medicaid programs accounted for approximately 35% and 8%, respectively, of the Hospital's net patient revenue for the year ended September 30, 2009, and 36% and 6%, respectively, of the Hospital's net patient service revenue, for the year ended September 30, 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term as a result of third party reviews. The 2009 net patient service revenue did not change significantly due to changes in the allowances previously estimated for tentative cost report

settlements. The 2008 net patient service revenue decreased by approximately \$877,000 due to a change in the allowances previously estimated for tentative cost report settlements.

Other - The Hospital has also entered into payment agreements with certain commercial insurance carriers and provider organizations. The bases for payment to the Hospital under these agreements include established Hospital charges, prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Net patient service revenue is comprised of the following at September 30:

| | <u>2009</u> | <u>2008</u> |
|--|-----------------------|-----------------------|
| Gross patient charges at established rates | \$ 407,966,668 | \$ 365,243,871 |
| Medicaid disproportionate share | 1,862,970 | 1,097,282 |
| Contractual adjustments | (234,530,829) | (209,757,247) |
| Provision for bad debts | (16,486,393) | (15,424,973) |
| Charity care | <u>(14,962,375)</u> | <u>(13,347,408)</u> |
| Net patient service revenue | <u>\$ 143,850,041</u> | <u>\$ 127,811,525</u> |

5. **Cash and Cash Equivalents, Investments, and Assets Limited as to Use**

As required by state statutes, all of the Hospital's cash and cash equivalents and investments, which consist principally of certificates of deposit, overnight repurchase agreements and interest earning investment contracts, are covered by federal depository insurance, invested in U.S. Government obligations, or collateralized by U.S. governmental obligations held in the Hospital's name by a custodial bank.

The bond trustee invests in a non-participating interest earning investment contract in which the Hospital receives a guaranteed interest rate of return. As such, this investment is reported at cost at September 30, 2009 and 2008.

At September 30, the Hospital had bank balances including overnight investments as follows:

| | <u>2009</u> | <u>2008</u> |
|--|----------------------|----------------------|
| Insured (FDIC) or collateralized by securities held by the pledging financial institution's trust department or agent in the Hospital's name | <u>\$ 33,196,857</u> | <u>\$ 34,766,300</u> |
| Carrying amount | <u>\$ 29,328,978</u> | <u>\$ 28,636,964</u> |

Investments at September 30 consist of the following:

| | <u>2009</u> | <u>2008</u> |
|---|----------------------|----------------------|
| Certificates of deposit maturing within one year | \$ 36,921,148 | \$ 44,378,800 |
| Certificates of deposit maturing within two years | <u>10,004,669</u> | <u>-</u> |
| | 46,925,817 | 44,378,800 |
| Guaranteed investment contract, held by trustee | <u>2,314,000</u> | <u>2,314,094</u> |
| | <u>\$ 49,239,817</u> | <u>\$ 46,692,894</u> |

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the Hospital will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Investments with third party banks and investments held by a trustee are not registered in the name of the Hospital. Investments held with third party banks are invested primarily in certificates of deposit. Investments held by a trustee are invested in a guaranteed investment contract. Investments with third party banks and investments held by a trustee are fully collateralized and insured as of September 30, 2009 and 2008 with securities maintained by an outside party.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Hospital's investments in a single issuer. The Hospital has the following investments in excess of five percent of total investments at September 30:

| Investment type | <u>2009</u> | <u>2008</u> |
|--------------------------------|---------------|---------------|
| Certificate of deposit | \$ 11,058,203 | \$ 10,657,073 |
| Certificate of deposit | 10,004,669 | 8,933,599 |
| Certificate of deposit | 23,019,993 | 19,704,645 |
| Certificate of deposit | 2,842,952 | 2,608,565 |
| Guaranteed investment contract | 2,314,000 | 2,314,094 |

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital minimizes their interest rate risk by investing in certificates of deposit with maturities of two years or less and a guaranteed investment contract.

