BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY

Combined Financial Statements

September 30, 2012 and 2011

(with Independent
Auditors' Report thereon)

BEAUFORT MEMORIAL HOSPITAL
AND OTHER COMBINED ENTITY

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September 30, 2012 and 2011

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 the financial statements of its discretely presented component unit, Beaufort Memorial Hospital Endowment Foundation, (the "Foundation") as of September 30, 2012 and 2011, which comprise the Hospital's and Foundation's basic financial statements, as presented on pages 9 through 33. 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, 2012 and 2011, 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 8 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.

11 Brendan Way, Suite 200, Greenville, SC 29615 | T 864.288.5544 | F 864.458.8519 | dhgllp.com

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 34 and 35 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 Goodman LLP

January 24, 2013

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, 2012 and 2011. The combined financial statements include: the independent auditors' report, 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 hospital, 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, managed a mobile PET, and had 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 $161.1 million in 2012 from $160.0 million in 2011, a $1.1 million or .7% increase. The Hospital has had sound financial operations over the past years, with consistently increasing net assets, primarily due to growing operating income. In 2012, this growth slowed dramatically. Gross patient activity increased .8% over the prior year, resulting in a 2012 operating loss of $922,086. This loss was primarily caused by the overall decrease in net patient service revenue of $10.5 million from 2011. Deductions from revenue (primarily contractual adjustments) increased significantly over the prior year, causing this decline in net patient service revenue. Non-operating revenues, net of expenses, decreased from $2.1 million in 2011 to $1.3 million in 2012, a 38.5% decline. This decline, which was also evident in 2011, was primarily due to the decline in interest earnings caused by lower interest rates in 2012. Although interest rates have declined, the Hospital has maintained all investments in instruments that protect the principal. All investments are backed by appropriate collateral. Additionally, Beaufort County has appropriated funds to support the Hospital's outpatient indigent care. In 2012, this financial support was terminated and $536,198 from the prior year was eliminated from the Hospital's non-operating revenues.

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 non-operating activities and from other transactions.

The combined statement of cash flows reports cash inflows and outflows from operations, capital and related financing activities, investing activities, and noncapital financing 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:

(In thousands of dollars)	**2012**	**2011**	**2010**
Current assets	$ 108,010	$ 119,110	$ 110,284
Capital assets, net	92,127	70,948	73,097
Other non-current assets	9,646	3,223	3,267
Total Assets	209,783	193,281	186,648
Current liabilities	22,325	21,693	24,021
Long-term debt	26,319	11,559	13,026
Total Liabilities	48,644	33,252	37,047
Net Assets			
Invested in capital assets, net of related debt	62,864	53,290	52,166
Restricted for debt service	---	2,314	2,314
Unrestricted	98,275	104,425	95,121
Total Net Assets	$ 161,139	$ 160,029	$ 149,601

Current assets, which consist primarily of cash, short-term investments and accounts receivable, totaled $108.0 million in 2012 and $119.1 million in 2011, representing a 9.3% decrease. The Hospital's total current assets cover current liabilities 4.8 times in 2012. Current assets declined in 2012 primarily due to the reclassification of $8.5 million in short-term investments to long-term investments. This indicates the Hospital's liquidity continues to remain sound. 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 and long-term investments decreased from $87.6 million in 2011 to $82.5 million in 2012. The Hospital's day's cash on hand decreased from 197.5 days in 2011 to 190 days in 2012. Cash declined due to the operating loss in 2012 and the use of cash for capital projects. Current liabilities increased in 2012 primarily due to timing issues related to the construction projects posting to accounts payable prior to release. Long-term debt increased due to the use of bond funding for two major capital projects. Overall, total liabilities increased $15.4 million or 46.2% in 2012 mostly from the long-term debt.

Net assets represent the residual interest in the Hospital's assets after liabilities are deducted. Total net assets in 2012 increased $1.1 million or .7% over 2011; 2011 increased $10.4 million or 7.0% over 2010; and 2010 increased 7.5% over 2009. Beaufort Memorial Hospital continues to show growth in our net assets but the current year has a dramatic decline due to the impact of the Hospital's reduced operating results. Investments in capital assets (net) increased from $53.3 million in 2011 to $62.9 million in 2012, an increase of 17.9%. During the fiscal year major strategic capital plans were put in place for 2012 building expansions and property acquisitions. The Hospital continues to maintain its plant. The average age of plant for the Hospital is 8.5 years in 2012, up from 8.0 years in 2011 and 6.9 years in 2010. The capital budget for 2013 is approximately $4.7 million, the same as the prior two fiscal years.

The Hospital's current and long-term debt includes Hospital Revenue and Refinancing Bonds, Series 2011A and 2011B with an outstanding balance of $27.8 million as of September 30, 2012. Additionally, the line of credit was reduced by $2.7 million in 2012 leaving the amount outstanding at $1.8 million in 2012, down from $4.5 million in 2011. The Hospital's debt service coverage has decreased to 5.9 times in 2012, down from 9.1 times in 2011. The issuance of a new private placement bond; refinancing the balance of the Series 1997 hospital revenue bonds with additional new money totaling $46.2 million, and the decline in operating income caused this decline in coverage.

