

# **Self Regional Healthcare and Affiliates**

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**Combined Financial Statements**

**September 30, 2018 and 2017**

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## **Independent Auditors' Report**

Board of Trustees of  
Self Regional Healthcare and Affiliates  
Greenwood, South Carolina

### ***Report on the Combined Financial Statements***

We have audited the accompanying combined financial statements of Self Regional Healthcare and Affiliates (the "Hospital") which comprise the combined statements of net position as of September 30, 2018 and 2017, and the related combined statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the consolidated financial statements of the Self Regional Healthcare Foundation and Subsidiary (the "Foundation"), a blended component unit of the Hospital, which statements reflect total assets of approximately \$9,198,000 and \$7,581,000 as of September 30, 2018 and 2017, respectively, and total revenues of approximately \$2,872,000 and \$2,016,000, respectively, for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Self Regional Healthcare and Affiliates as of September 30, 2018 and 2017, and its changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter – New Accounting Pronouncement***

As discussed in Note 1 to the combined financial statements, during the year ended September 30, 2018, the Hospital adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions. As a result of adopting this standard, the Hospital restated net position as of October 1, 2017, to record the effects of this standard. Our opinion is not modified with respect to this matter.

***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedules of pension contributions, and the schedules of changes in total OPEB liability and related ratios be presented to supplement the basic combined financial statements. Such information, although not a part of the combined financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Dixon Hughes Goodman LLP*

**Greenville, South Carolina  
December 20, 2018**

## **Management's Discussion and Analysis**

### ***Overview of the Combined Financial Statements***

This discussion and analysis are intended to serve as an introduction to Self Regional Healthcare and Affiliates' (the "Hospital's") audited combined financial statements. The Hospital's combined financial statements are comprised of two components: 1) combined financial statements and 2) notes to the combined financial statements.

The combined financial statements include the Combined Statements of Net Position, Combined Statements of Revenues, Expenses, and Changes in Net Position, and Combined Statements of Cash Flows for the fiscal years ended September 30, 2018 and 2017. The Hospital operates similar to a private business and therefore utilizes the enterprise fund method of accounting. This method provides both long-term and short-term financial information and requires that revenue and expenses are recognized on the full accrual basis.

The Combined Statements of Net Position present information on all of the Hospital's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Hospital is improving or deteriorating.

The Combined Statements of Revenues, Expenses, and Changes in Net Position present information demonstrating how the Hospital's net position has changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The Combined Statements of Cash Flows presents information about the Hospital's cash flows resulting from operating, investing, noncapital financing, and capital financing activities. It reports cash receipts, cash payments, and changes in the cash balance during the most recent fiscal year.

### ***FINANCIAL HIGHLIGHTS***

The assets of Self Regional Healthcare and Affiliates exceeded its liabilities at September 30, 2018 by \$542.0 million, which represents the amount of Hospital's net position. This amount may be used to meet the Hospital's ongoing financial obligations and to finance capital improvement and expansion of services in the future.

The Hospital's total net position increased \$9.6 million in the twelve-month period ended September 30, 2018. The increase is comprised primarily of the excess of revenues over expenses for fiscal year 2018 reduced by the implementation of GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions. For further disclosure of the implementation of GASB 75 see Note 1 in the notes to the Combined Financial Statements. The following is an analysis of Self Regional Healthcare and Affiliates' financial performance in fiscal year 2018.

**Self Regional Healthcare And Affiliates  
Management's Discussion and Analysis  
September 30, 2018 and 2017**

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***FINANCIAL ANALYSIS***

Total Assets and Deferred Outflows

Table 1 illustrates the changes in total assets and deferred outflows of the Hospital in fiscal year 2018.

**Table 1**  
**Self Regional Healthcare and Affiliates**  
**Summary of Assets and Deferred Outflows**  
(in millions of dollars)

	<u>2018</u>	<u>2017</u>
Current assets	\$ 93.5	\$ 81.1
Capital assets, net of accumulated depreciation	222.9	225.4
Investments and assets whose use is limited	445.9	449.8
Other assets	2.2	1.9
Deferred outflows	<u>4.4</u>	<u>2.4</u>
Total assets and deferred outflows	<u>\$ 768.9</u>	<u>\$ 760.6</u>

Current assets increased \$12.4 million due primarily to an increase in net accounts receivable of \$6.6 million and an increase in inventories of \$2.9 million. Investments and assets whose use is limited decreased \$3.9. The decrease is primarily the result of the refunding of the Series 2009 bonds. Capital assets, net decreased \$2.5 million. Table 2 demonstrates the changes in capital assets.

**Table 2**  
**Self Regional Healthcare and Affiliates**  
**Capital Assets**  
(in millions of dollars)

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 11.2	\$ 10.9
Buildings	304.3	298.2
Fixed equipment	28.1	27.6
Movable and other equipment	<u>206.3</u>	<u>184.6</u>
Gross capital assets	549.9	521.3
Less accumulated depreciation	(335.4)	(312.1)
Construction in progress	<u>8.4</u>	<u>16.2</u>
Capital assets	<u>\$ 222.9</u>	<u>\$ 225.4</u>

This year's major capital asset additions include:

- Epic hardware and software costs for Self Regional Hospital.
- Routine purchases of major moveable equipment.

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Total Liabilities, Deferred Inflows, and Net Position

Table 3 illustrates the changes in liabilities, deferred inflows, and the change in net position.

**Table 3**  
**Self Regional Healthcare and Affiliates**  
**Summary of Liabilities, Deferred Inflows, and Net Position**  
(in millions of dollars)

	<u>2018</u>	<u>2017</u>
Current liabilities	\$ 54.7	\$ 57.2
Long-term liabilities	<u>163.5</u>	<u>163.8</u>
Total liabilities	218.2	221.0
Deferred inflows	<u>8.7</u>	<u>7.2</u>
Unrestricted net position	454.2	440.3
Invested in capital assets, net of related debt	78.4	79.3
Restricted for debt service	5.3	8.4
Nonexpendable	0.9	1.0
Restricted for specific purposes	<u>3.2</u>	<u>3.4</u>
Total net position	<u>542.0</u>	<u>532.4</u>
Total liabilities, deferred inflows, and net position	<u>\$ 768.9</u>	<u>\$ 760.6</u>

The decrease in current liabilities is the result of a reduction in accounts payable as well as a reduction in estimated third-party payor settlements. Long-term liabilities decreased 0.3 million. The decrease was comprised of the following: reduction in the net pension liability of \$2.7 million, increase in the other postemployment benefit obligation of \$6.6 million and a decrease in long term debt of \$4.2. Please see the notes to the combined financial statements for a more complete explanation of long term liabilities as well as the deferred inflows. The total net position increased \$9.6 million which is a result of excess of revenues over expenses for fiscal year 2018 reduced by the implementation of GASB Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions.

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***Total Operating Revenues***

Table 4 illustrates the changes in operating revenues for fiscal year 2018 and 2017.

**Table 4**  
**Self Regional Healthcare and Affiliates**  
**Summary of Total Operating Revenues**  
(in millions of dollars)

	<u>2018</u>	<u>2017</u>
Inpatient revenue	\$ 428.5	\$ 436.9
Outpatient revenue	<u>765.9</u>	<u>698.2</u>
Gross patient service charges	1,194.4	1,135.1
Contractual allowances	738.2	697.8
Provision for bad debts	<u>45.7</u>	<u>39.8</u>
Total revenue deductions	783.9	737.6
Net patient service revenue	410.5	397.5
Other operating revenue	<u>7.6</u>	<u>8.3</u>
Total operating revenues	<u>\$ 418.1</u>	<u>\$ 405.8</u>

In fiscal year 2018, gross patient service charges increased 5.2% due to increases in outpatient services revenue. Revenue deductions increased 6.3% in fiscal 2018 due to volume increases. Net patient service revenue increased 3.3% in fiscal year 2018. Excluded from gross patient service revenue for 2018 is \$29.9 million of charity care charges provided by Self Regional Healthcare and Affiliates.

Table 5 presents gross patient service charges by payor type in fiscal year 2018 and 2017 for Self Regional Healthcare and Affiliates.

**Table 5**  
**Self Regional Healthcare and Affiliates**  
**Gross Patient Services Charges by Payor Type**

	<u>2018</u>	<u>2017</u>
Medicare	54.5%	54.3%
Medicaid	12.4%	12.2%
Commercial	24.9%	26.7%
Uninsured	<u>8.2%</u>	<u>6.8%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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Management's Discussion and Analysis  
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Table 6 presents revenue deductions as a percentage of gross patient service charges in fiscal year 2018 and 2017 for Self Regional Healthcare and Affiliates.

**Table 6  
Self Regional Healthcare and Affiliates  
Revenue Deductions as a Percentage of Gross Patient Services Revenue**

	<u>2018</u>	<u>2017</u>
Medicare & Medicaid	47.5%	46.6%
Provision for bad debts	3.7%	3.4%
Charity write-offs	2.4%	3.1%
Other	<u>13.4%</u>	<u>13.0%</u>
Total	<u>67.0%</u>	<u>66.1%</u>

Deductions from gross patient service charges represents the difference between charges and the amount of payment received for services provided. Medicare and Medicaid deductions are the largest category and represent a significant portion of the total deductions. The next largest category, Other, is mostly deductions resulting from contracts with managed care companies along with deductions from other governmental payors such as Champus. Bad debt results from patients who choose not to pay for their services without providing evidence of the lack of financial means to do so. Charity write-offs are provided primarily to uninsured patients who do not have the financial means to pay for their healthcare services.