The carrying values of cash and cash equivalents and investments are included in the combined balance sheets as follows:

| | <u>2009</u> | <u>2008</u> |
|---------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 29,328,978 | \$ 28,636,964 |
| Short-term investments | 36,921,148 | 44,378,800 |
| Investments | 10,004,669 | - |
| Assets limited as to use | <u>2,314,000</u> | <u>2,314,094</u> |
| | <u>\$ 78,568,795</u> | <u>\$ 75,329,858</u> |

6. Foundation Investments

The fair market values of investments of the Foundation at September 30 are as follows:

| | <u>2009</u> | <u>2008</u> |
|---------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 1,757,638 | \$ 2,234,435 |
| Mutual funds | 5,816,718 | 4,382,130 |
| Equity | <u>1,863,221</u> | <u>1,448,054</u> |
| | <u>\$ 9,437,577</u> | <u>\$ 8,064,619</u> |

Investment income is comprised of the following at September 30:

| | <u>2009</u> | <u>2008</u> |
|--------------------------------|-------------------|---------------------|
| Investment income: | | |
| Interest and dividends | \$ 309,713 | \$ 367,577 |
| Unrealized gains (losses) | 139,733 | (1,412,156) |
| Realized gains (losses) | <u>(12,288)</u> | <u>44,775</u> |
| Total investment income (loss) | <u>\$ 437,158</u> | <u>\$ (999,804)</u> |

7. Capital Assets

Capital asset additions, retirements and balances for the years ended September 30 are as follows:

| | <u>September 30, 2008</u> | <u>Additions</u> | <u>Retirements</u> | <u>September 30, 2009</u> |
|--------------------------------|-------------------------------|-------------------|--------------------|-------------------------------|
| Land | \$ 17,237,541 | \$ 633,343 | \$ - | \$ 17,870,884 |
| Land improvements | 1,356,536 | 155,207 | - | 1,511,743 |
| Buildings | 62,504,757 | 1,751,839 | - | 64,256,596 |
| Equipment | 57,232,921 | 6,536,395 | - | 63,769,316 |
| Construction in progress | - | <u>732,775</u> | - | <u>732,775</u> |
| Total at historical cost | <u>138,331,755</u> | <u>9,809,559</u> | - | <u>148,141,314</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | 846,361 | 102,664 | - | 949,025 |
| Buildings | 27,265,249 | 3,244,932 | - | 30,510,181 |
| Equipment | <u>37,590,900</u> | <u>6,088,548</u> | - | <u>43,679,448</u> |
| Total accumulated depreciation | <u>65,702,510</u> | <u>9,436,144</u> | - | <u>75,138,654</u> |
| Capital assets, net | <u>\$ 72,629,245</u> | <u>\$ 373,415</u> | <u>\$ -</u> | <u>\$ 73,002,660</u> |

**BEAUFORT MEMORIAL HOSPITAL AND
OTHER COMBINED ENTITY**

Notes to Combined Financial Statements, continued

| | September 30, 2007 | Additions | Retirements | September 30, 2008 |
|--------------------------------|-------------------------------|---------------------|---------------------|-------------------------------|
| Land | \$ 13,323,897 | \$ 3,913,644 | \$ - | \$ 17,237,541 |
| Land improvements | 1,344,081 | 12,455 | - | 1,356,536 |
| Buildings | 58,794,315 | 4,533,800 | 823,358 | 62,504,757 |
| Equipment | 52,365,221 | 4,867,700 | - | 57,232,921 |
| Construction in progress | <u>280,155</u> | <u>-</u> | <u>280,155</u> | <u>-</u> |
| Total at historical cost | <u>126,107,669</u> | <u>13,327,599</u> | <u>1,103,513</u> | <u>138,331,755</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | 777,963 | 68,398 | - | 846,361 |
| Buildings | 24,079,216 | 3,242,984 | 56,951 | 27,265,249 |
| Equipment | <u>32,449,466</u> | <u>5,141,434</u> | <u>-</u> | <u>37,590,900</u> |
| Total accumulated depreciation | <u>57,306,645</u> | <u>8,452,816</u> | <u>56,951</u> | <u>65,702,510</u> |
| Capital assets, net | <u>\$ 68,801,024</u> | <u>\$ 4,874,783</u> | <u>\$ 1,046,562</u> | <u>\$ 72,629,245</u> |