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, expenses, and changed in net assets at September 30 is presented below:

(In thousands of dollars)	**2012**	**2011**	**2010**
Operating revenues	$ 146,427	$ 153,887	$ 148,909
Operating expenses	147,349	146,040	141,552
Operating income (loss)	(922)	7,847	7,357
Non-operating revenues (net of expenses)	1,275	2,073	2,383
Excess revenues over expenses before capital grants and contributions	353	9,920	9,740
Capital grants and contributions	757	508	644
Increase in net assets	1,110	10,428	10,384
Net Assets			
Beginning of year	160,029	149,601	139,217
End of year	$ 161,139	$ 160,029	$ 149,601

Patient service revenues account for 96.5% of the Hospital's operating revenues. Operating revenues for 2012 decreased 4.8% from 2011, compared to 2011's increase of 3.3% over the prior 2010. During 2012, contractual adjustments increased by 7.9% and the Medicaid disproportionate share increased by 20.5%; the greatest influence on the Hospital's growth in gross patient charges was the increase in outpatient activity. The Hospital's average daily census decreased 7.0% in 2012 from the prior year while outpatient volumes increased 1.6%. Bad debts decreased 16.3% in 2012 compared to 2011 while charity care as a percentage of gross patient charges decreased to 5.0% in 2012 from 5.2% in 2011. Overall, revenue deductions increased from 65.6% in 2011 to 68.5% in 2012. The primary cause of this increase comes from Medicare RAC and other third party claim denials.

Total operating expenses increased .9%, 3.2% and 1.4% in 2012, 2011 and 2010, respectively. Labor costs (salaries, benefits and contract labor) accounted for 58.1% of operating expenses during 2012, compared to 57.4% in 2011 and 56.0% in 2010. The Hospital was successful in significantly reducing contract labor during 2011 and maintaining this reduction in 2012. The Hospital incurred only $58,296 in contract labor expenses in 2012. The Hospital continues to have an active and successful supply chain management program, and focused efforts on reducing supply expenses, resulting in a decrease from $25.1 million in 2011 to $23.0 million in 2012. Overall, supply costs as a percentage of net patient revenues decreased to 16.3% in 2012, down from 16.5% in 2011 and from 17.8% in 2010. Non-operating revenues, net of expenses decreased 38.5% during 2012 due mainly to decreases in interest rates and the loss of indigent support by the County.

Excess of revenues over expenses, before capital grants and contributions, decreased in 2012 compared to an increase of 1.8% in 2011 and an increase of 7.3% in 2010. The Hospital's operating margin for 2012 was -.63%, down from 5.1% in 2011 and 4.9% in 2010.

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:

(In thousands of dollars)	**2012**	**2011**	**2010**
Cash Flows			
Operating activities	$ 5,971	$ 11,108	$ 19,743
Capital and related financing activities	(14,972)	(11,102)	(14,651)
Investing activities	1,199	6,003	6986
Non-capital financing activities	384	1,165	1,242
Net increase (decrease) in cash	(7,418)	7,174	13,320
Cash and Cash Equivalents			
Beginning of year	49,823	42,649	29,329
End of year	$ 42,405	$ 49,823	$ 42,649

In 2012, the Hospital had cash generated by operating activities of $6.0 million, a decrease of $4.9 million from 2011 or 46.2%. From 2011 to 2012, receipts from patients and others decreased $6.0 million while wages and benefits (payments to employees) increased .64% and payments to suppliers decreased 8.6%.

Budgets

Unlike 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 experience challenges with payer mixes and revenue deductions created by Medicare's Recovery Audit Contractor (RAC) denials as well as other third party denials from Medicaid and commercial insurance plans. Medicare RACs have primarily focused on short stays. We have found that the Medicare RACs are denying the greatest majority of claims indicating a length of stay of one to two days; basically regardless of the medical situation. Additionally, we have now experienced numerous denials from commercial third parties due to technical requirements and medical necessity determinations. Interestingly, the insurance programs rarely deny the physician claims that are directly related to the Hospital's claims denied for services ordered. Our challenge will be to ensure our systems are well coordinated and efficient to avoid non-clinical denials from third parties. The impact these denials have created on the combined statement of revenues, expenses, and changes in net assets can be identified within our contractual adjustments. In addition to these denial challenges, we are also experiencing the impacts of reimbursement reductions. As we mentioned in last year's report, Medicaid's reimbursement was reduced by 7%. Our high Medicaid volumes influenced contractual adjustments which increased during the year. We have also been approached by other third parties requesting our Hospital to lower our reimbursement rates under their contracts. These contractual adjustments totaled 55.6% in 2011 but have increased to 59.5% in 2012, an effective amount totaling $17.4 million in lower net patient service revenues.

Operating expenses continue to be controlled extremely well. The Hospital's operating expenses increased less than one percent (.9%) over the prior year. Benefits increased $1.8 million in 2012, while salaries actually dropped slightly. The challenge we face in the current and future years in this expense category rest with the pension plan contributions and the health care costs associated with our self-insured program. Our contributions to the pension plan increased from 9.385% to 10.60%, effectively increasing our contributions by approximately $740,000. Healthcare costs increased $1.4 million. We will continue our efforts to reduce operating costs. Labor costs are the greatest single cost element on the combined statement of revenues, expenses and changes to net assets. This area will have intensive focus for cost containment and reduction in 2013. Other areas to reduce costs will be ongoing challenges. We have begun early efforts with insurance plans to reduce the cost of providing health care by working together to reduce the utilization of the emergency room through early care and prevention.

