

Self Regional Healthcare and Affiliates

Combined Financial Statements

September 30, 2019 and 2018

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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, 2019 and 2018, 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 \$10,126,000 and \$9,198,000 as of September 30, 2019 and 2018, respectively, and total revenues of approximately \$1,885,000 and \$2,872,000, 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, 2019 and 2018, 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.

Required Supplementary 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 the Governmental Accounting Standards Board, 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 18, 2019**

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, 2019 and 2018. 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 and liabilities, 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.

On October 1, 2018 the Hospital purchased the remaining 49% of The Surgery Center of the Lakelands, giving the Hospital 100% ownership. On January 1, 2019 Self Regional Healthcare Partners d/b/a Edgefield County Healthcare ("SRHP") entered into a Facility and Equipment Lease Agreement and Hospital Operating Agreement with Edgefield County Hospital (ECH) to operate ECH's hospital facilities. Please see the notes to the combined financial statements for additional information on both of these transactions.

Financial Highlights

The assets of Self Regional Healthcare and Affiliates exceeded its liabilities at September 30, 2019 by \$584.6 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 \$42.6 million in the twelve-month period ended September 30, 2019. The increase is comprised primarily of the excess of revenues over expenses for fiscal year 2019. The following is an analysis of Self Regional Healthcare and Affiliates' financial performance in fiscal year 2019.

**Self Regional Healthcare And Affiliates
Management's Discussion and Analysis
September 30, 2019 and 2018**

Financial Analysis

Total Assets and Deferred Outflows

Table 1 illustrates the changes in total assets and deferred outflows of the hospital in fiscal year 2019 and 2018.

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

	<u>2019</u>	<u>2018</u>
Current assets	\$ 107.4	\$ 93.5
Capital assets, net of accumulated depreciation	221.2	222.9
Investments and assets whose use is limited	467.9	445.9
Other assets	3.1	2.2
Deferred outflows	<u>7.6</u>	<u>4.4</u>
Total assets and deferred outflows	<u>\$ 807.2</u>	<u>\$ 768.9</u>

Current assets increased \$13.9 million due to an increase in cash and cash equivalents of \$13.9 million. Investments and assets whose use is limited increased \$21.9. The increase is attributable to realized and unrealized gains on investments. Capital assets, net decreased \$1.7 million. Table 2 demonstrates the changes in capital assets.

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

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 11.9	\$ 11.2
Buildings	322.5	304.3
Fixed equipment	30.5	28.1
Movable and other equipment	<u>225.3</u>	<u>206.3</u>
Gross capital assets	590.2	549.9
Less accumulated depreciation	(371.4)	(335.4)
Construction in progress	<u>2.4</u>	<u>8.4</u>
Capital assets	<u>\$ 221.2</u>	<u>\$ 222.9</u>

This year's major capital asset additions include:

- Renovation of Outpatient Surgery Center and Women's and Children's Center.
- Replacement of a Linear Accelerator.
- Routine purchase and replacements of major moveable equipment.

**Self Regional Healthcare And Affiliates
Management's Discussion and Analysis
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Total Liabilities, Deferred Inflows, and Net Position

Table 3 illustrates the changes in liabilities and the change in net position for the fiscal year 2019 and 2018..

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

	<u>2019</u>	<u>2018</u>
Current liabilities	\$ 54.5	\$ 54.7
Long-term liabilities	<u>161.9</u>	<u>163.5</u>
Total liabilities	216.4	218.2
Deferred inflows	<u>6.2</u>	<u>8.7</u>
Unrestricted net position	495.7	454.2
Invested in capital assets, net of related debt	80.5	78.4
Restricted for debt service	5.4	5.3
Nonexpendable	0.0	0.9
Restricted for specific purposes	<u>3.0</u>	<u>3.2</u>
Total net position	<u>584.6</u>	<u>542.0</u>
Total liabilities, deferred inflows, and net position	<u>\$ 807.2</u>	<u>\$ 768.9</u>

Current liabilities remained consistent with prior year. Long-term liabilities decreased \$1.6 million. The decrease was comprised of the following: increase in the net pension liability of \$2.1 million, increase in the other postemployment benefit obligation of \$1.7 million and a decrease in long term debt of \$5.4 million. Please see the notes to the financial statements for a more complete explanation of long term liabilities as well as the deferred inflows. The total net position increased \$42.6 million which is primarily due to the excess of revenues over expenses for fiscal year 2019.

**Self Regional Healthcare And Affiliates
Management's Discussion and Analysis
September 30, 2019 and 2018**

Total Operating Revenues

Table 4 illustrates the changes in operating revenues for the fiscal year 2019 and 2018.

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

	<u>2019</u>	<u>2018</u>
Inpatient revenue	\$ 461.1	\$ 428.5
Outpatient revenue	<u>817.5</u>	<u>765.9</u>
Gross patient service charges	1,278.6	1,194.4
Contractual allowances	781.8	738.2
Provision for bad debts	<u>58.7</u>	<u>45.7</u>
Total revenue deductions	840.5	783.9
Net patient service revenue	438.1	410.5
Other operating revenue	<u>7.6</u>	<u>7.6</u>
Total operating revenues	<u>\$ 445.7</u>	<u>\$ 418.1</u>

In fiscal year 2019, gross patient service charges increased 7.0% due to increases in outpatient services revenue and an increase in admissions of 5.2%. Revenue deductions increased 7.2% in fiscal 2019 due to volume increases. Net patient service revenue increased 6.7% in fiscal year 2019. Excluded from gross patient service revenue for 2019 is \$39.7 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 2019 and 2018 for Self Regional Healthcare and Affiliates.