8. Long-Term Equity Investments

The Hospital's ownership percentage and investments at September 30, 2009 and 2008 for entities recorded under the equity method are as follows:

| | Ownership Percentage | | Investment | | Share of Income | |
|--|---------------------------------|-------------|-------------------|-------------------|------------------------|-------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| The Surgery Center of Beaufort, LLC | 40% | 40% | \$ 972,610 | \$ 970,386 | \$ 919,737 | \$ 985,245 |
| Other | - | - | <u>150</u> | <u>150</u> | <u>-</u> | <u>-</u> |
| | | | <u>\$ 972,760</u> | <u>\$ 970,536</u> | <u>\$ 919,737</u> | <u>\$ 985,245</u> |

Summarized unaudited financial information of The Surgery Center of Beaufort, LLC as of and for the years ended September 30, 2009 and 2008 is as follows:

| | 2009 | 2008 |
|------------------------------|--------------|--------------|
| Current assets | \$ 1,575,758 | \$ 1,662,346 |
| Total assets | 3,707,145 | 3,777,874 |
| Current liabilities | 308,897 | 287,723 |
| Total liabilities | 1,335,200 | 1,400,749 |
| Equity | 2,371,945 | 2,377,125 |
| Total liabilities and equity | 3,707,145 | 3,777,874 |
| Revenue | 6,198,119 | 6,128,572 |
| Expenses | 3,898,777 | 3,665,460 |
| Net income | 2,299,342 | 2,463,112 |

9. Long-term Debt

At September 30, long-term debt included the following:

| | <u>September 30, 2008</u> | <u>Additions</u> | <u>Reductions</u> | <u>September 30, 2009</u> | <u>Amounts due within one year</u> |
|---|-------------------------------|------------------|-----------------------|-------------------------------|--|
| Revenue bonds | \$ 17,830,000 | \$ - | \$ (1,415,000) | \$ 16,415,000 | \$ 1,490,000 |
| Less unamortized discount and deferred loss on re-financing | <u>693,160</u> | <u>-</u> | <u>(178,797)</u> | <u>514,363</u> | <u>-</u> |
| Total long-term debt | <u>\$ 17,136,840</u> | <u>\$ -</u> | <u>\$ (1,236,203)</u> | <u>\$ 15,900,637</u> | <u>\$ 1,490,000</u> |
| | <u>September 30, 2007</u> | <u>Additions</u> | <u>Reductions</u> | <u>September 30, 2008</u> | <u>Amounts due within one year</u> |
| Revenue bonds | \$ 19,175,000 | \$ - | \$ (1,345,000) | \$ 17,830,000 | \$ 1,415,000 |
| Less unamortized discount and deferred loss on re-financing | <u>873,508</u> | <u>-</u> | <u>(180,348)</u> | <u>693,160</u> | <u>-</u> |
| Total long-term debt | <u>\$ 18,301,492</u> | <u>\$ -</u> | <u>\$ (1,164,652)</u> | <u>\$ 17,136,840</u> | <u>\$ 1,415,000</u> |

On November 13, 1997, BMH issued \$28,740,000 of Series 1997 Bonds. Net proceeds of \$26,093,971 were used i) to advance refund outstanding principal amounts for the Series 1977 Bonds and Series 1990 Bonds amounting to \$1,190,000 and \$19,580,000, respectively, ii) to provide \$5,670,086 for the cost of acquiring construction, improving, and equipping an expansion of the Hospital, and iii) to fund a debt service reserve account and to pay certain expenses associated with Series 1997 Bonds. The Series 1997 Bonds are secured by revenues of the Hospital. Interest is payable each May and November at rates ranging from 3.90% to 5.25%. BMH is the sole member of the obligated group.