The Hospital has identified three technologies that we will concentrate our marketing and patient services on during 2013 and beyond. The new da Vinci robotic system has been used over the past few years in the area of gynecological surgeries. We have expanded this technology into a single site general surgery service currently offered patients in the primary and secondary market area. In addition the GYN and general surgery utilization with the robot, we are also focusing on other specialty areas to include urological procedures. The next technology advance is in the area of orthopedics and major joint replacements. The Hospital has purchased new specialized equipment, to include an orthopedic surgical table that facilitates the anterior approach for hip replacement. This procedure is designed to avoid major muscle areas and allow for less pain and quicker patient recovery. The third technology is focused in the area of cardiology. A certificate of need has been submitted to the State for approval of cardiac STEMI procedures. This will allow the Hospital to provide emergent cardiac balloon and stents in the case of heart attacks. The Hospital is also in the process of working with the Medical University of South Carolina to expand our capabilities for stroke services. This is in early stages of discussion.

The major capital projects started in 2011 are progressing well with the new emergency room planned to open in January 2013. The new medical services and administrative facility is projected for completion in February 2013. The funding for these majors as well as a land purchase for future expansion on Bluffton was obtained through a private placement bond with TD Bank. The debt was issued in two series; Series 2011A and Series 2011 B. Series 2011 A is a refinancing of the Hospital's Hospital Revenue and Refunding Bonds dated 1997. The interest rate on this refinancing is 1.96% with a maturity date of 12-1-2017 on $9,480,000. Series 2011B is $36,700,000 of new borrowings at a fixed interest rate of 3.03% maturing 12-1-2042.

Contacting the Hospital's Financial Management

If you have questions about this report or need additional information, please 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, 2012 and 2011

Assets	**2012**	**2011**
Current assets:		
Cash and cash equivalents	$ 42,405,548	$ 49,823,220
Short-term investments	31,569,489	37,781,698
Patient accounts receivable, net of allowance for uncollectible accounts of $26,043,156 in 2012 and $21,001,813 in 2011	28,030,960	26,329,312
Other receivables	437,059	368,813
Physician receivables	4,093	8,186
Drugs and supplies	3,022,327	3,149,435
Prepaid expenses	2,540,427	1,649,373
Total current assets	108,009,903	119,110,037
Assets limited as to use	-	2,314,000
Long-term investments	8,493,948	-
Investment in joint ventures	869,840	865,629
Capital assets, net	92,127,292	70,947,961
Deferred financing costs	282,372	43,021
Total assets	$ 209,783,355	$ 193,280,648
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 1,395,000	$ 1,640,000
Current portion of capital lease obligations	65,157	-
Line of credit	1,766,201	4,501,929
Accounts payable	10,071,663	5,237,237
Accrued expenses	7,529,128	8,295,339
Estimated third-party payor settlements	1,498,261	2,018,479
Total current liabilities	22,325,410	21,692,984
Long-term debt, less current portion	26,125,779	11,559,015
Capital lease obligations, less current portion	193,052	-
Total liabilities	48,644,241	33,251,999
Net assets:		
Invested in capital assets, net of related debt	62,864,475	53,290,038
Restricted:		
For debt service	-	2,314,000
Unrestricted	98,274,639	104,424,611
Total net assets	161,139,114	160,028,649
Total liabilities and net assets	$ 209,783,355	$ 193,280,648

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, 2012 and 2011

Assets	**2012**	**2011**
Cash and cash equivalents	$ 992,163	$ 1,061,754
Certificates of deposit	1,850,690	1,820,295
Pledges receivable, net	35,967	9,073
Investments	9,878,944	8,329,907
Other assets	7,304	26,161
Total assets	$ 12,765,068	$ 11,247,190

Liabilities and Net Assets		
Liabilities:		
Payable to Beaufort Memorial Hospital	$ 59,791	$ 777,128
Obligations under gift annuities	56,348	23,566
Total liabilities	116,139	800,694
Net assets:		
Unrestricted	3,175,233	1,894,539
Board designated for endowment	8,782,449	8,249,587
Total unrestricted net assets	11,957,682	10,144,126
Temporarily restricted net assets	691,247	302,370
Total net assets	12,648,929	10,446,496
Total liabilities and net assets	$ 12,765,068	$ 11,247,190