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

	<u>2019</u>	<u>2018</u>
Medicare	57.9%	54.5%
Medicaid	13.2%	12.4%
Commercial	21.8%	24.9%
Uninsured	<u>7.1%</u>	<u>8.2%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

**Self Regional Healthcare And Affiliates
Management's Discussion and Analysis
September 30, 2019 and 2018**

Table 6 presents revenue deductions as a percentage of gross patient service charges in fiscal year 2019 and 2018 for Self Regional Healthcare and Affiliates.

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

	<u>2019</u>	<u>2018</u>
Medicare & Medicaid	49.8%	47.5%
Provision for bad debts	4.5%	3.7%
Charity write-offs	3.0%	2.4%
Other	<u>9.5%</u>	<u>13.4%</u>
 Total	 <u>66.8%</u>	 <u>67.0%</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 2019 and 2018 for Self Regional Healthcare and Affiliates.

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

	<u>2019</u>	<u>2018</u>
Salaries, wages, and benefits	56.8%	56.7%
Supplies	17.5%	16.6%
Professional fees and other	19.0%	20.1%
Depreciation and amortization	<u>6.7%</u>	<u>6.6%</u>
 Total	 <u>100%</u>	 <u>100%</u>

Total salaries, wages, and benefits increased \$12.3 million or 5.4% in fiscal year 2019. The additional costs are due to market and merit adjustments, additional physician practices added in fiscal year 2019 and the addition of Edgefield hospital. Supply costs increased \$7.6 million or 11.5% as the result of increased volumes and the addition of Edgefield hospital. Professional fees and other expenses decreased slightly in fiscal year 2019. Depreciation and amortization expense increased \$1.7 million as a result of purchases of capital assets that totaled \$23.0 million in fiscal year 2019.

**Self Regional Healthcare And Affiliates
Management's Discussion and Analysis
September 30, 2019 and 2018**

Debt

Outstanding Debt

The Hospital had \$139.3 million in outstanding debt at September 30, 2019 comprised almost 100% of revenue bonds. This represents a decrease of \$5.2 million or 3.6% from fiscal year 2018 and is due to principal payments on the revenue bonds in fiscal year 2019.

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 Footnotes for a detailed explanation of the hospitals debt position.

Request 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, 2019 and 2018**

(Continued)

	<u>2019</u>	<u>2018</u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
Current liabilities:		
Current installments of long-term debt	\$ 4,174,379	\$ 3,954,526
Accounts payable	15,823,200	17,723,717
Accrued salaries, wages, and benefits	19,002,237	16,441,888
Other accrued expenses	5,927,406	5,765,362
Estimated third-party payor settlements	<u>9,533,450</u>	<u>10,800,661</u>
Total current liabilities	54,460,672	54,686,154
Net pension liability	15,552,586	13,496,224
Annuity obligations	24,496	34,427
Other postemployment benefit obligation	11,233,908	9,456,685
Long-term debt, excluding current installments	<u>135,112,304</u>	<u>140,531,135</u>
Total liabilities	<u>216,383,966</u>	<u>218,204,625</u>
Deferred inflows:		
Revenue deferrals	3,599,998	4,000,000
Retirement plan deferrals	<u>2,580,999</u>	<u>4,691,733</u>
Total deferred inflows	<u>6,180,997</u>	<u>8,691,733</u>
Net position:		
Net investment in capital assets	80,481,614	78,413,318
Restricted:		
Held by trustee under indenture agreement	5,389,457	5,319,418
By donor for specific activities or capital acquisitions	3,049,579	3,174,937
Nonexpendable	-	887,799
Unrestricted	<u>495,693,286</u>	<u>454,173,704</u>
Total net position	<u>584,613,936</u>	<u>541,969,176</u>
Total liabilities, deferred inflows, and net position	<u>\$ 807,178,899</u>	<u>\$ 768,865,534</u>

See accompanying notes.