The advance refunding resulted in an economic gain (the difference between the reacquisition price and the net carrying amount of the old and new debt service payments) of approximately \$1,300,000. The difference between the reacquisition price and the net carrying amount of the old debt, including unamortized financing costs was approximately \$2,200,000 and is reported as a reduction in the new debt and amortized to operations through the year 2012.

BMH has the option to prepay the Series 1997 Bonds maturing on or after December 1, 2009 at a redemption price of 100%.

Future principal payments under the Hospital's long-term debt agreements are:

| Year Ending September 30, | <u>Principal</u> | <u>Interest</u> |
|---------------------------|----------------------|---------------------|
| 2010 | \$ 1,490,000 | \$ 820,750 |
| 2011 | 1,560,000 | 746,250 |
| 2012 | 1,640,000 | 668,250 |
| 2013 | 1,725,000 | 586,250 |
| 2014 | 1,810,000 | 500,000 |
| 2015 to 2018 | <u>8,190,000</u> | <u>1,048,500</u> |
| | <u>\$ 16,415,000</u> | <u>\$ 4,370,000</u> |

The financing arrangements contain several covenants, the most restrictive of which requires the Hospital to maintain certain debt service coverage ratios. At September 30, 2009 and 2008, the Hospital was compliant with such financial covenants.

BMH has a line of credit in the amount of \$11,000,000 which bears interest at LIBOR plus 200 basis points, 2.25% and 3.14% at September 30, 2009 and 2008, respectively. Borrowings against the line of credit totaled \$9,505,929 and \$8,501,760 for the years ended September 30, 2009 and 2008. The line of credit expires in January 2010.

Broad River had a line of credit in the amount of \$5,000,000 that was canceled in 2009. Borrowings against the line of credit totaled \$- and \$2,515,782 for the years ended September 30, 2009 and 2008, respectively.

10. Endowment Funds

The Foundation's board designated net assets consist of three board designated endowment funds.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Foundation has a policy of requesting annual withdrawals of 4.5% of the three year running average of the fiscal year end total value of the endowment unless otherwise approved by the Foundation Board of Trustees.

Changes in Endowment Net Assets for the Year Ended September 30, 2009

| | <u>Unrestricted</u> |
|---|---------------------|
| Board designated endowment net assets, beginning of year | \$ 6,072,777 |
| Investment return | 370,537 |
| Contributions | 1,572,442 |
| Amounts appropriated for expenditure | <u>(14,949)</u> |
| Board designated endowment net assets, end of year | \$ <u>8,000,807</u> |

11. **Professional Liability Insurance**

The Hospital purchases professional medical liability insurance with coverage up to \$300,000 per individual and an aggregate of \$600,000 on an occurrence basis. The coverage for physicians employed by the facility is \$1,200,000 per occurrence. Management believes that any pending claims or unasserted claims would be settled within the limits of coverage and is not aware of any potential claims not filed with the carrier as of September 30, 2009.

The laws of the state limit the amount that can be recovered from certain governmental medical facilities, including the Hospital, for damages for medical services rendered by the facility or the facility's employees to \$300,000 per individual and an aggregate of \$600,000 per occurrence and \$1,200,000 for physicians employed by the facility.

Insurance expense for professional medical liability coverage was approximately \$268,000 and \$252,000 in 2009 and 2008, respectively.

12. **Workers Compensation**

In 2006, the Hospital obtained commercial worker's compensation insurance subject to a deductible provision of \$100,000. The Hospital is responsible for all costs associated with each incident until the deductible limit is reached. The estimated accrual for identified claims and unreported but incurred claims was approximately \$569,000 and \$95,000 at September 30, 2009 and 2008, respectively.

13. Retirement Plans

The Hospital 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 payroll for all Hospital employees was \$59,016,689 and \$52,101,204 respectively, for the years ended September 30, 2009 and 2008. The payroll for Hospital employees covered by the SCRS for the years ended September 30, 2009 and 2008 was \$36,520,487 and \$33,128,287, respectively, or 62% and 64% of total Hospital payroll in 2009 and 2008, respectively. The contribution from the Hospital for the years ended September 30, 2009 and 2008 was \$3,375,325 and \$3,054,834, respectively. The Hospital’s 2009 and 2008 contributions represented less than 1% 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 Hospital is required to contribute 9.06% of earnable compensation. In addition, the Hospital is required by the same statute to contribute an additional .15% in both 2009 and 2008 for group life insurance coverage.