***Operating Expenses***

Table 7 presents a percentage of operating expense by major category for fiscal year 2018 and 2017 for Self Regional Healthcare and Affiliates.

**Table 7  
Self Regional Healthcare and Affiliates  
Composition of Operating Expenses**

	<u>2018</u>	<u>2017</u>
Salaries, wages, and benefits	56.7%	55.1%
Supplies	16.6%	17.7%
Professional fees and other	20.1%	20.8%
Depreciation and amortization	<u>6.6%</u>	<u>6.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

**Self Regional Healthcare And Affiliates  
Management's Discussion and Analysis  
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***DEBT***

Outstanding Debt

Table 8 details the composition of long-term debt at September 30, 2018 and 2017. The Hospital had \$144.5 million in outstanding debt, a decrease of \$1.6 million or 1.1% from fiscal year 2017.

**Table 8**  
**Self Regional Healthcare and Affiliates**  
**Outstanding Debt**  
(in millions of dollars)

	<u>2018</u>	<u>2017</u>
Revenue bonds and notes payable	\$ 144.5	\$ 146.0
Capital leases	<u>0.0</u>	<u>0.1</u>
Total	<u>\$ 144.5</u>	<u>\$ 146.1</u>

In fiscal year 2018 the Hospital refunded the Series 2009 bonds with proceeds from the issuance of the Series 2017 Refunding Revenue Bonds. Please refer to the Note 7 in the notes to the combined financial statements for a detailed explanation of the hospitals debt position.

***SUBSEQUENT EVENTS***

Purchase of the Surgery Center

The Hospital purchased the remaining 49% of The Surgery Center of the Lakelands on October 1, 2018, giving the Hospital 100% ownership.

***REQUESTS FOR INFORMATION***

This financial report is designed to provide a general overview of Self Regional Healthcare and Affiliates' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Self Regional Healthcare  
Chief Financial Officer  
1325 Spring Street  
Greenwood, SC 29646

**Self Regional Healthcare and Affiliates**  
**Combined Statements of Net Position**  
**September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,944,564	\$ 15,821,412
Assets whose use is limited	5,319,418	3,372,538
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$30,213,000 in 2018 and \$25,733,000 in 2017	60,821,265	54,218,331
Inventories of drugs and supplies	5,510,686	2,601,847
Unconditional promises to give, net	671,276	400,246
Deposits, other receivables, and prepaid expenses	5,239,998	4,728,441
	<u>93,507,207</u>	<u>81,142,815</u>
Assets whose use is limited, net of current portion	442,425,913	446,655,663
Investments	3,509,569	3,156,028
Physician receivables, net	44,966	356,657
Capital assets, net	222,898,979	225,386,408
Unconditional promises to give, net of current portion	1,703,066	1,015,906
Other assets	395,810	505,695
	<u>764,485,510</u>	<u>758,219,172</u>
Deferred outflows:		
Unamortized advance refunding losses	4,004,835	-
Retirement plan deferrals	375,189	2,431,614
	<u>4,380,024</u>	<u>2,431,614</u>
	<u>768,865,534</u>	<u>\$ 760,650,786</u>

**Self Regional Healthcare and Affiliates  
 Combined Statements of Net Position  
 September 30, 2018 and 2017**

**(Continued)**

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>		
Current liabilities:		
Current installments of long-term debt	\$ 3,954,526	\$ 1,403,959
Accounts payable	17,723,717	20,392,810
Accrued salaries, wages and benefits	16,441,888	15,345,419
Other accrued expenses	5,765,362	6,379,818
Estimated third-party payor settlements	<u>10,800,661</u>	<u>13,657,864</u>
Total current liabilities	54,686,154	57,179,870
Net pension liability	13,496,224	16,210,061
Annuity obligations	34,427	44,367
Other postemployment benefit obligation	9,456,685	2,912,194
Long-term debt, excluding current installments	<u>140,531,135</u>	<u>144,709,144</u>
Total liabilities	<u>218,204,625</u>	<u>221,055,636</u>
Deferred inflows:		
Revenue deferrals	4,000,000	-
Retirement plan deferrals	<u>4,691,733</u>	<u>7,219,981</u>
Total deferred inflows	<u>8,691,733</u>	<u>7,219,981</u>
Net position:		
Net investment in capital assets	78,413,318	79,273,305
Restricted:		
Held by trustee under indenture agreement	5,319,418	8,328,931
Held under employee benefit plan agreement	-	58,331
By donor for specific activities or capital acquisitions	3,174,937	3,468,380
Nonexpendable	887,799	970,393
Unrestricted	<u>454,173,704</u>	<u>440,275,829</u>
Total net position	<u>541,969,176</u>	<u>532,375,169</u>
Total liabilities, deferred inflows, and net position	<u>\$ 768,865,534</u>	<u>\$ 760,650,786</u>

See accompanying notes.

**Self Regional Healthcare and Affiliates**  
**Combined Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of approximately \$45,625,000 in 2018 and \$39,727,000 in 2017	\$ 410,497,438	\$ 397,515,391
Other operating revenue	7,562,411	8,347,929
Total operating revenues	<u>418,059,849</u>	<u>405,863,320</u>
Operating expenses:		
Salaries and wages	181,644,218	173,720,391
Employee benefits	45,686,267	43,054,196
Supplies	66,329,125	69,684,933
Professional fees	15,493,027	14,977,565
Other expense	65,139,193	66,954,817
Depreciation and amortization	26,417,252	25,098,660
Total operating expenses	<u>400,709,082</u>	<u>393,490,562</u>
Operating income	<u>17,350,767</u>	<u>12,372,758</u>
Nonoperating revenues (expenses):		
Interest expense	(5,778,408)	(6,611,448)
Investment income, net	2,957,048	6,600,010
Rental income, net	-	139,988
Noncapital grants and contributions	2,778,822	1,493,338
Contribution expense	(388,496)	(19,620)
Fundraising expense	(790,818)	(495,374)
Depreciation for Foundation	(17,152)	(75,500)
Other	155,703	(1,770,048)
Total nonoperating expenses	<u>(1,083,301)</u>	<u>(738,654)</u>
Excess of revenues over expenses	16,267,466	11,634,104
Contributions	-	32,335
Distributions to owners	<u>(416,815)</u>	<u>(563,500)</u>
Increase in net position	<u>15,850,651</u>	<u>11,102,939</u>
Net position, beginning of year	532,375,169	521,272,230
Cumulative adjustment related to new standard (Note 1)	<u>(6,256,644)</u>	<u>-</u>
Net position, beginning of the year, as restated	<u>526,118,525</u>	<u>521,272,230</u>
Net position, end of year	<u>\$ 541,969,176</u>	<u>\$ 532,375,169</u>

See accompanying notes.

**Self Regional Healthcare and Affiliates**  
**Combined Statements of Cash Flows**  
**Years Ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 401,037,301	\$ 399,229,651
Other receipts and payments, net	6,308,424	8,543,389
Payments to suppliers and contractors	(157,613,534)	(154,923,738)
Payments to employees	<u>(225,946,169)</u>	<u>(217,790,905)</u>
Net cash provided by operating activities	<u>23,786,022</u>	<u>35,058,397</u>
Cash flows from noncapital financing activities:		
Net change in unconditional promises to give	(958,190)	(242,202)
Net change in annuity obligations	(9,940)	(10,270)
Receipts from noncapital grants and contributions	<u>2,778,822</u>	<u>1,493,338</u>
Net cash provided by noncapital financing activities	<u>1,810,692</u>	<u>1,240,866</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(23,433,264)	(29,264,801)
Proceeds from sale of capital assets	1,166,528	1,280,051
Proceeds from long-term debt	49,820,957	2,187
Principal paid on long-term debt	(51,009,015)	(26,012,775)
Interest paid on long-term debt	<u>(5,464,719)</u>	<u>(6,944,915)</u>
Net cash used in capital and related financing activities	<u>(28,919,513)</u>	<u>(60,940,253)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	8,659,786	155,456,304
Purchases of investments	(14,474,350)	(139,977,273)
Gain from investment	2,939,896	6,524,510
Contributions	-	32,335
Distributions paid	(416,815)	(563,500)
Other	<u>(1,006,459)</u>	<u>(2,069,554)</u>
Net cash provided by (used in) investing activities	<u>(4,297,942)</u>	<u>19,402,822</u>
Net decrease in cash and cash equivalents	(7,620,741)	(5,238,168)
Cash and cash equivalents, beginning of year	<u>35,490,177</u>	<u>40,728,345</u>
Cash and cash equivalents, end of year	<u>\$ 27,869,436</u>	<u>\$ 35,490,177</u>

**Self Regional Healthcare and Affiliates**  
**Combined Statements of Cash Flows**  
**Years Ended September 30, 2018 and 2017**

**(Continued)**

	<u>2018</u>	<u>2017</u>
Reconciliation of cash and cash equivalents to the combined statements of net position:		
Cash and cash equivalents in current assets	\$ 15,944,564	\$ 15,821,412
Cash and cash equivalents in investments	36,914	85,108
Cash and cash equivalents in assets whose use is limited:		
Internally designated	6,480,967	11,048,227
Held by trustee under debt indenture	5,319,418	8,328,931
Under employee benefit plan agreement	-	58,331
Held by Foundation	87,573	148,168
	<u>27,869,436</u>	<u>35,490,177</u>
Total cash and cash equivalents	<u>\$ 27,869,436</u>	<u>\$ 35,490,177</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 17,350,767	\$ 12,372,758
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	45,625,073	39,727,322
Depreciation and amortization	26,417,252	25,098,660
Amortization of advanced refunding	219,351	-
Loss on disposal of capital assets	382,755	1,281,075
Change in net operating assets and liabilities:		
Patient accounts receivable, net	(52,228,007)	(35,088,191)
Deposits, other receivables and prepaid expenses	(511,557)	2,834,106
Inventories of drugs and supplies	(2,908,839)	91,113
Physician receivables, net	311,691	(302,153)
Other assets and deferred outflows	(2,167,784)	416,538
Accounts payable, accrued salaries, wages and benefits and other accrued expenses	(4,893,239)	(3,965,826)
Other liabilities and deferred inflows	(954,238)	(3,282,134)
Pledge payable	-	(1,200,000)
Estimated third-party payor settlements	(2,857,203)	(2,924,871)
	<u>23,786,022</u>	<u>35,058,397</u>
Net cash provided by operating activities	<u>\$ 23,786,022</u>	<u>\$ 35,058,397</u>
Noncash investing and financing activities:		
Acquisition of equipment through accounts payable	<u>\$ 2,392,470</u>	<u>\$ 4,093,930</u>
Cumulative adjustment related to new standard (Note 1)	<u>\$ 6,256,644</u>	<u>\$ -</u>

See accompanying notes.