Self Regional Healthcare and Affiliates
Combined Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of approximately \$58,686,000 in 2019 and \$45,625,000 in 2018	\$ 438,140,284	\$ 410,497,438
Other operating revenue	7,600,429	7,562,411
Total operating revenues	<u>445,740,713</u>	<u>418,059,849</u>
Operating expenses:		
Salaries and wages	195,043,292	181,644,218
Employee benefits	44,563,655	45,686,267
Supplies	73,957,601	66,329,125
Professional fees	17,430,935	15,493,027
Other expense	62,419,660	65,139,193
Depreciation and amortization	28,069,803	26,417,252
Total operating expenses	<u>421,484,946</u>	<u>400,709,082</u>
Operating income	<u>24,255,767</u>	<u>17,350,767</u>
Nonoperating revenues (expenses):		
Interest expense	(5,880,562)	(5,778,408)
Investment income, net	23,015,373	2,957,048
Noncapital grants and contributions	2,914,879	2,778,822
Contribution expense	(184,677)	(388,496)
Fundraising expense, net	(357,235)	(790,818)
Depreciation for Foundation	(17,152)	(17,152)
Other	1,451,216	155,703
Total nonoperating revenues (expenses)	<u>20,941,842</u>	<u>(1,083,301)</u>
Excess of revenues over expenses	45,197,609	16,267,466
Contributions	4,900,000	-
Net position of Edgefield County Hospital (Note 1)	2,547,151	-
Distributions to owners	<u>(10,000,000)</u>	<u>(416,815)</u>
Increase in net position	<u>42,644,760</u>	<u>15,850,651</u>
Net position, beginning of year	541,969,176	532,375,169
Cumulative adjustment related to new standard	-	(6,256,644)
Net position, beginning of the year	<u>541,969,176</u>	<u>526,118,525</u>
Net position, end of the year	<u>\$ 584,613,936</u>	<u>\$ 541,969,176</u>

See accompanying notes.

Self Regional Healthcare and Affiliates
Combined Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 438,221,924	\$ 401,037,301
Other receipts and payments, net	4,789,747	6,308,424
Payments to suppliers and contractors	(158,930,862)	(157,613,534)
Payments to employees	<u>(235,269,375)</u>	<u>(225,946,169)</u>
Net cash provided by operating activities	<u>48,811,434</u>	<u>23,786,022</u>
Cash flows from noncapital financing activities:		
Net change in unconditional promises to give	(563,750)	(958,190)
Net change in annuity obligations	(9,931)	(9,940)
Receipts from noncapital grants and contributions	<u>2,914,879</u>	<u>2,778,822</u>
Net cash provided by noncapital financing activities	<u>2,341,198</u>	<u>1,810,692</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(23,037,828)	(23,433,264)
Proceeds from sale of capital assets	344,291	1,166,528
Proceeds from long-term debt	-	49,820,957
Principal paid on long-term debt	(5,305,887)	(51,009,015)
Interest paid on long-term debt	<u>(5,880,562)</u>	<u>(5,464,719)</u>
Net cash used in capital and related financing activities	<u>(33,879,986)</u>	<u>(28,919,513)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	14,191,679	8,659,786
Purchases of investments	(30,625,745)	(14,474,350)
Investment income, net	23,015,373	2,957,048
Contributions	4,900,000	-
Distributions paid	(10,000,000)	(416,815)
Other	<u>909,304</u>	<u>(1,023,611)</u>
Net cash provided by (used in) investing activities	<u>2,390,611</u>	<u>(4,297,942)</u>
Net increase (decrease) in cash and cash equivalents	19,663,257	(7,620,741)
Cash and cash equivalents, beginning of year	<u>27,869,436</u>	<u>35,490,177</u>
Cash and cash equivalents, end of year	<u>\$ 47,532,693</u>	<u>\$ 27,869,436</u>

Self Regional Healthcare and Affiliates
Combined Statements of Cash Flows
Years Ended September 30, 2019 and 2018

(Continued)

	<u>2019</u>	<u>2018</u>
Reconciliation of cash and cash equivalents to the combined statements of net position:		
Cash and cash equivalents in current assets	\$ 30,084,451	\$ 15,944,564
Cash and cash equivalents in investments	3,556,827	36,914
Cash and cash equivalents in assets whose use is limited:		
Internally designated	8,222,368	6,480,967
Held by trustee under debt indenture	5,389,457	5,319,418
Held by Foundation	279,590	87,573
	<u>47,532,693</u>	<u>27,869,436</u>
	<u>\$</u>	<u>\$</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 24,255,767	\$ 17,350,767
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	58,686,447	45,625,073
Depreciation and amortization	28,069,803	26,417,252
Amortization of advanced refunding	219,351	219,351
Loss on disposal of capital assets	396,842	382,755
Change in net operating assets and liabilities:		
Patient accounts receivable, net	(57,337,596)	(52,228,007)
Deposits, other receivables and prepaid expenses	363,109	(511,557)
Inventories of drugs and supplies	(1,660,909)	(2,908,839)
Physician receivables, net	40,345	311,691
Other assets and deferred outflows	(3,467,220)	(2,167,784)
Accounts payable, accrued salaries, wages and benefits and other accrued expenses	(810,143)	(4,893,239)
Other liabilities and deferred inflows	1,322,849	(954,238)
Estimated third-party payor settlements	(1,267,211)	(2,857,203)
	<u>48,811,434</u>	<u>23,786,022</u>
	<u>\$</u>	<u>\$</u>
Noncash investing and financing activities:		
Acquisition of equipment through accounts payable	\$ 1,632,019	\$ 2,392,470
Net position of Edgefield County Hospital (Note 1)	<u>\$ 2,547,151</u>	<u>\$ -</u>
Cumulative adjustment related to new standard	<u>\$ -</u>	<u>\$ 6,256,644</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. On October 1, 2018, the SMRHS purchased the remaining 49% of the Surgery Center giving SMRHS 100% ownership. Therefore, the 2019 presentation shows no restricted nonexpendable net position related to the Surgery Center ownership.