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, 2012 and 2011

	2012	2011
Operating revenues:		
Net patient service revenue, net of provision for bad debts of $21,706,621 in 2012 and $25,934,003 in 2011	$ 141,280,475	$ 151,753,537
Other operating revenue	5,146,631	2,133,844
Total operating revenues	146,427,106	153,887,381
Operating expenses:		
Salaries and wages	66,104,354	66,189,765
Employee benefits	19,495,133	17,677,186
Contract labor	58,296	307,780
Supplies	23,024,825	25,102,054
Purchased services	11,070,425	10,757,221
Physician fees	5,356,737	4,847,349
Depreciation and amortization	10,373,818	10,051,348
Other	11,865,604	11,107,906
Total operating expenses	147,349,192	146,040,609
Operating income (loss)	(922,086)	7,846,772
Nonoperating revenues (expenses):		
Interest income	491,255	949,515
Interest expense	(280,003)	(722,629)
Share of income of investee, net	680,160	680,409
County apportionment	-	536,198
Noncapital gifts and bequests	383,730	629,476
Total nonoperating revenues	1,275,142	2,072,969
Excess of revenues over expenses before capital grants and contributions	353,056	9,919,741
Capital grants and contributions	757,409	508,183
Increase in net assets	1,110,465	10,427,924
Net assets, beginning of year	160,028,649	149,600,725
Net assets, end of year	$ 161,139,114	$ 160,028,649

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, 2012 and 2011

	Year Ended September 30, 2012			Year Ended September 30, 2011		
	Total	**Unrestricted**	**Temporarily Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**
Support and revenue:						
Interest, dividends, and other	$ 258,576	$ 258,576	$ -	$ 178,754	$ 178,754	$ -
Net gains (losses) on investments	1,377,095	1,377,095	-	(263,976)	(263,976)	-
Donations, gifts and bequests	1,618,015	1,123,607	494,408	900,550	790,590	109,960
Fundraising income	64,945	64,945	-	83,842	83,842	-
Satisfaction of program restrictions	-	105,531	(105,531)	-	177,611	(177,611)
Total support and revenue	3,318,631	2,929,754	388,877	899,170	966,821	(67,651)
Expenses:						
Fundraising events	62,078	62,078	-	72,958	72,958	-
General and administrative	61,767	61,767	-	161,716	161,716	-
Grants to Beaufort Memorial Hospital	992,353	992,353	-	981,024	981,024	-
Total expenses	1,116,198	1,116,198	-	1,215,698	1,215,698	-
Increase (decrease) in net assets	2,202,433	1,813,556	388,877	(316,528)	(248,877)	(67,651)
Net assets, beginning of year	10,446,496	10,144,126	302,370	10,763,024	10,393,003	370,021
Net assets, end of year	$ 12,648,929	$ 11,957,682	$ 691,247	$ 10,446,496	$ 10,144,126	$ 302,370

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 139,058,609	$ 146,131,711
Other receipts and payments, net	(6,437,478)	(7,523,898)
Payments to employees	(86,365,698)	(85,813,774)
Payments to suppliers	(40,284,189)	(41,686,319)
Net cash provided by operating activities	5,971,244	11,107,720
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt, net of loss on refunding and bond issuance costs	27,385,895	-
Principal paid on long-term debt	(13,365,000)	(1,560,000)
Payments on line of credit	(2,735,728)	(1,902,000)
Interest paid on long-term debt and line of credit	(280,003)	(748,629)
Purchases of capital assets	(26,806,984)	(7,400,496)
Proceeds from sale of capital assets	72,300	630
Capital grants and contributions	757,409	508,183
Net cash used in capital and related financing activities	(14,972,111)	(11,102,312)
Cash flows from investing activities:		
Decrease in investments, net of earnings	519,305	5,322,197
Share of income of investee, net	680,160	680,409
Net cash provided by investing activities	1,199,465	6,002,606
Cash flows from noncapital financing activities:		
Noncapital gifts and bequests	383,730	629,476
County apportionment	-	536,198
Net cash provided by noncapital financing activities	383,730	1,165,674
Net increase (decrease) in cash and cash equivalents	(7,417,672)	7,173,688
Cash and cash equivalents, beginning of year	49,823,220	42,649,532
Cash and cash equivalents, end of year	$ 42,405,548	$ 49,823,220

(continued)

BEAUFORT MEMORIAL HOSPITAL AND OTHER COMBINED ENTITY

Combined Statements of Cash Flows, Continued

For the Years Ended September 30, 2012 and 2011

	2012	2011
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (922,086)	$ 7,846,772
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	10,373,818	10,051,348
Provision for bad debts	21,706,621	25,934,003
(Gain) loss on disposal of capital assets	345,648	(630)
Changes in assets and liabilities:		
Patient accounts receivable, net	(23,408,269)	(33,062,353)
Other receivables and physician receivables	(64,153)	1,450,794
Prepaid expenses and drugs and supplies	(763,946)	(345,653)
Accounts payable	(9,960)	(326,262)
Accrued expenses and estimated third-party payor settlements	(1,286,429)	(440,299)
Net cash provided by operating activities	$ 5,971,244	$ 11,107,720

Schedule of non-cash investing and financing activities

	2012	2011
Capital assets included in accounts payable at year end	$ 4,844,386	$ 286,692
Equipment acquired by capital lease obligations	$ 258,209	$ -

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 2,202,433	$ (316,528)
Adjustments to reconcile to net cash provided by operating activities:		
Net, unrealized and realized (gains) losses on investments	(1,377,095)	263,976
Changes in assets and liabilities:		
Pledges receivable, net	(26,894)	130,084
Other assets	18,857	(10,156)
Payable to Beaufort Memorial Hospital	(717,337)	28,383
Obligations under gift annuities	32,782	(1,562)
Net cash provided by operating activities	132,746	94,197
Cash flows from investing activities:		
Decrease (increase) in certificates of deposit	(30,395)	150,261
Decrease (increase) in investments, net of earnings	(171,942)	291,031
Net cash provided by (used in) investing activities	(202,337)	441,292
Net increase (decrease) in cash and cash equivalents	(69,591)	535,489
Cash and cash equivalents, beginning of year	1,061,754	526,265
Cash and cash equivalents, end of year	$ 992,163	$ 1,061,754

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

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"), which is a blended component unit of BMH. Broad River has a non-controlling interest in a limited liability company ("LLC"). The Hospital's combined financial statements are prepared using the accrual basis of accounting. All significant intercompany accounts have been eliminated.