## **Notes to Combined Financial Statements**

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

#### ***Reporting entity***

The Greenwood County Hospital Board (the "Board") is a public body corporate of South Carolina and was established by Act No. 1554 enacted by the General Assembly of the State of South Carolina on May 30, 1968. The members of the Board are appointed by the Governor of the State of South Carolina upon recommendation of the Board and the Greenwood County legislative delegation. The Board is empowered to operate Self Regional Healthcare ("SRH"), an acute care facility located in Greenwood, South Carolina, and other health care facilities as are necessary and convenient to benefit the residents of Greenwood County. The Board leases the original main hospital building and the land on which it stands from Greenwood County. The lease expires in 2047 and provides for annual rent of \$1. Although legal title to the property is held by Greenwood County, such assets are recorded on the books of Self Regional Healthcare and reflected in the accompanying combined financial statements at the original cost to Greenwood County.

Self Memorial Regional Health Services, Inc. ("SMRHS") is a not-for-profit corporation established by the Board to provide health related services to the residents of Greenwood County and the surrounding area. The Board is the sole member and appoints the Board of Trustees of SMRHS. Further, SMRHS operates for the benefit of the Board and Self Regional Healthcare. Accordingly, SMRHS is reported as a blended component unit of SRH, the primary government.

SMRHS formed The Surgery Center at Self Memorial Hospital L.L.C. d/b/a Surgery Center of the Lakelands (the "Surgery Center"). The Surgery Center, a joint venture with qualified physician investors, commenced operations during 2001. Under the terms of the operating agreement, SMRHS retains at least a 51% ownership in the Surgery Center. The remaining ownership percentage has been designated as restricted nonexpendable net position on the combined statements of net position.

Self Regional Physician Services L.L.C. ("SRPS") is a wholly-owned subsidiary of Self Regional Healthcare. When formed, SRPS purchased substantially all of the assets of a physician group practice for the purpose of operating one or more physician group practices in the region. SRPS is controlled by the Board. Accordingly, SRPS is reported as a blended component unit of SRH, the primary government.

Self Regional Healthcare Foundation and Subsidiary (the "Foundation") was organized as an eleemosynary corporation on January 9, 1985. The purpose of the Foundation is to receive, hold, manage, invest, or arrange for investing and to acquire by gift, devise, bequest, purchase or otherwise use of property of any kind and funds exclusively for the benefit of Self Regional Healthcare and any other publicly supported hospitals in the State of South Carolina. Members of the Board of Trustees of the Foundation are approved by the Board. Accordingly, the Foundation is reported as a blended component unit of the SRH, the primary government.

The Foundation is the sole shareholder of Greenwood Medical Company, Inc. (the "Subsidiary"), a for profit corporation. The Subsidiary was formed to own several medical buildings in Greenwood, South Carolina, and leases space to a variety of physician practices, laboratories, and durable medical equipment suppliers for medical practice sites. Accordingly, the accounts of the Subsidiary have been consolidated with the Foundation.

Self Memorial Hospital Auxiliary, Inc. (the "Auxiliary") was organized as a not-for-profit entity on July 12, 1971. This corporation was established to engage in activities that are devoted to charitable purposes, and shall promote, enhance, and support SRH. Members of the Board of Trustees of the Auxiliary are approved by the Board. Accordingly, the Auxiliary is reported as a blended component unit of SRH, the primary government.

## **Self Regional Healthcare and Affiliates Notes to Combined Financial Statements**

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Self Medical Group, Inc. (“SMG”) was organized as a not-for-profit entity on July 27, 2009. This corporation was established to employ and manage physician practices. Members of the Board of Trustees of SMG are appointed by the Board. Accordingly, SMG is reported as a blended component unit of SRH, the primary government.

Self Regional Healthcare Partners (“SRHP”) was organized as a not-for-profit entity on June 4, 2018. The corporation was established to operate Edgefield County Hospital. Members of the Board of Trustees of SRHP are approved by the Board. There was no activity with SRHP in 2018, however going forward this entity will be a blended component unit of SRH, the primary government.

### ***Combined financial statements***

The accompanying combined financial statements include the accounts of SRH, SMRHS, the Surgery Center, SRPS, SRHP, the Foundation, the Auxiliary, and SMG, jointly referred to as Self Regional Healthcare and Affiliates (the “Hospital”). All intercompany balances between these entities have been eliminated in the combination.

### ***Affiliation with Edgefield County Hospital***

In September 2017, the Hospital and Edgefield County Hospital (“ECH”) signed a letter of intent to execute a Facility and Equipment Lease Agreement and Hospital Operating Agreement where the Hospital will be operating ECH’s hospital facilities as part of the Hospital. The proposed initial term of the affiliation is 10 years with succeeding automatic renewal periods of 5 years each. In June 2018, a Hospital Transformation Agreement was executed between the Hospital and South Carolina Department of Health and Human Services (“SCDHHS”) with a termination date of June 30, 2028. The agreement permitted the Hospital to receive \$4,000,000 of SCDHHS funding in efforts to transition ECH to a more sustainable model of service delivery. The amount is recorded as revenue deferrals in deferred inflows on the combined statement of net position as of September 30, 2018.

### ***Enterprise fund accounting***

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 and may be used as non-authoritative guidance.

### ***Use of estimates***

The preparation of the Hospital’s combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Actual results could differ from those estimates and assumptions.

### ***Cash and cash equivalents***

The Hospital considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The Hospital maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation (“FDIC”). At various times throughout the year, the Hospital may maintain bank account balances in excess of FDIC insured limits. At September 30, 2018 and 2017, the Hospital’s deposits had a carrying amount of approximately \$15,945,000 and \$15,821,000, respectively, and a bank balance of approximately \$21,625,000 and \$18,624,000, respectively. The Hospital had cash on hand of approximately \$14,000 at September 30, 2018 and 2017.

**Self Regional Healthcare and Affiliates  
Notes to Combined Financial Statements**

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***Patient accounts receivable***

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

***Inventories of drugs and supplies***

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

***Unconditional promises to give, net***

Unconditional promises to give cash and other assets to the Foundation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. An allowance for uncollectible unconditional promises to give is estimated based on past experience and on analysis of collectability.

***Investments in debt and equity securities***

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenues (expenses) when earned.

***Assets whose use is limited***

Assets whose use is limited include cash and cash equivalents and investments that are internally designated for operations and capital improvement, held by trustee under indenture agreement, for employee benefit plan agreement, and restricted by donor. The current portion of assets whose use is limited is assets held by trustee under indenture agreement that will be paid in the following year.

***Capital assets***

The Hospital's policy is to capitalize any capital asset with a unit cost of \$1,500 or more. Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives or lease periods:

Land improvements	3 to 25 years
Buildings and building fixtures	5 to 30 years
Fixed equipment	5 to 20 years
Major movable equipment	3 to 20 years

When properties are retired or otherwise disposed of, the cost of the assets and related allowances for depreciation are removed from the accounts, and any resulting gain or loss is recognized in operating income on the combined statement of revenues, expenses, and changes in net position.

***Costs of borrowing***

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquisition of those assets.

## **Self Regional Healthcare and Affiliates Notes to Combined Financial Statements**

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### ***Annuity obligations***

The Foundation has received charitable gift annuities as contributions. The donors contributed assets to the Foundation or placed the assets under an irrevocable trust agreement in exchange for a promise by the Foundation to pay fixed amounts to the donors for the remainder of their lives. The Foundation has recognized the asset or beneficial interests received and the related liability for the annuity payments.

### ***Deferred outflows and inflows***

Deferred outflows and inflows of resources represent a consumption or acquisition of net position that applies to a future period. The Hospital has unamortized losses on advanced refundings, pension deferrals, and revenue deferrals.

### ***Net position***

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position are noncapital and capital net position that must be used for a particular purpose, as specified by creditors, grantors, trustees, or donors external to the Hospital. Nonexpendable restricted net position represents the portion of net position attributable to non-controlling interests. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted. The Hospital first applies restricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

### ***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. In compliance with GASB pronouncements, net patient service revenues have been reduced by the amount of provision for bad debts 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. The amounts of direct and indirect costs foregone for services and supplies furnished under the Hospital's charity care policy totaled approximately \$8,699,000 and \$11,135,000 for the years ended September 30, 2018 and 2017, respectively, and is based on a ratio of the Hospital's operating expenses to its gross patient service charges.