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 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. At the end of the 2018 fiscal year, the Subsidiary liquidated its assets.

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

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 d/b/a Edgefield County Healthcare (“SRHP”) was organized as a not-for-profit entity on June 4, 2018. The corporation was established to operate Edgefield County Hospital (“ECH”). Members of the Board of Trustees of SRHP are approved by the Board. Accordingly, SRHP is reported as a blended component unit of SRH, the primary government. In December 2018, SRHP and ECH signed a Facility and Equipment Lease Agreement and Hospital Operating Agreement where SRHP would operate ECH’s hospital facilities as part of SRHP effective January 1, 2019. The initial term of the affiliation is 10 years with succeeding automatic renewal periods of 5 years each. Pursuant to the Governmental Accounting Standards Board (“GASB”) Statement No. 69 Government Combinations and Disposals of Government Operations, the Reporting Entity’s combined financial statements include the financial results of ECH for the period January 1, 2019 through September 30, 2019. The assets and liabilities transferred over as part of the transaction were as follows as of January 1, 2019:

Supplies	\$ 306,560
Capital assets, net	<u>2,785,824</u>
Total assets	<u>3,092,384</u>
Capital leases/notes payable	<u>\$ 545,233</u>
Total liabilities	<u>545,233</u>
Net position	<u>2,547,151</u>
Total liabilities and net position	<u>\$ 3,092,384</u>

In June 2018, a Hospital Transformation Agreement was executed between SRHP and South Carolina Department of Health and Human Services (“SCDHHS”) with a termination date of June 30, 2028. The agreement permitted SRHP 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, 2019 and 2018.

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.

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 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.

Self Regional Healthcare and Affiliates
Notes to Combined Financial Statements

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, 2019 and 2018, the Hospital's deposits had a carrying amount of approximately \$30,084,000 and \$15,945,000, respectively, and a bank balance of approximately \$34,486,000 and \$21,625,000, respectively. The Hospital had cash on hand of approximately \$14,000 at September 30, 2019 and 2018.

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 net realizable value.

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, and restricted by donor. The current portion of assets whose use is limited are 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

Self Regional Healthcare and Affiliates Notes to Combined Financial Statements

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 statements 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.

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, retirement plan 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 \$11,465,000 and \$8,699,000 for the years ended September 30, 2019 and 2018, respectively, and is based on a ratio of the Hospital's operating expenses to its gross patient service charges.

Self Regional Healthcare and Affiliates Notes to Combined Financial Statements

Operating revenues and expenses

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

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, 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 SRH, 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, 2019.

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.

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, 2019 and 2018, 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, 2019	Carrying Amount	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Investment Type:					
U.S. Treasury obligations	\$ 4,866,063	\$ -	\$ 4,866,063	\$ -	\$ -
U.S. Municipal bonds	1,138,715	-	1,138,715	-	-
U.S. Corporate bonds	125,628,768	14,163,006	90,333,329	20,091,601	1,040,832
U.S. Government bonds	164,949,141	19,067,985	86,792,163	5,196,335	53,892,658
Foreign bonds and notes	1,537,783	-	1,537,783	-	-
Total	\$298,120,470	\$ 33,230,991	\$184,668,053	\$ 25,287,936	\$ 54,933,490

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	-	-
Total	\$311,642,859	\$ 44,623,606	\$180,238,688	\$ 24,776,897	\$ 62,003,668

The composition of assets whose use is limited at September 30, 2019 and 2018 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:

	2019	2018
Internally designated for operations and capital improvements:		
Cash	\$ -	\$ 21,956
Money market funds	8,222,368	6,459,011
U. S. Municipal bonds	1,138,715	1,710,733
U. S. Treasury obligations	4,866,063	7,587,268
U. S. Government bonds	164,949,141	176,321,852
U. S. Mutual funds	102,978,190	81,443,457
U. S. Equities	21,819,088	19,826,931
U. S. Corporate bonds	124,378,610	121,731,973
Foreign bonds and notes	1,537,783	3,024,825
Foreign equities	881,569	2,020,744
Multi-manager structured product	27,738,406	15,748,000
Accrued interest	1,923,850	2,642,293
	\$ 460,433,783	\$ 438,539,043

Self Regional Healthcare and Affiliates
Notes to Combined Financial Statements

Held by trustee under indenture agreement:		
Cash	<u>5,389,457</u>	<u>5,319,418</u>
Held by Foundation:		
Money market funds	279,590	87,573
U. S. Corporate bonds	1,250,158	1,266,208
U. S. Equities	1,857,593	2,066,408
Foreign equities	112,400	211,204
Exchange traded funds	<u>326,339</u>	<u>255,477</u>
	<u>3,826,080</u>	<u>3,886,870</u>
Total	469,649,320	447,745,331
Less current portion	<u>(5,389,457)</u>	<u>(5,319,418)</u>
Long term portion	<u>\$ 464,259,863</u>	<u>\$ 442,425,913</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>2019</u>	<u>2018</u>
Interest and dividend income	\$ 10,960,358	\$ 6,307,175
Increase (decrease) in fair value of investments, net	<u>12,055,015</u>	<u>(3,350,127)</u>
Investment income, net	<u>\$ 23,015,373</u>	<u>\$ 2,957,048</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, 2019 and 2018, 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 \$13,369,000 and \$17,184,000, 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. As of September 30, 2019, none of the Hospital's investments were more than 5 percent of total holdings. As of September 30, 2018, more than 5 percent of the Hospital's investments were in a Fidelity inflation protected bond fund. This investment was approximately 6% 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, 2019 and 2018:

	Fair value measurements at September 30, 2019			
	Fair value at Sept 30, 2019	Quoted prices in active markets for identical assets and liabilities (Level 1)	Quoted prices for similar assets and liabilities (Level 2)	Significant unobservable inputs (Level 3)
<i>Investments by fair value level</i>				
Money market accounts	\$ 8,501,958	\$ 8,501,958	\$ -	\$ -
U.S. Municipal bonds	1,138,715	1,138,715	-	-
U.S. Treasury obligations	4,866,063	4,866,063	-	-
U.S. Government bonds	164,949,141	164,949,141	-	-
U.S. Mutual funds	102,978,190	102,978,190	-	-
U.S. Corporate bonds	125,628,768	125,628,768	-	-
U.S. Equities	23,676,681	23,676,681	-	-
Foreign bonds and notes	1,537,783	1,537,783	-	-
Foreign equities	993,969	993,969	-	-
Exchange traded funds	326,339	326,339	-	-
Multi-manager structured product	<u>27,738,406</u>	<u>-</u>	<u>-</u>	<u>27,738,406</u>
Total investments by level	<u>\$ 462,336,013</u>	<u>\$ 434,597,607</u>	<u>\$ -</u>	<u>\$ 27,738,406</u>

At September 30, 2019, approximately \$8,946,000 in cash and \$1,930,000 in accrued interest are included in assets whose use is limited and investments on the combined statements of net position.

Self Regional Healthcare and Affiliates
Notes to Combined Financial Statements

Fair value measurements at September 30, 2018				
	Fair value at Sept 30, 2018	Quoted prices in active markets for identical assets and liabilities (Level 1)	Quoted prices for similar assets and liabilities (Level 2)	Significant unobservable inputs (Level 3)
<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 and investments on the combined 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 2014.

Self Regional Healthcare and Affiliates Notes to Combined Financial Statements

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed at prospectively determined rates per 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 11 percent, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2019. 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. 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 2019 and 2018 net patient service revenue increased approximately \$1,197,000 and \$1,085,000, 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, 2019. The Hospital recognized quarterly lump-sum payments totaling approximately \$4,603,000 and \$3,662,000 for the years ended September 30, 2019 and 2018, 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. The South Carolina Department of Health and Human Services (SCDHHS) has audited the Program results through fiscal year 2015 with audit results communicated in May 2019. Under the current audit methodology for the Program redistribution, only hospitals that received more in Medicaid interim DSH payments than their hospital specific DSH limit are required repayment to SCDHHS for redistribution to hospitals that received less than their hospital specific DSH limit. In fiscal years 2019 and 2018, the Medicaid Program did not complete an audit; therefore, the Hospital did not set aside reserves for future repayments at September 30, 2019 or September 30, 2018. As a result of future 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 \$2,242,000 during fiscal year 2018 and \$- during fiscal year 2019. 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 2018 or 2019. Under the contingency model, payments received of \$- and \$2,242,000 were recorded in the accompanying combined statements of net position in estimated third-party payor settlements for the years ended September 30, 2019 and 2018, 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 provision of bad debts, as follows:

	<u>2019</u>	<u>2018</u>
Gross patient service charges, net of charity care	\$ 1,278,622,978	\$ 1,194,356,780
Deductions:		
Contractual adjustments	(781,796,247)	(738,234,269)
Provision for bad debts	(58,686,447)	(45,625,073)
Net patient service revenue, net of provision of bad debts	<u>\$ 438,140,284</u>	<u>\$ 410,497,438</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>2019</u>	<u>2018</u>
Receivable from patients and their insurance carriers	\$ 96,395,553	\$ 92,982,848
Receivable from Medicare	51,617,227	55,384,417
Receivable from Medicaid	<u>20,681,771</u>	<u>24,506,770</u>
Total patient accounts receivable	<u>168,694,551</u>	<u>172,874,035</u>
Less allowance for contractual adjustments	80,022,198	81,839,640
Less allowance for uncollectible amounts	<u>29,199,939</u>	<u>30,213,130</u>
	<u>109,222,137</u>	<u>112,052,770</u>
Patient accounts receivable, net	<u>\$ 59,472,414</u>	<u>\$ 60,821,265</u>

Accounts payable and accrued expenses

	<u>2019</u>	<u>2018</u>
Payable to suppliers and others	\$ 21,750,606	\$ 23,489,079
Payable to employees (including payroll taxes)	<u>19,002,237</u>	<u>16,441,888</u>
Total accounts payable and accrued expenses	<u>\$ 40,752,843</u>	<u>\$ 39,930,967</u>