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

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.

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 Federal Deposit Insurance Corporation (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.

Patient Accounts Receivable - Allowances for uncollectible accounts are computed based on historical collection experience and a review of the current status of existing accounts receivable. The Hospital grants credit to patients without collateral, substantially all of whom are from the surrounding area.

Physician Receivables - 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. Physician loans outstanding totaled $4,093 and $8,186 at September 30, 2012 and 2011, respectively.

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

Investments - The Hospital's investments consist of certificates of deposit carried at cost with maturities less than 5 years. 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 support and revenues on 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.

Investment in Joint Ventures - 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, which were amended in 2012 with bond refunding.

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 $13,203 and $357,293 for September 30, 2012 and 2011, 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.

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 held by bond trustees as required by revenue bond indenture agreements. 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 three 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 satisfaction of program restrictions on the accompanying Statements of Activities and Changes in Net Assets. Board designated net assets are those whose use has been limited by the Board of Trustees. Unrestricted net assets are remaining net assets that do not meet the definition of temporarily restricted net assets or board designated 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 governmental agencies. Adjustments, if any, are included in contractual revenue adjustments in the year of determination. Net patient service 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 net 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.

Operating Revenues and Expenses - The combined 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 Not-for-Profit Entities Topic of 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 recorded a payable of approximately $60,000 and $777,000 as of September 30, 2012 and 2011, 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 as earned.

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 2012 and 2011 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 taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying combined financial statements do not reflect a provision or liability for federal and state income taxes. The Organizations have determined that they do 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 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. 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 invested in a non-participating interest earning investment contract in which the Hospital received a guaranteed interest rate of return. As such, this investment is reported at cost at September 30, 2011.

Investments at September 30 consist of the following:

	2012	2011
Certificates of deposit maturing within one year	$ 31,569,489	$ 37,781,698
Certificates of deposit maturing within two years	6,593,948	-
Certificates of deposit maturing within five years	1,900,000	-
Guaranteed investment contract, held by trustee	-	2,314,000
	$ 40,063,437	$ 40,095,698

Custodial credit risk for investments is the risk that, in the event or 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 held with third party banks are invested primarily in certificates of deposit. Investments with third party banks are fully collateralized and insured as of September 30, 2012 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. As of September 30, 2012, the Hospital's investments consist of approximately 47% of certificates of deposit held with one financial institution and approximately 53% of certificates of deposit held with another financial institution. As of September 30, 2011, the Hospital's investments and assets limited as to use consist of approximately 34% of certificates of deposit held with one financial institution, approximately 60% of certificates of deposit held with another financial institution, and approximately 6% of a guaranteed investment contract.

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 five years or less.

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

	2012	2011
Cash and cash equivalents	$ 42,405,548	$ 49,823,220
Short-term investments	31,569,489	37,781,698
Long-term investments	8,493,948	-
Assets limited as to use	-	2,314,000
	$ 82,468,985	$ 89,918,918

3. 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, 2012 and 2011 consisted of the following amounts:

	2012	2011
Patient Accounts Receivable		
Receivable from patients	$ 37,147,026	$ 32,803,466
Receivable from third-party payors and other	9,783,274	4,216,255
Receivable from Medicare	3,914,807	7,347,275
Receivable from Medicaid	3,229,009	2,964,129
Total patient accounts receivable	54,074,116	47,331,125
Less: allowance for uncollectible accounts	(26,043,156)	(21,001,813)
Net patient accounts receivable	$ 28,030,960	$ 26,329,312
Accounts Payable and Accrued Expenses		
Payable to suppliers	$ 10,701,197	$ 6,615,087
Payable to employees (including payroll taxes)	6,899,594	6,694,739
Accrued interest payable	-	222,750
Total accounts payable and accrued expenses	$ 17,600,791	$ 13,532,576

4. Foundation Pledges Receivable

Foundation pledges receivable consist of the following at September 30:

	2012	2011
Receivable in less than one year	$ 334,728	$ 143,873
Receivable in one to five years	250,045	250,000
Receivable after five years	140,000	350,000
Discounts to present value	-	(14,184)
Allowance for uncollectible pledges	(688,806)	(720,616)
Net pledges receivable	$ 35,967	$ 9,073

Pledges have been discounted at a 0% and 0.37% annual rate of interest at September 30, 2012 and 2011, respectively.