### ***Operating revenues and expenses***

The Hospital's combined statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the 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 healthcare services, other than financing costs.

## **Self Regional Healthcare and Affiliates Notes to Combined Financial Statements**

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### ***Grants and contributions***

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

### ***Fundraising***

The Foundation incurs expenses related to obtaining contributions and grants which are included in other nonoperating expenses.

### ***Amortization***

Bond discounts and premiums are amortized using the effective interest method over the respective lives of the bonds.

### ***Income taxes***

SRH, SMRHS, SRHP, the Foundation, the Auxiliary, and SMG have been recognized by the Internal Revenue Service as not-for-profit organizations as described in section 501(c)(3) of the Internal Revenue Code ("IRC") and are exempt from federal income taxes pursuant to section 501(a) of the IRC. SRPS, as a wholly-owned limited liability partnership of SMRHS, is not subject to federal income taxes. The Surgery Center is a limited liability company and, therefore, is not subject to income taxes. Greenwood Medical Company, Inc., as a wholly-owned subsidiary of the Foundation, is a for-profit entity, and as such, is subject to federal and state income taxes. The Hospital has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2018.

### ***Compensated absences***

The majority of the Hospital's employees earn paid time off ("PTO") at varying rates depending on years of service. Accumulated PTO time may be carried over each year up to a maximum amount, depending on years of service.

### ***Risk management***

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

### ***New Accounting Standards***

During the year ended September 30, 2018, the Hospital implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions which, among other things, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to post-employment benefits other than pensions. The standard also expands the disclosure requirements and adds additional required supplementary information.

The information necessary for full retrospective application is not practical to obtain, so the accounting change was implemented in fiscal year 2018 with a cumulative effect adjustment to net position as of October 1, 2017. As a result, net position at October 1, 2017 decreased approximately \$6,257,000.

**Self Regional Healthcare and Affiliates**  
**Notes to Combined Financial Statements**

**2. Assets Whose Use Is Limited**

The Hospital's investments generally are reported at fair value, as discussed in Note 1, and included in the assets whose use is limited on the combined statements of net position. At September 30, 2018 and 2017, the Hospital had the following investments with set maturities, all of which were held in the Hospital's name by a custodial bank that is the agent of the Hospital.

September 30, 2018	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Investment Type:					
U.S. Treasury obligations	\$ 7,587,268	\$ -	\$ 7,587,268	\$ -	\$ -
U.S. Municipal bonds	1,710,733	515,268	1,195,465	-	-
U.S. Corporate bonds	122,998,181	16,763,072	84,138,972	21,121,265	974,872
U.S. Government bonds	176,321,852	27,345,266	84,292,158	3,655,632	61,028,796
Foreign bonds and notes	3,024,825	-	3,024,825	-	-
<b>Total</b>	<b>\$311,642,859</b>	<b>\$ 44,623,606</b>	<b>\$180,238,688</b>	<b>\$ 24,776,897</b>	<b>\$ 62,003,668</b>

September 30, 2017	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Investment Type:					
U.S. Treasury obligations	\$ 12,551,240	\$ 1,744,050	\$ 5,545,835	\$ 5,261,355	\$ -
U.S. Municipal bonds	3,362,401	-	3,362,401	-	-
U.S. Corporate bonds	138,754,890	11,895,427	93,715,450	31,147,653	1,996,360
U.S. Government bonds	185,602,723	13,146,532	86,176,989	15,111,929	71,167,273
Foreign bonds and notes	6,004,149	-	6,004,149	-	-
<b>Total</b>	<b>\$346,275,403</b>	<b>\$ 26,786,009</b>	<b>\$194,804,824</b>	<b>\$ 51,520,937</b>	<b>\$ 73,163,633</b>

The composition of assets whose use is limited at September 30, 2018 and 2017 is set forth in the following table. The Hospital's investments included in assets whose use is limited are categorized to give an indication of the level of risk assumed by the Hospital. Assets whose use is limited are comprised of the following:

	2018	2017
Internally designated for operations and capital improvements:		
Cash	\$ 21,956	\$ 1,603,654
Money market funds	6,459,011	9,444,573
U. S. Municipal bonds	1,710,733	3,362,401
U. S. Treasury obligations	7,587,268	12,551,240
U. S. Government bonds	176,321,852	185,602,723
U. S. Mutual funds	81,443,457	64,895,810
U. S. Equities	19,826,931	-
U. S. Corporate bonds	121,731,973	137,694,930
Foreign bonds and notes	3,024,825	6,004,149
Foreign equities	2,020,744	-
Multi-manager structured product	15,748,000	14,843,000
Accrued interest	2,642,293	2,067,077
	<b>438,539,043</b>	<b>438,069,557</b>

**Self Regional Healthcare and Affiliates**  
**Notes to Combined Financial Statements**

Held by trustee under indenture agreement:		
Cash	<u>5,319,418</u>	<u>8,328,931</u>
Held under employee benefit plan agreement:		
Cash	<u>-</u>	<u>58,331</u>
Held by Foundation:		
Money market funds	87,573	148,168
U. S. Corporate bonds	1,266,208	1,059,960
U. S. Equities	2,066,408	1,918,168
Foreign equities	211,204	150,114
Exchange traded funds	<u>255,477</u>	<u>294,972</u>
	<u>3,886,870</u>	<u>3,571,382</u>
Total	447,745,331	450,028,201
Less current portion	<u>(5,319,418)</u>	<u>(3,372,538)</u>
Long term portion	<u>\$ 442,425,913</u>	<u>\$ 446,655,663</u>

***Interest rate risk***

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

Investment income, net consists of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 6,307,175	\$ 6,971,853
Decrease in fair value of investments, net	<u>(3,350,127)</u>	<u>(371,843)</u>
Investment income, net	<u>\$ 2,957,048</u>	<u>\$ 6,600,010</u>

***Custodial credit risk***

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

***Credit risk***

This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital's investment policy provides guidelines for its fund managers and lists specific allowable investments so that no more than 15% of the portfolio's market value may be held in the lowest investment grade category ("BBB" or "BBB+"). As of September 30, 2018 and 2017, the credit ratings assigned to the Hospital's applicable securities by a nationally recognized credit rating agency were rated "A-" or better except for approximately \$17,184,000 and \$24,110,000, respectively, that were rated "BAA" or "BBB+."

***Concentration of credit risk***

The Hospital places no limit on the amount it may invest in any one issuer. More than 5 percent of the Hospital's investments are in a Fidelity inflation protected bond fund. As of September 30, 2018 and 2017, this investment was approximately 6% and 0%, respectively, of the Hospital's total investments.

**Self Regional Healthcare and Affiliates**  
**Notes to Combined Financial Statements**

**3. Fair Value of Financial Investments**

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

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

For assets carried at fair value, the following table provides fair value information as of September 30, 2018 and 2017:

	<b>Fair value measurements at September 30, 2018</b>			
	<b>Fair value at Sept 30, 2018</b>	<b>Quoted prices In active markets for identical assets and liabilities (Level 1)</b>	<b>Quoted prices for similar assets and liabilities (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
<i>Investments by fair value level</i>				
Money market accounts	\$ 6,546,584	\$ 6,546,584	\$ -	\$ -
U.S. Municipal bonds	1,710,733	1,710,733	-	-
U.S. Treasury obligations	7,587,268	7,587,268	-	-
U.S. Government bonds	176,321,852	176,321,852	-	-
U.S. Mutual funds	84,916,112	84,916,112	-	-
U.S. Corporate bonds	122,998,181	122,998,181	-	-
U.S. Equities	21,893,339	21,893,339	-	-
Foreign equities	2,231,948	2,231,948	-	-
Foreign bonds and notes	3,024,825	3,024,825	-	-
Exchange traded funds	255,477	255,477	-	-
Multi-manager structured product	<u>15,748,000</u>	<u>-</u>	<u>-</u>	<u>15,748,000</u>
Total investments by level	<u>\$ 443,234,319</u>	<u>\$ 427,486,319</u>	<u>\$ -</u>	<u>\$ 15,748,000</u>

At September 30, 2018, approximately \$5,378,000 in cash and \$2,642,000 in accrued interest are included in assets whose use is limited on the statements of net position.

**Self Regional Healthcare and Affiliates**  
**Notes to Combined Financial Statements**

<b>Fair value measurements at September 30, 2017</b>				
	<b>Fair value at Sept 30, 2017</b>	<b>Quoted prices In active markets for identical assets and liabilities (Level 1)</b>	<b>Quoted prices for similar assets and liabilities (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
<i>Investments by fair value level</i>				
Money market accounts	\$ 9,592,741	\$ 9,592,741	\$ -	\$ -
U.S. Municipal bonds	3,362,401	3,362,401	-	-
U.S. Treasury obligations	12,551,240	12,551,240	-	-
U.S. Government bonds	185,602,723	185,602,723	-	-
U.S. Mutual funds	67,966,730	67,966,730	-	-
U.S. Corporate bonds	138,754,890	138,754,890	-	-
U.S. Equities	1,918,168	1,918,168	-	-
Foreign equities	150,114	150,114	-	-
Foreign bonds and notes	6,004,149	6,004,149	-	-
Exchange traded funds	294,972	294,972	-	-
Multi-manager structured product	<u>14,843,000</u>	<u>-</u>	<u>-</u>	<u>14,843,000</u>
Total investments by level	<u>\$ 441,041,128</u>	<u>\$ 426,198,128</u>	<u>\$ -</u>	<u>\$ 14,843,000</u>

At September 30, 2017, approximately \$10,076,000 in cash and \$2,067,000 in accrued interest are included in assets whose use is limited on the statements of net position.