Self Regional Healthcare and Affiliates
Notes to Combined Financial Statements

6. Capital Assets

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

	Balance September 30, 2018	Additions	Retirements	Transfers	Balance September 30, 2019
Land	\$ 5,741,165	\$ 276,543	\$ -	\$ -	\$ 6,017,708
Construction in progress	<u>8,366,211</u>	<u>9,689,326</u>	<u>-</u>	<u>(15,596,596)</u>	<u>2,458,941</u>
	<u>14,107,376</u>	<u>9,965,869</u>	<u>-</u>	<u>(15,596,596)</u>	<u>8,476,649</u>
Land improvements	5,431,147	461,959	-	9,144	5,902,250
Buildings and building fixtures	304,342,131	8,037,665	-	10,141,962	322,521,758
Fixed equipment	28,130,862	2,584,824	(374,453)	117,712	30,458,945
Major movable equipment	<u>206,325,168</u>	<u>17,786,414</u>	<u>(4,177,196)</u>	<u>5,327,778</u>	<u>225,262,164</u>
	544,229,308	28,870,862	(4,551,649)	15,596,596	584,145,117
Accumulated depreciation	<u>(335,437,705)</u>	<u>(39,796,431)</u>	<u>3,810,516</u>	<u>-</u>	<u>(371,423,620)</u>
	<u>208,791,603</u>	<u>(10,925,569)</u>	<u>(741,133)</u>	<u>15,596,596</u>	<u>212,721,497</u>
Capital assets, net	<u>\$ 222,898,979</u>	<u>\$ (959,700)</u>	<u>\$ (741,133)</u>	<u>\$ -</u>	<u>\$ 221,198,146</u>

	Balance September 30, 2017	Additions	Retirements	Transfers	Balance September 30, 2018
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>

The additions during 2019 include the ECH's capital assets of approximately \$14,166,000 that were transferred to SRHP as a result of the business combination (see Note 1).

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7. Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2019 and 2018 follows:

	<u>Balance September 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2019</u>	<u>Amounts Due Within One Year</u>
Hospital Facilities Revenue Bonds – Series 2017	\$ 48,145,000	\$ -	\$ (475,000)	\$ 47,670,000	\$ 480,000
Hospital Facilities Revenue Bonds – Series 2012 A-1	25,000,000	-	-	25,000,000	-
Hospital Facilities Revenue Bonds – Series 2012 A-2	13,500,000	-	(750,000)	12,750,000	750,000
Hospital Facilities Revenue Bonds – Series 2012 B	<u>52,135,000</u>	<u>-</u>	<u>(2,610,000)</u>	<u>49,525,000</u>	<u>2,745,000</u>
	138,780,000	-	(3,835,000)	134,945,000	3,975,000
Plus/less					
Discount/premium	<u>4,365,600</u>	<u>-</u>	<u>(438,324)</u>	<u>3,927,276</u>	<u>-</u>
	<u>143,145,600</u>	<u>-</u>	<u>(4,273,324)</u>	<u>138,872,276</u>	<u>3,975,000</u>
Notes payable to banks - The Surgery Center	1,293,913	-	(1,293,913)	-	-
Capital lease obligations	<u>46,148</u>	<u>545,233</u>	<u>(176,974)</u>	<u>414,407</u>	<u>199,379</u>
	<u>\$ 144,485,661</u>	<u>\$ 545,233</u>	<u>\$ (5,744,211)</u>	<u>\$ 139,286,683</u>	<u>\$ 4,174,379</u>
	<u>Balance September 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2018</u>	<u>Amounts Due Within One Year</u>
Hospital Facilities Revenue Bonds – Series 2017	\$ -	\$ 48,145,000	\$ -	\$ 48,145,000	\$ 475,000
Hospital Facilities Revenue Bonds – Series 2012 A-1	25,000,000	-	-	25,000,000	-
Hospital Facilities Revenue Bonds – Series 2012 A-2	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>

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 \$480,000 to \$9,640,000 due October 1, 2020 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 unamortized discount, of approximately \$4,224,000. This difference, reported in the accompanying combined

Self Regional Healthcare and Affiliates Notes to Combined Financial Statements

financial statements as a deferred outflow, will be charged to interest expense through the year 2039 using the effective interest method. 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 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 \$750,000 to \$2,000,000 due October 1, 2020 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 \$2,745,000 to \$5,645,000 due October 1, 2020 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

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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 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.

The 2017 and 2012B Series bonds are reported net of premium (discount) on bonds payable at September 30, 2019 and 2018 of approximately \$3,927,000 and \$4,366,000, 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, 2019:

	<u>Principal Payments</u>	<u>Interest Payments</u>
2020	\$ 3,975,000	\$ 3,793,600
2021	4,105,000	4,123,825
2022	4,290,000	3,972,250
2023	4,455,000	3,814,075
2024	4,650,000	3,632,300
2025 – 2029	28,260,000	16,976,375
2030 – 2034	23,710,000	9,019,856
2035 – 2039	40,905,000	6,203,400
2040 – 2044	<u>20,595,000</u>	<u>201,800</u>
	<u>\$ 134,945,000</u>	<u>\$ 51,737,481</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 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

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Notes to Combined Financial Statements

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, 2019 and 2018 measurement dates, the following employees were covered by the benefit terms:

	<u>2019</u>	<u>2018</u>
Active employees	727	760
Inactive employees or beneficiaries currently receiving benefits	371	375
Inactive employees entitled to but not yet receiving benefits	<u>382</u>	<u>386</u>
	<u><u>1,480</u></u>	<u><u>1,521</u></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 \$3,000,000 and 3,700,000 to the Plan for the Hospital's fiscal years ended September 30, 2019 and 2018, respectively.