5. Foundation Investments

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

	2012	2011
Cash and cash equivalents	$ 2,029,020	$ 1,858,881
Mutual funds	6,927,180	6,056,251
Equity	2,773,434	2,235,070
	$ 11,729,634	$ 10,150,202

Investment income (loss) is comprised of the following at September 30:

	2012	2011
Investment income (loss):		
Interest and dividends	$ 258,576	$ 178,754
Net unrealized gains (losses)	606,705	(298,823)
Net realized gains	770,390	34,847
Total investment income (loss)	$ 1,635,671	$ (85,222)

6. Capital Assets

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

	September 30, 2011	Additions	Retirements & Transfers	September 30, 2012
Land	$ 18,876,296	$ 742,548	$ -	$ 19,618,844
Land improvements	1,518,837	-	174,177	1,693,014
Buildings	68,586,122	332,452	541,521	69,460,095
Equipment	60,023,557	6,311,567	(2,662,393)	63,672,731
Construction in progress	2,421,073	24,523,012	(739,266)	26,204,819
Total at historical cost	151,425,885	31,909,579	(2,685,961)	180,649,503
Less accumulated depreciation:				
Land improvements	1,173,618	74,134	(13,600)	1,234,152
Buildings	36,879,536	3,328,987	(9,877)	40,198,646
Equipment	42,424,770	6,909,179	(2,244,536)	47,089,413
Total accumulated depreciation	80,477,924	10,312,300	(2,268,013)	88,522,211
Capital assets, net	$ 70,947,961	$ 21,597,279	$ (417,948)	$ 92,127,292

	September 30, 2010	Additions	Retirements & Transfers	September 30, 2011
Land	$ 18,876,296	$ -	$ -	$ 18,876,296
Land improvements	1,518,837	-	-	1,518,837
Buildings	65,204,626	23,999	3,357,497	68,586,122
Equipment	53,058,299	3,114,538	3,850,720	60,023,557
Construction in progress	5,171,514	4,548,651	(7,299,092)	2,421,073
Total at historical cost	143,829,572	7,687,188	(90,875)	151,425,885
Less accumulated depreciation:				
Land improvements	1,062,855	110,763	-	1,173,618
Buildings	33,665,952	3,213,584	-	36,879,536
Equipment	36,002,960	6,512,685	(90,875)	42,424,770
Total accumulated depreciation	70,731,767	9,837,032	(90,875)	80,477,924
Capital assets, net	$ 73,097,805	$ (2,149,844)	$ -	$ 70,947,961

During 2012 and 2011, the Hospital capitalized approximately $294,000 and $25,000, respectively, of interest related to construction.

The Hospital has outstanding commitments of approximately $9,053,000 at September 30, 2012 for various projects included in construction in progress and purchase of equipment. The projects are expected to be completed in March 2013.

7. Investment in Joint Ventures

The Hospital's ownership percentage and investments at September 30, 2012 and 2011 for entities recorded under the equity method are as follows:

	Ownership Percentage		Investment		Share of Income	
	2012	2011	2012	2011	2012	2011
The Surgery Center of Beaufort, LLC	40%	40%	$ 869,840	$ 865,629	$ 680,160	$ 680,409

Summarized unaudited financial information of The Surgery Center of Beaufort, LLC as of and for the years ended September 30, 2012 and 2011 is as follows:

	2012	2011
Total assets	$ 3,105,124	$ 3,259,567
Total liabilities	927,125	1,087,694
Equity	2,177,999	2,171,873
Revenue	5,625,765	5,793,651
Expenses	3,923,954	4,092,629
Net income	1,701,811	1,701,022

8. Long-term Debt

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

	September 30, 2011	Additions	Reductions	September 30, 2012	Amounts due within one year
Revenue bonds	$ 13,365,000	$ 27,750,971	$ (13,365,000)	$ 27,750,971	$ 1,395,000
Less: unamortized discount and deferred loss on refinancing	165,985	263,077	(198,870)	230,192	-
Total long-term debt	$ 13,199,015	$ 27,487,894	$ (13,166,130)	$ 27,520,779	$ 1,395,000

	September 30, 2010	Additions	Reductions	September 30, 2011	Amounts due within one year
Revenue bonds	$ 14,925,000	$ -	$ (1,560,000)	$ 13,365,000	$ 1,640,000
Less unamortized discount and deferred loss on refinancing	338,870	-	(172,885)	165,985	-
Total long-term debt	$ 14,586,130	$ -	$ (1,387,115)	$ 13,199,015	$ 1,640,000

On December 1, 2011, BMH issued $9,480,000 of Series 2011A Bonds. The net proceeds were used to (i) refund, with the Series 1997 Debt Service Reserve Fund, $11,725,000 of the outstanding Series 1997 Bonds for interest cost savings and (ii) pay all of the expenses associated with the issuance of the Series 2011A Bonds. The Series 2011A Bonds are secured by revenues of the Hospital. Interest is payable monthly at 1.96% and principal is payable annually through December 2017.

On December 1, 2011, BMH issued $36,700,000 of Series 2011B Bonds. The net proceeds, which will be drawn over the 15-month construction and acquisition period, will be used to (i) finance land acquisition, site improvements, construction of an administrative building, and emergency room renovations for BMH, (ii) fund interest payments on a portion of the Series 2011B Bonds during the 15-month construction and acquisition period, and (iii) pay all of the expenses associated with the issuance of the 2011B Bonds. The Series 2011B Bonds are secured by revenues of the Hospital. Interest is payable monthly at 3.03% and principal is payable annually starting in December 2018 through December 2042. As of September 30, 2012, $18,270,971 was outstanding on 2011B bonds, with $18,429,029 residual to be drawn upon in the remaining 5 months of construction.