Money markets accounts, common stocks, bond and stock mutual funds, structured notes, and exchange traded funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Multi-manager structured fund classified as Level 3 is valued using fundamental analysis of underlying securities.

#### **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 payment arrangements with major third-party payors follows:

##### **Medicare**

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. 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 nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items on 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 2013.

## **Self Regional Healthcare and Affiliates Notes to Combined Financial Statements**

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### ***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 procedure. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through 2012.

Revenue from the Medicare and Medicaid programs accounted for approximately 43 percent and 8 percent, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2018. Revenue from the Medicare and Medicaid programs accounted for approximately 50 percent and 9 percent, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2018 and 2017 net patient service revenue increased approximately \$1,085,000 and \$3,341,000, respectively, due to prior year retroactive adjustments in excess of amounts previously estimated and to the addition of allowances estimated that are still subject to audits, reviews and investigations.

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

The Hospital qualified for disproportionate share payments from the South Carolina Medicaid Program (the "Program") through September 30, 2018. The Hospital recognized quarterly lump-sum payments totaling approximately \$3,662,000 and \$4,302,000 for the years ended September 30, 2018 and 2017, respectively. These amounts are reflected as a reduction of contractual adjustments. The Program contains a provision requiring the repayment of disproportionate funds received if the participating hospital is determined to be ineligible. The Hospital is also subject to audits performed by the Program and could have repayments due to Program as a result of the audits. The disproportionate share payments are subject to audit by the South Carolina Medicaid Program. In fiscal year 2018 the Medicaid Program did not complete an audit, therefore the Hospital did not set aside reserves for future repayments at September 30, 2018. In fiscal year 2017 the Medicaid Program completed the audit of the fiscal year 2013 disproportionate share payments and as a result the Hospital received \$115,000 in payments, which was included in estimated third-party payor settlements at September 30, 2017. The Hospital has set aside reserves for future repayments of approximately \$547,000 at September 30, 2017. As a result of the audits it is a reasonable possibility that recorded reserves will change by a material amount in the near term.

### ***HITECH funding for meaningful use of Electronic Health Records ("EHR")***

The Hospital recognizes revenue for incentives earned under the EHR program in the period in which all contingencies related to the payments are complete. 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. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The EHR funding received is subject to CMS audit. The results of that audit and settlement could result in a potential payback in future periods. The Hospital achieved compliance with Year 3 meaningful use requirements under the Medicare program during fiscal year 2015 and, accordingly received payments of approximately \$581,000 during fiscal year 2017 and \$2,242,000 during fiscal year 2018. The Hospital achieved compliance with Year 3 meaningful use requirements under the Medicaid program during fiscal year 2014 and received no payments in fiscal year 2017 or 2018. Under the contingency model, payments received of \$2,242,000 and \$581,000 were recorded in the accompanying combined statements of net position in estimated third-party payor settlements for the years ended September 30, 2018 and 2017, respectively.

**Self Regional Healthcare and Affiliates**  
**Notes to Combined Financial Statements**

Contractual adjustments related to Medicare and Medicaid programs and other adjustments were deducted from gross patient service charges to arrive at net patient service revenue, net of bad debts, as follows:

	<u>2018</u>	<u>2017</u>
Gross patient service charges, net of charity care	<b>\$ 1,194,356,780</b>	\$ 1,135,122,672
Deductions:		
Contractual adjustments	<b>(738,234,269)</b>	(697,879,959)
Provision for bad debts	<b>(45,625,073)</b>	(39,727,322)
Net patient service revenue, net of bad debts	<b><u>\$ 410,497,438</u></b>	<u>\$ 397,515,391</u>

**5. Accounts Receivable and Accounts Payable**

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

***Patient Accounts Receivable***

	<u>2018</u>	<u>2017</u>
Receivable from patients and their insurance carriers	<b>\$ 92,982,848</b>	\$ 71,354,016
Receivable from Medicare	<b>55,384,417</b>	65,775,555
Receivable from Medicaid	<b>24,506,770</b>	27,574,957
Total patient accounts receivable	<b><u>172,874,035</u></b>	<u>164,704,528</u>
Less allowance for contractual adjustments	<b>81,839,640</b>	84,753,151
Less allowance for uncollectible amounts	<b>30,213,130</b>	25,733,046
	<b><u>112,052,770</u></b>	<u>110,486,197</u>
Patient accounts receivable, net	<b><u>\$ 60,821,265</u></b>	<u>\$ 54,218,331</u>

***Accounts payable and accrued expenses***

	<u>2018</u>	<u>2017</u>
Payable to suppliers and others	<b>\$ 23,489,079</b>	\$ 26,772,628
Payable to employees (including payroll taxes)	<b>16,441,888</b>	15,345,419
Total accounts payable and accrued expenses	<b><u>\$ 39,930,967</u></b>	<u>\$ 42,118,047</u>

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**6. Capital Assets**

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

	<u>Balance September 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance September 30, 2018</u>
Land	\$ 5,887,415	\$ -	\$ (146,250)	\$ -	\$ 5,741,165
Construction in progress	<u>16,219,010</u>	<u>15,004,618</u>	<u>-</u>	<u>(22,857,417)</u>	<u>8,366,211</u>
	<u>22,106,425</u>	<u>15,004,618</u>	<u>(146,250)</u>	<u>(22,857,417)</u>	<u>14,107,376</u>
Land improvements	5,016,189	126,733	(103,384)	391,609	5,431,147
Buildings and building fixtures	298,201,589	2,475,186	(3,286,798)	6,952,154	304,342,131
Fixed equipment	27,594,100	706,828	(100,793)	(69,273)	28,130,862
Major movable equipment	<u>184,519,355</u>	<u>7,512,369</u>	<u>(1,304,909)</u>	<u>15,598,353</u>	<u>206,325,168</u>
	515,331,233	10,821,116	(4,795,884)	22,872,843	544,229,308
Accumulated depreciation	<u>(312,051,250)</u>	<u>(26,763,880)</u>	<u>3,392,851</u>	<u>(15,426)</u>	<u>(335,437,705)</u>
	<u>203,279,983</u>	<u>(15,942,764)</u>	<u>(1,403,033)</u>	<u>22,857,417</u>	<u>208,437,603</u>
Capital assets, net	<u>\$ 225,386,408</u>	<u>\$ (938,146)</u>	<u>\$ (1,549,283)</u>	<u>\$ -</u>	<u>\$ 222,898,979</u>

  

	<u>Balance September 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance September 30, 2017</u>
Land	\$ 5,217,031	\$ 1,170,384	\$ (500,000)	\$ -	\$ 5,887,415
Construction in progress	<u>13,458,455</u>	<u>17,819,426</u>	<u>-</u>	<u>(15,058,871)</u>	<u>16,219,010</u>
	<u>18,675,486</u>	<u>18,989,810</u>	<u>(500,000)</u>	<u>(15,058,871)</u>	<u>22,106,425</u>
Land improvements	5,011,922	4,267	-	-	5,016,189
Buildings and building fixtures	290,062,956	3,765,139	(3,264,064)	7,637,558	298,201,589
Fixed equipment	26,377,295	1,441,855	(897,070)	672,020	27,594,100
Major movable equipment	<u>173,712,367</u>	<u>9,157,660</u>	<u>(5,099,965)</u>	<u>6,749,293</u>	<u>184,519,355</u>
	495,164,540	14,368,921	(9,261,099)	15,058,871	515,331,233
Accumulated depreciation	<u>(293,394,845)</u>	<u>(25,856,378)</u>	<u>7,199,973</u>	<u>-</u>	<u>(312,051,250)</u>
	<u>201,769,695</u>	<u>(11,487,457)</u>	<u>(2,061,126)</u>	<u>15,058,871</u>	<u>203,279,983</u>
Capital assets, net	<u>\$ 220,445,181</u>	<u>\$ 7,502,353</u>	<u>\$ (2,561,126)</u>	<u>\$ -</u>	<u>\$ 225,386,408</u>

At September 30, 2018, construction in progress includes costs related to various construction projects and the implementation of an electronic medical records system. The Hospital has entered into various contracts related to these projects which amount to approximately \$11,521,000. As of September 30, 2018, approximately \$5,375,000 remains payable of these contracts.