Net pension liability

The most recent annual actuarial valuation reports are as of September 30, 2019. The net pension liability of the defined benefit pension plan was therefore determined based on the September 30, 2019 actuarial valuations, using membership data as of September 30, 2018, and financial information of the pension funds as of September 30, 2019, 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, 2019 and 2018, the Hospital recognized pension expense of approximately \$1,306,000 and \$514,000.

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

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a)-(b)</u>
Balances at September 30, 2018	\$ 89,324,599	\$ 75,828,375	\$ 13,496,224
Changes for the year:			
Interest	5,171,061	-	5,171,061
Differences between expected and actual experiences	(621,935)	-	(621,935)
Contributions - employer	-	3,000,000	(3,000,000)
Net investment income	-	(207,633)	207,633
Benefits paid	(6,280,506)	(6,280,506)	-
Administrative expenses	-	<u>(299,603)</u>	<u>299,603</u>
Net changes	<u>(1,731,380)</u>	<u>(3,787,742)</u>	<u>2,056,362</u>
Balances at September 30, 2019	<u>\$ 87,593,219</u>	<u>\$ 72,040,633</u>	<u>\$ 15,552,586</u>

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Notes to Combined Financial Statements**

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, 2019:

	<u>1% Decrease 5.00%</u>	<u>Current Rate 6.00%</u>	<u>1% Increase 7.00%</u>
Net pension liability	\$ 24,744,966	\$ 15,552,586	\$ 7,829,688

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 September 30, 2019 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.

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 September 30, 2018 valuation date are summarized in the following table:

	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>
Bonds	33.5%	3.3%
Equities	65.0%	8.3%
Cash	<u>1.5%</u>	1.2%
	<u>100.0%</u>	

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Deferred items related to pensions

At September 30, 2019, 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	\$ 217,112	\$ (737,752)
Changes of assumptions	-	(1,765,679)
Difference between expected and actual return on plan assets	<u>1,720,077</u>	<u>-</u>
	<u>\$ 1,937,189</u>	<u>\$ (2,503,431)</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:

2020	\$ (662,701)
2021	(602,862)
2022	259,397
2023	441,881
2024	<u>(1,957)</u>
	<u>\$ (566,242)</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 \$4,234,000 and \$3,947,000 for 2019 and 2018, respectively.

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.

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

Employees covered by benefit terms

At the September 30, 2019 and 2018 measurement dates, the following employees were covered by the benefit terms:

	<u>2019</u>	<u>2018</u>
Active employees	1,358	1,300
Retired participants and beneficiaries	<u>33</u>	<u>44</u>
	<u><u>1,391</u></u>	<u><u>1,343</u></u>

Total OPEB liability

The total OPEB liability was therefore determined based on the September 30, 2018 actuarial valuations, using membership data as of September 30, 2018 and generally accepted actuarial procedures, and update procedures were utilized to roll forward the total OPEB liability to the measurement date of September 30, 2019. Information included in the following schedules is based on the certification provided by the Hospital's consulting actuary.

For the years ended September 30, 2019 and 2018, the Hospital recognized OPEB expense of approximately \$802,000 and \$687,000, respectively.

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

	<u>Total OPEB Liability</u>
Balance at October 1, 2018	\$ 9,456,685
Changes for the year:	
Service cost	306,676
Interest	407,243
Differences between expected and actual experiences	(81,295)
Changes in assumptions	2,006,995
Benefits paid	<u>(862,396)</u>
Net changes	<u>1,777,223</u>
Balance at September 30, 2019	<u>\$ 11,233,908</u>

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, 2019:

	<u>1% Decrease 1.66%</u>	<u>Current Rate 2.66%</u>	<u>1% Increase 3.66%</u>
Total OPEB liability	\$ 12,760,378	\$ 11,233,908	\$ 9,903,781

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

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, 2019:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Total OPEB liability	\$ 9,769,546	\$ 11,233,908	\$ 12,997,165

Actuarial assumptions

The total OPEB liability for the September 30, 2019 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	2.66%, 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 items related to OPEB

At September 30, 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ (77,568)
Changes of assumptions	<u>1,914,973</u>	<u>-</u>
	<u>\$ 1,914,973</u>	<u>\$ (77,568)</u>

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

2020	\$ 88,295
2021	88,295
2022	88,295
2023	88,295
2024	88,295
Thereafter	<u>1,395,930</u>
	<u>\$ 1,837,405</u>

Self Regional Healthcare and Affiliates
Notes to Combined Financial Statements

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 2019 and 2018 for all operating leases was approximately \$857,000 and \$987,000, respectively.

Minimum annual lease payments for years subsequent to September 30, 2019 are as follows:

2020	\$	164,508
2021		<u>37,055</u>
	\$	<u>201,563</u>

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, 2020.