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, 2008, the most recent valuation date for retired and active members, determined through an actuarial valuation performed as of that date, was approximately \$11.0 billion. The ten-year historical trend information showing SCRS’s progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 2009 Component Unit Comprehensive Annual Financial Report issued by the SCRS.

14. Commitments Under Noncancelable Operating Leases

The Hospital leases certain equipment under operating leases, which expire over the next 7 years. Rent expense was approximately \$1,633,000 and \$1,612,000 for the years ended September 30, 2009 and 2008, respectively.

The Hospital has committed to lease approximately one-third of a medical office building for Hospital operations and has also agreed to lease any unused space remaining in the building under a fifteen year master lease agreement commencing in October 2001. The Hospital has no annual contingent commitment based upon occupancy levels at September 30, 2009 and 2008.

At September 30, 2009, future minimum lease payments under the non-cancelable operating leases are as follows:

| | |
|------------|---------------------|
| 2010 | \$ 1,462,928 |
| 2011 | 1,380,759 |
| 2012 | 1,189,234 |
| 2013 | 986,289 |
| 2014 | 849,994 |
| Thereafter | <u>985,652</u> |
| | <u>\$ 6,854,856</u> |

15. Commitments and Contingencies

In May 2009, the Hospital entered into a contract for approximately \$570,000 to renovate the data center. As of September 30, 2009, the Hospital has paid approximately \$58,000 with approximately \$265,000 in accounts payable at year end. The renovation is expected to be completed in January 2010.

In April 2009, the Hospital entered into a contract for approximately \$532,000 related to renovations of 126 patient rooms. As of September 30, 2009, the Hospital has paid approximately \$277,000. These renovations are expected to be completed by October 2010.

In June 2009, the Hospital entered into a contract for approximately \$1,437,000 related to software upgrades. As of September 30, 2009, the Hospital has paid approximately \$144,000. These upgrades are expected to be completed in January 2011.

16. Litigation

There is no litigation pending, or to the knowledge of management of the Hospital threatened, which if decided adversely to the Hospital would have a material adverse effect on the business operations, financial position or operations of the Hospital. Furthermore, there is no litigation pending, or to management's knowledge threatened, involving professional liability claims in which the amount sought by the plaintiff exceeds applicable professional liability or excess insurance policy coverage limits.

17. Fair Value Disclosures

The Hospital and Foundation adopted the provisions of Fair Value Measurements on October 1, 2008.

The provision defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provision does not require any new fair value measurements, but clarifies and standardizes some divergent practices that have emerged since prior guidance was issued. The provision creates a three-level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation.

The provision defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, the Hospital and Foundation considers the principal or most advantageous market in which those assets or liabilities are sold and considers assumptions that market participants would use when pricing those assets or liabilities. Fair values determined using level 1 inputs rely on active and observable markets to price identical assets or liabilities. In situations where identical assets and liabilities are not traded in active markets, fair values may be determined based on level 2 inputs, which exist when observable data exists for similar assets and liabilities. Fair values for assets and liabilities that are not actively traded in observable markets are based on level 3 inputs, which are considered to be unobservable.

The Foundation's investments were reported at their fair values on a recurring basis.

For assets carried at fair value, the following table provides fair value information as of September 30, 2009:

| | Fair value at September 30, 2009 | Fair value measurements at September 30, 2009 using: | | |
|--------------------------------------|--|---|--|---|
| | | Quoted prices in active markets for identical assets and liabilities (Level 1 inputs) | Quoted prices for similar assets and liabilities (Level 2 inputs) | Significant unobservable inputs (Level 3 inputs) |
| <i>Assets measured at fair value</i> | | | | |
| Money market funds | \$ 166,658 | \$ 166,658 | \$ - | \$ - |
| Common stock | 1,863,221 | 1,863,221 | - | - |
| Mutual funds | <u>5,816,718</u> | <u>5,816,718</u> | <u>-</u> | <u>-</u> |
| Total assets at fair value | \$ <u>7,846,597</u> | \$ <u>7,846,597</u> | \$ <u>-</u> | \$ <u>-</u> |

18. Subsequent Event

In November, 2009, the Hospital purchased land for approximately \$1,001,000.