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**7. Long-Term Debt**

A schedule of changes in the Hospital's long-term debt for 2018 and 2017 follows:

	Balance September 30, 2017	Additions	Reductions	Balance September 30, 2018	Amounts Due Within One Year
Hospital Facilities Revenue Bonds – Series 2017	\$ -	\$ 48,145,000	\$ -	\$ 48,145,000	\$ 475,000
Hospital Facilities Revenue Bonds – Series 2012 A1	25,000,000	-	-	25,000,000	-
Hospital Facilities Revenue Bonds – Series 2012 A2	14,000,000	-	(500,000)	13,500,000	750,000
Hospital Facilities Revenue Bonds – Series 2012 B	52,880,000	-	(745,000)	52,135,000	2,610,000
Hospital Facilities Revenue Bonds – Series 2009	<u>50,000,000</u>	<u>-</u>	<u>(50,000,000)</u>	<u>-</u>	<u>-</u>
	141,880,000	48,145,000	(51,245,000)	138,780,000	3,835,000
Plus/less Discount/premium	<u>2,730,453</u>	<u>1,675,957</u>	<u>(40,810)</u>	<u>4,365,600</u>	<u>-</u>
	<u>144,610,453</u>	<u>49,820,957</u>	<u>(51,285,810)</u>	<u>143,145,600</u>	<u>3,835,000</u>
Notes payable to banks - The Surgery Center	1,403,432	-	(109,519)	1,293,913	119,526
Capital lease obligations	<u>99,218</u>	<u>-</u>	<u>(53,070)</u>	<u>46,148</u>	<u>-</u>
	<u>\$ 146,113,103</u>	<u>\$ 49,820,957</u>	<u>\$ (51,448,399)</u>	<u>\$ 144,485,661</u>	<u>\$ 3,954,526</u>

  

	Balance September 30, 2016	Additions	Reductions	Balance September 30, 2017	Amounts Due Within One Year
Hospital Facilities Revenue Bonds – Series 2012 A1	\$ 25,000,000	\$ -	\$ -	\$ 25,000,000	\$ -
Hospital Facilities Revenue Bonds – Series 2012 A2	14,000,000	-	-	14,000,000	500,000
Hospital Facilities Revenue Bonds – Series 2012 B	53,595,000	-	(715,000)	52,880,000	745,000
Hospital Facilities Revenue Bonds – Series 2009	50,000,000	-	-	50,000,000	-
Hospital Facilities Revenue Bonds – Series 2004 B	<u>25,000,000</u>	<u>-</u>	<u>(25,000,000)</u>	<u>-</u>	<u>-</u>
	167,595,000	-	(25,715,000)	141,880,000	1,245,000
Plus/less discount/premium	<u>3,522,579</u>	<u>-</u>	<u>(792,126)</u>	<u>2,730,453</u>	<u>-</u>
	<u>171,117,579</u>	<u>-</u>	<u>(26,507,126)</u>	<u>144,610,453</u>	<u>1,245,000</u>
Notes payable to banks - The Surgery Center	1,505,016	-	(101,584)	1,403,432	122,774
Capital lease obligations	<u>293,222</u>	<u>2,187</u>	<u>(196,191)</u>	<u>99,218</u>	<u>36,185</u>
	<u>\$ 172,915,817</u>	<u>\$ 2,187</u>	<u>\$ (26,804,901)</u>	<u>\$ 146,113,103</u>	<u>\$ 1,403,959</u>

Hospital Facilities Refunding Revenue Bonds - Series 2017, were issued by Greenwood County, South Carolina, in October 2017 to be used to pay for refunding the outstanding principal amount of the Series 2009 Bonds and certain costs of issuance of the Series 2017 Bonds. The Series 2017 Bonds include term bonds with principal requirements ranging from \$475,000 to \$9,640,000 due October 1, 2019 through October 1, 2040. The Series 2017 bonds bear interest at varying rates from 2% to 5%. Interest is paid semi-annually. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the Series 2009 Bonds, including

## **Self Regional Healthcare and Affiliates Notes to Combined Financial Statements**

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unamortized discount, of approximately \$4,224,000. This difference, reported in the accompanying combined financial statements as a deferred outflow, will be charged to interest expense through the year 2039 using the effective interest method. The Series 2017 bonds are limited obligations of Greenwood County payable solely from and secured by revenues of the Hospital, as defined in the Trust Agreement, and certain funds and accounts held under the Trust Agreement. Payment of the obligations is also secured by a mortgage on the land on which the Hospital's main and related support facilities stand.

Hospital Facilities Revenue Bonds - Series 2012A, were issued by Greenwood County, South Carolina, on May 11, 2012 to be used for the following projects (a) the acquisition, construction, renovation, improvement, and equipping of: support services building, data center, service center AHU, health education, west tower, east tower, old main demolition, old main 1st and 2nd floor, pharmacy, lab, and cafeteria (b) pay certain costs of issuance of the Series 2012A Bonds and (c) to fund interest during the construction of the project. The Series 2012A-1 variable rate bonds bear interest at the monthly British Bankers Association LIBOR rate ("LIBOR"). The Series 2012A-2 fixed rate bonds bear interest at 2.578%. Interest is paid monthly. The Series 2012A-1 variable rate bonds have principal requirements ranging from \$750,000 to \$7,025,000 due October 1, 2032 through October 1, 2042. The Series 2012A-2 fixed rate bonds have principal requirements ranging from \$500,000 to \$2,000,000 due October 1, 2017 through October 1, 2032. A Trust Agreement names a bank as Trustee to receive, transfer and disburse all monies. The agreement contains certain restrictive covenants which, among other matters, require the Hospital to maintain its rates, fees and charges to the extent necessary in order for the Hospital to maintain certain earnings levels, as defined in the Trust Agreement. The Series 2012A bonds are limited obligations of Greenwood County payable solely from and secured by revenues of the Hospital, as defined in the Trust Agreement, and certain funds and accounts held under the Trust Agreement. Payment of the obligations is also secured by a mortgage on the land on which the Hospital's main and related support facilities stand.

A financial institution directly purchased the Series 2012A Bonds from Greenwood County. The financial institution advanced the principal amount of the 2012A Bonds to the Hospital, and the advances were used to pay for the project. The Hospital pays interest on the advanced principal amounts on the first day of each month, until the Series 2012A Bonds have been paid in full. The initial mandatory purchase date from the financial institution is May 1, 2022.

Hospital Facilities Revenue Bonds - Series 2012B, were issued by Greenwood County, South Carolina, on April 24, 2012 to be used to pay for (a) refunding the outstanding principal amount of the Series 1998A Bonds (b) refunding the outstanding principal amount of the Series 2001 bonds and (c) certain costs of issuance of the Series 2012B Bonds. The Series 2012B Bonds include term bonds with principal requirements ranging from \$745,000 to \$5,645,000 due October 1, 2017 through October 1, 2032. The Series 2012B bonds bear interest at varying rates from 2% to 5%. Interest is paid semi-annually. The 2012B Bonds are subject to mandatory sinking fund redemption beginning October 1, 2028, through October 1, 2031, with principal requirements ranging from \$200,000 through \$5,645,000. A Trust Agreement names a bank as Trustee to receive, transfer and disburse all monies. The agreement contains certain restrictive covenants which, among other matters, require the Hospital to maintain its rates, fees and charges to the extent necessary in order for the Hospital to maintain certain earnings levels, as defined in the Trust Agreement. The Series 2012B bonds are limited obligations of Greenwood County payable solely from and secured by revenues of the Hospital, as defined in the Trust Agreement, and certain funds and accounts held under the Trust Agreement. Payment of the obligations is also secured by a mortgage on the land on which the Hospital's main and related support facilities stand.

Hospital Facilities Revenue Bonds - Series 2009, were issued by Greenwood County, South Carolina, on September 29, 2009 to be used for (a) construction of the Cancer Center and (b) reimbursement to the Hospital for routine capital items acquired during fiscal years 2008 and through September 2009. The Series 2009 Bonds include term bonds with principal requirements ranging from \$315,000 to \$10,360,000 due October 1, 2019 through October 1, 2040. The Series 2009 bonds bear interest at varying rates from 4.375% to 5.375%. Interest is paid annually. The 2009 Bonds are subject to mandatory sinking fund redemption beginning October 1, 2033, through October 1, 2040, with principal requirements ranging from \$190,000 through \$10,360,000. A Trust Agreement names a bank as Trustee to receive, transfer and disburse all monies. The agreement contains certain restrictive covenants which, among other matters, require the Hospital to maintain its rates, fees and charges to the extent

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necessary in order for the Hospital to maintain certain earnings levels, as defined in the Trust Agreement. The Series 2009 bonds are limited obligations of Greenwood County payable solely from and secured by revenues of the Hospital, as defined in the Trust Agreement, and certain funds and accounts held under the Trust Agreement. Payment of the obligations is also secured by a mortgage on the land on which the Hospital's main and related support facilities stand. The Series 2009 bonds were paid off during 2018.

Hospital Facilities Revenue Bonds - Series 2004 B, were issued by Greenwood County, South Carolina, on February 4, 2004, to be used in connection with the advance refunding of the Series 1993 Bonds and to assist in the construction of a new patient tower facility. The 2004 B Bonds are Auction Rate Hospital Revenue Bonds subject to mandatory sinking fund redemption beginning October 1, 2018, through October 1, 2034, with principal requirements ranging from \$190,000 through \$7,565,000. The Series 2004 B bonds bear interest at varying rates from .399% to .620%. Interest on the Series 2004 Bonds are paid semi-annually. A Trust Agreement names a bank as Trustee to receive, transfer and disburse all monies. The agreement contains certain restrictive covenants which, among other matters, require the Hospital to maintain its rates, fees and charges to the extent necessary in order for the Hospital to maintain certain earnings levels, as defined in the Trust Agreement. The Series 2004 B bonds are limited obligations of Greenwood County payable solely from and secured by revenues of the Hospital, as defined in the Trust Agreement, and certain funds and accounts held under the Trust Agreement. Payment of the obligations is also secured by a mortgage on the land on which the Hospital's main and related support facilities stand. The Series 2004B bonds were issued as variable rate bonds secured by municipal bond insurance. The municipal bond insurance would be placed into effect if the Remarketing Agents are unable to resell, under a "best efforts" arrangement, bonds that are tendered. The municipal bond insurance would make payments under the terms of the Bonds. The Series 2004B bonds were paid off during 2017.