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.

The financing arrangements contain several covenants, the most restrictive of which requires the Hospital to maintain certain debt service coverage ratios.

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

Year Ending September 30,	Principal	Interest
2013	$ 1,395,000	$ 1,204,414
2014	1,465,000	1,266,267
2015	1,535,000	1,236,110
2016	1,615,000	1,207,691
2017	1,690,000	1,171,201
2018 – 2022	5,950,000	5,365,600
2023 – 2027	5,975,000	4,505,596
2028 – 2032	6,955,000	3,508,068
2033 – 2037	8,105,000	2,341,908
2038 – 2042	9,430,000	986,524
2043	2,065,000	15,816
	46,180,000	22,809,195
Less amount available on Series 2011B	(18,429,029)	(14,269,771)
	$ 27,750,971	$ 8,539,424

9. Line of Credit

BMH has a line of credit in the amount of $8,000,000 which bears interest at LIBOR plus 110 basis points. The interest rate was 1.5% and 1.32% at September 30, 2012 and 2011, respectively. Outstanding borrowings against the line of credit totaled $1,766,201 and $4,501,929 for the years ended September 30, 2012 and 2011, respectively. The line of credit expires in December 2012. Subsequent to year end, the line of credit was amended to reduce the available credit to $2,000,000 due and payable December 2013.

10. Endowment Funds

The Foundation's board designated net assets consist of three board designated endowment funds. The endowments are to be used at the discretion of the Foundation Board of Trustees for the benefit of the Hospital.

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 Years Ended September 30, 2012 and 2011 are as follows:

	Unrestricted
Board designated endowment net assets, September 30, 2010	$ 8,697,786
Investment return	(121,324)
Contributions	37,135
Amounts appropriated for expenditure	(364,010)
Board designated endowment net assets, September 30, 2011	8,249,587
Investment return	630,803
Contributions	264,087
Amounts appropriated for expenditure	(362,028)
Board designated endowment net assets, September 30, 2012	$ 8,782,449

11. **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, 2006.

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 39% and 10%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2012, and 40% and 12%, respectively, of the Hospital's net patient service revenue, for the year ended September 30, 2011. 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 2012 and 2011 net patient service revenue did not change significantly due to changes 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.

HITECH Funding for Meaningful Use of Electronic Health Records (EHR) - The Hospital 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 EHR program include a discharge-related portion, which is calculated by Centers for Medicare & Medicaid Services ("CMS") based on the Hospital's most recently filed cost report. Such amounts are subject to adjustment at the time of settling the 12-month cost report for the Hospital's fiscal year that begins after the beginning of the payment year. The Hospital achieved compliance with the Year 1 meaningful use requirements under the Medicare and Medicaid programs during fiscal year 2012 and, accordingly, recognized other revenues of $2,095,384 and $1,024,287, respectively, in the accompanying combined statement of revenues, expenses, and changes in net assets for the year ended September 30, 2012.

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

	2012	2011
Gross patient charges at established rates	$ 448,168,002	$ 444,792,960
Medicaid disproportionate share	3,734,085	3,099,248
Contractual adjustments	(266,598,851)	(247,117,908)
Provision for bad debts	(21,706,621)	(25,934,003)
Charity care	(22,316,140)	(23,086,760)
Net patient service revenue	$ 141,280,475	$ 151,753,537

During 2012 and 2011, the Hospital received monies under the Medicaid Disproportionate Share Pool Program (the "Program"). Under the Program, the Hospital received payments totaling $3,734,085 and $3,099,248 in 2012 and 2011, respectively. The revenue received under the Program is determined by state Medicaid guidelines, which are subject to change, thereby causing volatility in the revenue received under the Program. Payments of disproportionate share funds in the future may be impacted by Medicaid reform initiatives.

12. **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, 2012.

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.

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.

13. **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 $320,000 and $480,000 at September 30, 2012 and 2011, respectively.

14. **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 $66,104,354 and $66,189,765, respectively, for the years ended September 30, 2012 and 2011. The payroll for Hospital employees covered by the SCRS for the years ended September 30, 2012 and 2011 was $47,899,250 and $46,388,976, respectively, or 72% and 70% of total Hospital payroll in 2012 and 2011, respectively. The contribution from the Hospital for the years ended September 30, 2012 and 2011 was $4,634,033 and $4,303,437, respectively. The Hospital's 2012 and 2011 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 10.60% and 9.385% of earnable compensation in 2012 and 2011, respectively. In addition, the Hospital is required by the same statute to contribute an additional .15% in both 2012 and 2011 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, 2011, the most recent valuation date for retired and active members, determined through an actuarial valuation performed as of that date, was approximately $12.4 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, 2012 Component Unit Comprehensive Annual Financial Report issued by the SCRS.