In November 2009, the Hospital entered into a contract for approximately \$182,000 related to renovations of the cafeteria. These renovations are expected to be completed in January 2010.

Subsequent events have been evaluated through January 22, 2010, which is the date the combined financial statements were available to be issued.

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY

Combining Balance Sheet

September 30, 2009

| <u>Assets</u> | <u>Beaufort</u> | <u>Broad River</u> | <u>BMI</u> | <u>Eliminations</u> | <u>Combined</u> |
|---|-----------------------|---------------------|-------------|-----------------------|-----------------------|
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 28,604,764 | \$ 724,214 | \$ - | \$ - | \$ 29,328,978 |
| Short-term investments | 36,921,148 | - | - | - | 36,921,148 |
| Patient accounts receivable, net of allowance for uncollectible accounts of \$10,325,683 | 21,155,045 | - | - | - | 21,155,045 |
| Other accounts receivable | 691,862 | - | - | - | 691,862 |
| Physician receivable, current portion | 76,815 | - | - | - | 76,815 |
| Inventories of drugs and supplies | 2,754,188 | - | - | - | 2,754,188 |
| Prepaid expenses | 1,497,476 | - | - | - | 1,497,476 |
| Total current assets | <u>91,701,298</u> | <u>724,214</u> | <u>-</u> | <u>-</u> | <u>92,425,512</u> |
| Assets limited as to use | 2,314,000 | - | - | - | 2,314,000 |
| Investments | 10,004,669 | - | - | - | 10,004,669 |
| Long-term equity investments | - | 972,760 | - | - | 972,760 |
| Capital assets, net | 73,002,112 | 548 | - | - | 73,002,660 |
| Physician receivable, less current portion | 1,000 | - | - | - | 1,000 |
| Deferred financing costs, net | 75,695 | - | - | - | 75,695 |
| Goodwill | 70,700 | - | - | - | 70,700 |
| Due from affiliate | 2,366,414 | 2,775,129 | - | (5,141,543) | - |
| Total assets | <u>\$ 179,535,888</u> | <u>\$ 4,472,651</u> | <u>\$ -</u> | <u>\$ (5,141,543)</u> | <u>\$ 178,866,996</u> |
| <u>Liabilities and Net Assets</u> | | | | | |
| Current liabilities: | | | | | |
| Current portion of long-term debt | \$ 1,490,000 | \$ - | \$ - | \$ - | \$ 1,490,000 |
| Line of credit | 9,505,929 | - | - | - | 9,505,929 |
| Accounts payable | 4,323,500 | 18,817 | - | - | 4,342,317 |
| Accrued expenses | 9,631,773 | - | - | - | 9,631,773 |
| Due to affiliate | 2,775,129 | 2,366,414 | - | (5,141,543) | - |
| Estimated third-party payor settlements | 269,679 | - | - | - | 269,679 |
| Total current liabilities | <u>27,996,010</u> | <u>2,385,231</u> | <u>-</u> | <u>(5,141,543)</u> | <u>25,239,698</u> |
| Long-term debt, less current portion | <u>14,410,637</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>14,410,637</u> |
| Total liabilities | <u>42,406,647</u> | <u>2,385,231</u> | <u>-</u> | <u>(5,141,543)</u> | <u>39,650,335</u> |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | 47,671,241 | 548 | - | - | 47,671,789 |
| Restricted: | | | | | |
| For debt service | 2,314,000 | - | - | - | 2,314,000 |
| Expendable for specific operating activities | 424,559 | - | - | - | 424,559 |
| Unrestricted | <u>86,719,441</u> | <u>2,086,872</u> | <u>-</u> | <u>-</u> | <u>88,806,313</u> |
| Total net assets | <u>137,129,241</u> | <u>2,087,420</u> | <u>-</u> | <u>-</u> | <u>139,216,661</u> |
| Total liabilities and net assets | <u>\$ 179,535,888</u> | <u>\$ 4,472,651</u> | <u>\$ -</u> | <u>\$ (5,141,543)</u> | <u>\$ 178,866,996</u> |

See Independent Auditors' Report.