The 2017, 2012B, and 2009 Series bonds are reported net of premium (discount) on bonds payable at September 30, 2018 and 2017 of approximately \$4,366,000 and \$2,730,000, respectively.

Future principal and interest payments, excluding unamortized discount and premium, under the Hospital's long-term debt agreements less capital lease obligations are as follows for the year ending September 30, 2018:

	<u>Principal Payments</u>	<u>Interest Payments</u>
2019	\$ 3,954,526	\$ 3,446,550
2020	4,104,652	3,793,600
2021	4,245,636	4,123,825
2022	4,442,552	3,972,250
2023	4,620,476	18,364,375
2024 – 2028	27,161,071	12,334,550
2029 – 2033	28,425,000	7,401,681
2034 – 2038	32,135,000	1,747,200
2039 – 2043	<u>30,985,000</u>	<u>-</u>
	<u>\$ 140,073,913</u>	<u>\$ 55,184,031</u>

**8. Employee Pension Plans**

***Plan description***

The Pension Plan (the "Plan") is a single-employer defined benefit pension plan, which provides for retirement, death, and disability benefits to Plan participants and beneficiaries. The Hospital reserves the right to amend the Plan at any time. Generally, the Pension Benefit Guaranty Corporation reserves the right to terminate the Plan if the Hospital fails to meet the minimum funding standards, or is unable to pay benefits when due. If the Plan is

## Self Regional Healthcare and Affiliates Notes to Combined Financial Statements

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terminated, the Plan assets will be distributed among the Plan participants based upon a priority allocation procedure. The Hospital shall be liable for any unfunded vested benefits to the extent required by law.

Effective September 30, 2009, the Hospital chose to freeze the Plan. Active employees as of September 30, 2009 were eligible to participate in the Plan, and any employees hired subsequent to September 30, 2009 were not eligible to participate in the Plan.

### ***Pension benefits***

Pension benefits are provided to participants under several types of retirement options based upon years of service and age. Retirement benefits are paid to pensioners or beneficiaries in various forms of joint and survivor payment options, including a lump-sum payment.

### ***Death and disability benefits***

In the event of a vested employee's death, his or her designated beneficiary will be entitled to receive a survivor benefit equal to 50% of the participant's accrued benefit, according to the Plan provisions. The survivor benefit commences on the earliest date that the deceased participant could have elected to receive retirement benefits. If a participant becomes disabled, he or she may elect disability retirement. The disability retirement payment commences in the month coincident with or following the disability retirement date.

### ***Employees covered by benefit terms***

At the September 30, 2018 and 2017 measurement dates, the following employees were covered by the benefit terms:

	<u>2018</u>	<u>2017</u>
Active employees	760	812
Inactive employees or beneficiaries currently receiving benefits	375	377
Inactive employees entitled to but not yet receiving benefits	<u>386</u>	<u>369</u>
	<u>1,521</u>	<u>1,558</u>

### ***Contributions***

Contributions to provide benefits under the Plan are made solely by the Hospital. The entire cost of the Plan is borne by the Hospital. Plan members are not required to contribute to the Plan. The Hospital contributes at an actuarially determined rate. The Hospital contributed approximately \$3,700,000 to the Plan for the Hospital's fiscal years ended September 30, 2018 and 2017.

### ***Net pension liability***

The most recent annual actuarial valuation reports are as of September 30, 2018. The net pension liability of the defined benefit pension plan was therefore determined based on the September 30, 2017 actuarial valuations, using membership data as of September 30, 2017, and financial information of the pension funds as of September 30, 2018, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by the Hospital's consulting actuary.

For the years ended September 30, 2018 and 2017, the Hospital recognized pension expense of approximately \$514,000 and \$834,000.

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

	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a)-(b)</b>
Balances at September 30, 2017	<u>\$ 89,990,944</u>	<u>\$ 73,780,883</u>	<u>\$ 16,210,061</u>
Changes for the year:			
Interest	5,222,771	-	5,222,771
Differences between expected and actual experiences	420	-	420
Contributions - employer	-	3,700,000	(3,700,000)
Net investment income	-	4,548,675	(4,548,675)
Benefits paid	(5,889,536)	(5,889,536)	-
Administrative expenses	<u>-</u>	<u>(311,647)</u>	<u>311,647</u>
Net changes	<u>(666,345)</u>	<u>2,047,492</u>	<u>(2,713,837)</u>
Balances at September 30, 2018	<u>\$ 89,324,599</u>	<u>\$ 75,828,375</u>	<u>\$ 13,496,224</u>

***Sensitivity analysis***

The following represents the sensitivity of the total pension liability and the net pension liability to changes in the interest rate based on values as of September 30, 2018:

	<b>1% Decrease 5.00%</b>	<b>Current Rate 6.00%</b>	<b>1% Increase 7.00%</b>
Net pension liability	\$ 23,118,838	\$13,496,224	\$ 5,431,480

***Actuarial assumptions and methods***

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The total pension liability in the October 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	6.0%
Future Salary Increase	4.0%
Expected return on plan assets	6.0%
Mortality	RP-2000 Combined Healthy (Blue Collar) Male and Female Tables projected seven years

The discount rate adopted by the Hospital for valuing Plan liabilities was determined by the methods prescribed under GASB 68 which requires the use of a long term rate of return on Plan assets, unless a projection of the net fiduciary position will not be sufficient to provide for projected benefit payments of the covered current and former employees.

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of the October 1, 2017 valuation date are summarized in the following table:

	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>
Bonds	33.5%	3.1%
Equities	65.0%	8.2%
Cash	<u>1.5%</u>	1.1%
	<u>100.0%</u>	

***Deferred items related to pensions***

At September 30, 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 375,189	\$ (399,667)
Changes of assumptions	-	(2,206,659)
Difference between expected and actual return on plan assets	<u>-</u>	<u>(2,085,407)</u>
	<u>\$ 375,189</u>	<u>\$ (4,691,733)</u>

The net amounts reported as pension deferrals related to the Plan will be recognized in pension expense for the years ending September 30 as follows:

2019	\$ (486,120)
2020	(1,435,504)
2021	(1,375,665)
2022	(527,395)
2023	(489,903)
Thereafter	<u>(1,957)</u>
	<u>\$ (4,316,544)</u>

***Defined contribution plan***

The Hospital has a 403b defined contribution plan (the "contribution plan") covering substantially all its employees. The contribution plan is employee and employer contributory. The Hospital contributed a match based on 100% of the first 3% of the employee's elected deferral percentage calculated on the employee's base compensation. The Hospital can also contribute a discretionary amount determined annually by the Board of Trustees. Defined contribution expense amounted to approximately \$3,947,000 and \$4,033,000 for 2018 and 2017, respectively.

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**9. Other Postemployment Benefit (“OPEB”)**

***Plan description and benefits provide***

The Hospital offers certain postretirement benefits to employees and their spouses including health and dental insurance until age 65, life insurance coverage until age 65, and a percentage of the employee’s basic salary until age 62 for all employees who are at least age 55 and have 30 years of service with the Hospital. The Hospital has elected to partially pay the future overall cost of coverage for these benefits. The Hospital chose to freeze the salary continuation portion of the Plan effective September 30, 2010.

The Hospital has chosen to fund the healthcare benefits on a pay as you go basis and, therefore, no assets are accumulated in a trust that meets the criteria in Paragraph 4 of GASB Statement No. 75.

***Employees covered by benefit terms***

At the September 30, 2018 and 2017 measurement dates, the following employees were covered by the benefit terms:

	<u>2018</u>	<u>2017</u>
Active employees	1,300	1,246
Retired participants and beneficiaries	<u>43</u>	<u>46</u>
	<u>1,343</u>	<u>1,292</u>

***Total OPEB Liability***

The total OPEB liability was therefore determined based on the September 30, 2017 actuarial valuations, using membership data as of September 30, 2017 and generally accepted actuarial procedures, and update procedures were utilized to roll forward the total OPEB liability to the measurement date of September 30, 2018. Information included in the following schedules is based on the certification provided by the Hospital’s consulting actuary.

For the year ended September 30, 2018, the Hospital recognized OPEB expense of approximately \$687,000.

The following represents the changes in the total OPEB liability as of September 30:

	<u>Total OPEB Liability</u>
Balances at October 1, 2017 (see Note 1)	<u>\$ 9,168,838</u>
Changes for the year:	
Service cost	294,202
Interest	392,771
Benefits paid	<u>(399,126)</u>
Net changes	<u>287,847</u>
Balances at September 30, 2018	<u>\$ 9,456,685</u>

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***Sensitivity analysis***

The following represents the sensitivity of the total OPEB liability to changes in the discount rate based on values as of September 30, 2018:

	<u>1% Decrease 3.24%</u>	<u>Current Rate 4.24%</u>	<u>1% Increase 5.24%</u>
Total OPEB liability	\$ 11,272,788	\$ 9,456,685	\$ 8,023,822

The following represents the sensitivity of the total OPEB liability to changes in the healthcare cost trend rates based on values as of September 30, 2018:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 8,182,241	\$ 9,456,685	\$ 11,040,681

***Actuarial Assumptions***

The total OPEB liability for the September 30, 2018 measurement date was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal, level percent of payroll
Discount rate	4.24%, the Bond Buyer 20-Bond GO Index
Inflation	2.0%
Salary scale	3.0%

Mortality rates were based on the RP-2000 Combined Healthy (Blue Collar) Male and Female Table.