15. **Charity Care**

The Hospital adopted the Accounting Standard Update "Measuring Charity Care for Disclosure" in the current year. The accounting standard update requires all entities to disclose the amount of charity care provided using a cost-based measurement basis. The accounting standard update will have no effect on the amounts reported in the combined financial statements. The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than their established rates. The Hospital does not pursue collection of amounts determined to qualify as charity care so they are not reported as net patient service revenue. The amounts of direct and indirect costs incurred for services and supplies furnished under the Hospital's charity care policy totaled approximately $6,103,550 and $6,537,941 for the years ended September 30, 2012 and 2011, respectively. The Hospital uses a cost to charge ratio to estimate the cost of charity care.

16. **Commitments Under Noncancelable Operating Leases**

The Hospital leases certain equipment under operating leases, which expire over the next five years. Rent expense was approximately $1,611,000 and $1,926,000 for the years ended September 30, 2012 and 2011, 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 2004. The Hospital has no annual contingent commitment based upon occupancy levels at September 30, 2012 and 2011.

At September 30, 2012, future minimum lease payments under the noncancelable operating leases are as follows:

2013	$ 1,712,992
2014	1,533,535
2015	1,222,417
2016	207,604
2017	136,838
	$ 4,813,386

17. **Related Party Transactions**

The Foundation has a banking relationship with a financial institution that employs a member of the Foundation's Board of Trustees.

18. **Subsequent Event**

Subsequent events have been evaluated through January 24, 2013, 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, 2012

Assets	Beaufort	Broad River	Eliminations	Combined
Current assets:				
Cash and cash equivalents	$ 41,791,227	$ 614,321	$ -	$ 42,405,548
Short-term investments	31,569,489	-	-	31,569,489
Patient accounts receivable, net of allowance for uncollectible accounts of $26,043,156	28,030,960	-	-	28,030,960
Other receivables	437,059	-		437,059
Physician receivable	4,093	-	-	4,093
Drugs and supplies	3,022,327	-	-	3,022,327
Prepaid expenses	2,532,955	7,472	-	2,540,427
Due from affiliate	1	-	(1)	-
Total current assets	107,388,111	621,793	(1)	108,009,903
Long-term investments	8,493,948	-	-	8,493,948
Investment in joint ventures	-	869,840	-	869,840
Capital assets, net	92,126,744	548	-	92,127,292
Deferred financing costs	282,372	-	-	282,372
Total assets	$ 208,291,175	$ 1,492,181	$ (1)	$ 209,783,355
Liabilities and Net Assets				
Current liabilities:				
Current portion of long-term debt	$ 1,395,000	$ -	$ -	$ 1,395,000
Current portion of capital lease obligations	65,157	-	-	65,157
Line of credit	1,766,201	-	-	1,766,201
Accounts payable	10,048,169	23,494	-	10,071,663
Accrued expenses	7,529,128	-	-	7,529,128
Due to affiliate	-	1	(1)	-
Estimated third-party payor settlements	1,498,261	-	-	1,498,261
Total current liabilities	22,301,916	23,495	(1)	22,325,410
Long-term debt, less current portion	26,125,779	-	-	26,125,779
Capital lease obligations, less current portion	193,052	-	-	193,052
Total liabilities	48,620,747	23,495	(1)	48,644,241
Net assets:				
Invested in capital assets, net of related debt	62,863,927	548	-	62,864,475
Unrestricted	96,806,501	1,468,138	-	98,274,639
Total net assets	159,670,428	1,468,686	-	161,139,114
Total liabilities and net assets	$ 208,291,175	$ 1,492,181	$ (1)	$ 209,783,355

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, 2012

	Beaufort	Broad River	Eliminations	Combined
Operating revenues:				
Net patient service revenue, net of provision for bad debts of $21,706,621	$ 141,280,475	$ -	$ -	$ 141,280,475
Other operating revenue	5,146,631	-	-	5,146,631
Total operating revenues	146,427,106	-	-	146,427,106
Operating expenses:				
Salaries and wages	66,104,354	-	-	66,104,354
Employee benefits	19,495,133	-	-	19,495,133
Contract labor	58,296	-	-	58,296
Supplies	23,024,825	-	-	23,024,825
Purchased services	11,070,425	-	-	11,070,425
Physician fees	5,356,737	-	-	5,356,737
Depreciation and amortization	10,373,818	-	-	10,373,818
Other	11,854,985	10,619	-	11,865,604
Total operating expenses	147,338,573	10,619	-	147,349,192
Operating income (loss)	(911,467)	(10,619)	-	(922,086)
Nonoperating revenues (expenses):				
Investment income	491,255	-	-	491,255
Interest expense	(280,003)	-	-	(280,003)
Share of income of investee, net	-	680,160	-	680,160
Noncapital gifts and bequests	383,730	-	-	383,730
Total nonoperating revenues	594,982	680,160	-	1,275,142
Excess (deficit) of revenues over expenses before capital grants and contributions	(316,485)	669,541	-	353,056
Capital grants and contributions	757,409	-	-	757,409
Equity transfer	997,218	(997,218)	-	-
Increase in net assets	1,438,142	(327,677)	-	1,110,465
Net assets, beginning of year	158,232,286	1,796,363	-	160,028,649
Net assets, end of year	$ 159,670,428	$ 1,468,686	$ -	$ 161,139,114

See Independent Auditors' Report.