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY

Combining Statement of Revenues, Expenses, and Changes in Net Assets

For the Year Ended September 30, 2009

| | <u>Beaufort</u> | <u>Broad River</u> | <u>BMI</u> | <u>Eliminations</u> | <u>Combined</u> |
|--|-----------------------|---------------------|------------------|---------------------|-----------------------|
| Operating revenues: | | | | | |
| Net patient service revenue, net of provision for bad debts of \$16,486,393 | \$ 143,850,041 | \$ - | \$ - | \$ - | \$ 143,850,041 |
| Other operating revenue | <u>2,126,140</u> | <u>112,042</u> | <u>128,400</u> | <u>(240,442)</u> | <u>2,126,140</u> |
| Total operating revenues | <u>145,976,181</u> | <u>112,042</u> | <u>128,400</u> | <u>(240,442)</u> | <u>145,976,181</u> |
| Operating expenses: | | | | | |
| Salaries and wages | 59,016,689 | - | - | - | 59,016,689 |
| Employee benefits | 16,945,980 | - | - | - | 16,945,980 |
| Contract labor | 1,191,793 | - | 3,740 | - | 1,195,533 |
| Supplies | 27,351,824 | - | - | - | 27,351,824 |
| Purchased services | 9,961,722 | 108,645 | - | (240,442) | 9,829,925 |
| Physician fees | 3,846,888 | - | - | - | 3,846,888 |
| Depreciation and amortization | 9,485,510 | - | 167,764 | - | 9,653,274 |
| Other | <u>11,738,704</u> | <u>13,776</u> | <u>-</u> | <u>-</u> | <u>11,752,480</u> |
| Total operating expenses | <u>139,539,110</u> | <u>122,421</u> | <u>171,504</u> | <u>(240,442)</u> | <u>139,592,593</u> |
| Operating income (loss) | <u>6,437,071</u> | <u>(10,379)</u> | <u>(43,104)</u> | <u>-</u> | <u>6,383,588</u> |
| Nonoperating revenues (expenses): | | | | | |
| Investment income | 1,953,020 | - | - | - | 1,953,020 |
| Interest expense | (1,052,057) | (5,745) | (27,061) | - | (1,084,863) |
| Gain on disposal of capital assets | 7,950 | - | - | - | 7,950 |
| Share of income of investees, net | - | 919,737 | - | - | 919,737 |
| County apportionment | 643,382 | - | - | - | 643,382 |
| Noncapital gifts and bequests | 256,365 | - | - | - | 256,365 |
| Gain (loss) on forgiveness of debt | <u>1,750,762</u> | <u>(1,750,762)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total nonoperating revenues (expenses) | <u>3,559,422</u> | <u>(836,770)</u> | <u>(27,061)</u> | <u>-</u> | <u>2,695,591</u> |
| Excess (deficit) of revenues over expenses before capital grants and contributions | 9,996,493 | (847,149) | (70,165) | - | 9,079,179 |
| Capital grants and contributions | <u>366,218</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>366,218</u> |
| Increase (decrease) in net assets | 10,362,711 | (847,149) | (70,165) | - | 9,445,397 |
| Euity transfer | (552,532) | - | 552,532 | - | - |
| Net assets, beginning of year | <u>127,319,062</u> | <u>2,934,569</u> | <u>(482,367)</u> | <u>-</u> | <u>129,771,264</u> |
| Net assets, end of year | \$ <u>137,129,241</u> | \$ <u>2,087,420</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>139,216,661</u> |

See Independent Auditors' Report.