Healthcare trend rates: initial rate of 6.75% declining to an ultimate rate of 4.15% after 15 years; dental trend rates were 2.50%.

***Deferred inflows and outflows of resources related to OPEB***

There were no deferred inflows and outflows of resources related to OPEB as GASB 75 was implemented in the current year (see Note 1).

**10. Commitments and Contingencies**

***Operating leases***

The Hospital leases various equipment and facilities under operating leases expiring at various dates through 2021. Total rental expense in 2018 and 2017 for all operating leases was approximately \$987,000 and \$1,053,000, respectively.

Minimum annual lease payments for years subsequent to September 30, 2018 are as follows:

2019	\$ 368,687
2020	202,589
2021	<u>76,074</u>
	<u>\$ 647,350</u>

## **Self Regional Healthcare and Affiliates Notes to Combined Financial Statements**

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### ***Professional malpractice liability insurance***

The Hospital participates in a multiprovider captive insurance company for professional and general liability insurance coverage on a claims made basis. Liabilities are joint and several among participating providers. The aggregate limit under insurance coverage is \$12,000,000. The Hospital's premiums are accrued based on the experience to date of the participating health care providers.

In addition, the Hospital has an unsecured letter of credit related to malpractice claims with a financial institution for approximately \$1,000,000. The letter of credit expires on December 1, 2019.

Malpractice claims have been asserted against the Hospital by various claimants, and additional claims could be asserted for incidents occurring through September 30, 2018. At September 30, 2018, management is aware of no incidents that might lead to significant claims that are not adequately covered by insurance through the captive insurance company that would have a material adverse effect on the combined financial position of the Hospital. Accordingly, no provision has been made in the accompanying combined financial statements for any such claims.

### ***Litigation***

The Hospital is involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future combined financial position or combined results from operations.

### ***Self-Insurance Medical Plan***

The Hospital's health insurance plan is a self-insured medical plan (the "Medical Plan") that provides certain benefits for covered employees. The employees pay a monthly premium and the Medical Plan will pay for certain medical expenses as defined in the Medical Plan document. The Medical Plan does not have a lifetime maximum coverage per covered participant. The Hospital maintains individual stop-loss insurance coverage for a covered participant's annual claims in excess of \$300,000. At September 30, 2018 and 2017, the Hospital has recorded approximately \$2,436,000 and \$2,362,000, respectively, on the combined statement of net position related to the Medical Plan.

### ***Worker's Compensation***

The Hospital has a high-deductible insurance policy under which the Hospital is responsible for the first \$350,000 of cost on each claim, and is fully covered for any claim over the deductible amount. At September 30, 2018 and 2017, the Center has recorded approximately \$939,000 and \$736,000, respectively, related to the worker's compensation policy.

### ***Industry***

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulation by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services billed.

**Self Regional Healthcare and Affiliates**  
**Notes to Combined Financial Statements**

**11. Net Position Restricted by Donor**

Net position restricted by donor at September 30 consists of the following:

	<u>2018</u>	<u>2017</u>
Access Health Lakelands	\$ 135,583	\$ 140,951
Benjamin Parker Pediatric Fund	104,616	96,128
Blackwell Scholarship Fund	70,615	68,798
Cancer Fund	307,056	299,835
Capital Campaign Fund	588,421	794,424
Chaplain/Pastoral Fund	17,668	17,668
Diabetes Fund	85,324	98,202
Donated Artwork	11,525	11,525
Duke – Childhood Obesity (WWKF)	-	5,141
Duke – Tobacco Cessation Program	-	363
Elizabeth May Fund	100,503	100,531
GCMA Scholarship Fund	12,894	13,893
Grace Fund	70,739	81,340
Heydel Respiratory Therapy Scholarship Fund	73,087	67,648
J. Smith Cardiac Rehab	94,530	93,042
Lakelands Rural Health Net	-	510
May-Magruder Lab Scholarship Fund	167,743	153,969
ME Ruff Scholarship Fund	119,314	110,058
Medical Library Fund	-	30,236
Medical Museum Fund	40,043	40,043
NM Thurmond Memorial Fund	140,078	134,379
Nursing Education Fund	28,522	56,903
OR Equipment Fund	-	37,783
Other	386,113	384,509
Pulmonary Rehab Fund	-	8,325
Radiology	-	2,695
SAFE Kids Fund	72,700	76,569
Spoone Scholarship Fund	3,218	3,718
Vascular Excellence Fund	193,682	177,296
William Barnette	127,416	188,351
Women’s Health	<u>223,547</u>	<u>173,547</u>
Donor restricted net position	<u>\$ 3,174,937</u>	<u>\$ 3,468,380</u>

**12. Subsequent Events**

The Hospital purchased the remaining 49% of SCL on October 1, 2018, giving the Hospital 100% ownership of the entity.

Subsequent events have been evaluated through December 20, 2018, which is the date the combined financial statements were issued.

***Required Supplementary Information***

**Self Regional Healthcare and Affiliates**

**Schedules of Changes in Net Pension Liability and Related Ratios**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>					
Interest	\$ 5,222,771	\$ 5,196,798	\$ 5,208,700	\$ 5,192,103	\$ 5,497,280
Differences between expected and actual experience	420	690,820	(382,692)	-	(489,428)
Assumption changes	-	-	-	-	(4,411,559)
Benefits paid	(5,889,536)	(5,019,936)	(5,028,831)	(4,802,142)	(5,190,506)
<b>Net change in total pension liability</b>	(666,345)	867,682	(202,823)	389,961	(4,594,213)
<b>Total pension liability - beginning</b>	89,990,944	89,123,262	89,326,085	88,936,124	93,530,337
<b>Total pension liability - ending (a)</b>	<u>\$ 89,324,599</u>	<u>\$ 89,990,944</u>	<u>\$ 89,123,262</u>	<u>\$ 89,326,085</u>	<u>\$ 88,936,124</u>
<b>Plan fiduciary net position</b>					
Contributions - employer	\$ 3,700,000	\$ 3,700,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
Net investment income (loss)	4,548,675	8,492,324	4,255,360	(755,628)	4,742,173
Benefits paid	(5,889,536)	(5,019,936)	(5,028,831)	(4,802,142)	(5,190,506)
Administrative expenses	(311,647)	(229,819)	(166,506)	(86,549)	(175,029)
<b>Net change in plan fiduciary net position</b>	2,047,492	6,942,569	2,060,023	(2,644,319)	2,376,638
<b>Total plan fiduciary net position - beginning</b>	73,780,883	66,838,314	64,778,291	67,422,610	65,045,972
<b>Total plan fiduciary net position - ending (b)</b>	<u>\$ 75,828,375</u>	<u>\$ 73,780,883</u>	<u>\$ 66,838,314</u>	<u>\$ 64,778,291</u>	<u>\$ 67,422,610</u>
<b>Net pension liability - ending (a) - (b)</b>	<u>\$ 13,496,224</u>	<u>\$ 16,210,061</u>	<u>\$ 22,284,948</u>	<u>\$ 24,547,794</u>	<u>\$ 21,513,514</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	84.89%	81.99%	75.00%	72.52%	75.81%
<b>Covered-employee payroll</b>	<u>\$ 52,994,191</u>	<u>\$ 51,284,158</u>	<u>\$ 54,340,899</u>	<u>\$ 62,349,985</u>	<u>\$ 62,349,985</u>
<b>Net pension liability as a percentage of covered-employee payroll</b>	25.47%	31.61%	41.01%	39.37%	34.50%

**See independent auditors' report.**

**Self Regional Healthcare and Affiliates**  
**Schedules of Pension Contributions**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,177,672	\$ 1,648,102	\$ 1,566,597	\$ 1,665,989	\$ 2,133,949
Contributions in relation to the actuarially determined contribution	<u>3,700,000</u>	<u>3,700,000</u>	3,000,000	3,000,000	3,000,000
Contribution excess	<u>\$ (2,522,328)</u>	<u>\$ (2,051,898)</u>	<u>\$ (1,433,403)</u>	<u>\$ (1,334,011)</u>	<u>\$ (866,051)</u>
Covered-employee payroll	<b>52,994,191</b>	<b>51,284,158</b>	54,340,899	62,349,985	62,349,985
Contributions as a percentage of covered-employee payroll	<b>6.98%</b>	<b>7.21%</b>	5.52%	4.81%	4.81%

**Notes to Schedule**

Measurement date	September 30, 2018
Valuation date	September 30, 2017
Salary increases	N/A, plan frozen in 2009
Discount rate	6.00%
Expected rate of return on plan assets	6.00%
Inflation Rate	2.5%
Mortality	RP-2000 Combined Healthy (Blue Collar) Male and Female Tables projected seven years

**See independent auditors' report.**

**Self Regional Healthcare and Affiliates**  
**Schedules of Changes in Total OPEB Liability and Related Ratios**

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	<u>2018</u>
<b>Total OPEB liability</b>	
Service cost	\$ 294,202
Interest	392,771
Benefit payments	(399,126)
<b>Net change in total OPEB liability</b>	<u>287,847</u>
<b>Total OPEB liability - beginning</b>	<u>9,168,838</u>
<b>Total OPEB liability - ending</b>	<u><u>\$ 9,456,685</u></u>
<b>Covered-employee payroll</b>	<u><u>\$ 71,006,062</u></u>
<b>Net OPEB liability as a percentage of covered-employee payroll</b>	13.32%

See independent auditors' report.