Malpractice claims have been asserted against the Hospital by various claimants, and additional claims could be asserted for incidents occurring through September 30, 2019. At September 30, 2019, 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, 2019 and 2018, the Hospital has recorded approximately \$2,567,000 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, 2019 and 2018, the Hospital has recorded approximately \$1,078,000 and \$939,000, respectively, on the combined statement of net position related to the worker's compensation policy.

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

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.

11. Net Position Restricted by Donor

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

	<u>2019</u>	<u>2018</u>
Access Health Lakelands	\$ 124,979	\$ 135,583
Benjamin Parker Pediatric Fund	102,984	104,616
Blackwell Scholarship Fund	69,369	70,615
Cancer Fund	328,302	307,056
Capital Campaign Fund	589,367	588,421
Chaplain/Pastoral Fund	17,468	17,668
Diabetes Fund	90,070	85,324
Donated Artwork	11,525	11,525
Elizabeth May Fund	100,714	100,503
GCMA Scholarship Fund	11,645	12,894
Grace Fund	63,969	70,739
Heydel Respiratory Therapy Scholarship Fund	75,965	73,087
J. Smith Cardiac Rehab	73,731	94,530
May-Magruder Lab Scholarship Fund	164,053	167,743
ME Ruff Scholarship Fund	110,373	119,314
Medical Museum Fund	40,043	40,043
NM Thurmond Memorial Fund	63,808	140,078
Nursing Education Fund	25,269	28,522
Other	383,101	386,113
SAFE Kids Fund	69,989	72,700
Spoone Scholarship Fund	2,219	3,218
Vascular Excellence Fund	190,661	193,682
William Barnette	125,428	127,416
Women's Health	<u>214,547</u>	<u>223,547</u>
Donor restricted net position	<u>\$ 3,049,579</u>	<u>\$ 3,174,937</u>

12. Subsequent Event

Subsequent events have been evaluated through December 18, 2019, 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>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability						
Interest	\$ 5,171,061	\$ 5,222,771	\$ 5,196,798	\$ 5,208,700	\$ 5,192,103	\$ 5,497,280
Differences between expected and actual experience	(621,935)	420	690,820	(382,692)	-	(489,428)
Assumption changes	-	-	-	-	-	(4,411,559)
Benefits paid	<u>(6,280,506)</u>	<u>(5,889,536)</u>	<u>(5,019,936)</u>	<u>(5,028,831)</u>	<u>(4,802,142)</u>	<u>(5,190,506)</u>
Net change in total pension liability	(1,731,380)	(666,345)	867,682	(202,823)	389,961	(4,594,213)
Total pension liability - beginning	<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>	<u>93,530,337</u>
Total pension liability - ending (a)	<u>\$ 87,593,219</u>	<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>
Plan fiduciary net position						
Contributions - employer	\$ 3,000,000	\$ 3,700,000	\$ 3,700,000	\$ 3,000,000	\$ 3,000,000	\$ 3,000,000
Net investment income (loss)	(207,633)	4,548,675	8,492,324	4,255,360	(755,628)	4,742,173
Benefits paid	(6,280,506)	(5,889,536)	(5,019,936)	(5,028,831)	(4,802,142)	(5,190,506)
Administrative expenses	<u>(299,603)</u>	<u>(311,647)</u>	<u>(229,819)</u>	<u>(166,506)</u>	<u>(86,549)</u>	<u>(175,029)</u>
Net change in plan fiduciary net position	(3,787,742)	2,047,492	6,942,569	2,060,023	(2,644,319)	2,376,638
Total plan fiduciary net position - beginning	<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>	<u>65,045,972</u>
Total plan fiduciary net position - ending (b)	<u>\$ 72,040,633</u>	<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>
Net pension liability - ending (a) - (b)	<u>\$ 15,552,586</u>	<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>
Plan fiduciary net position as a percentage of the total pension liability	82.24%	84.89%	81.99%	75.00%	72.52%	75.81%
Covered-employee payroll	<u>\$ 51,255,999</u>	<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>
Net pension liability as a percentage of covered-employee payroll	30.34%	25.47%	31.61%	41.01%	39.37%	34.50%

See independent auditors' report.

Self Regional Healthcare and Affiliates
Schedules of Pension Contributions

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 933,864	\$ 1,177,672	\$ 1,648,102	\$ 1,566,597	\$ 1,665,989	\$ 2,133,949
Contributions in relation to the actuarially determined contribution	<u>3,000,000</u>	<u>3,700,000</u>	<u>3,700,000</u>	3,000,000	3,000,000	3,000,000
Contribution excess	<u>\$ (2,066,136)</u>	<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	\$ 51,255,999	\$ 52,994,191	\$ 51,284,158	\$ 54,340,899	\$ 62,349,985	\$ 62,349,985
Contributions as a percentage of covered-employee payroll	5.85%	6.98%	7.21%	5.52%	4.81%	4.81%

Notes to Schedule

Measurement date	September 30, 2019
Valuation date	September 30, 2018
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

	<u>2019</u>	<u>2018</u>
Total OPEB liability		
Service cost	\$ 306,676	\$ 294,202
Interest	407,243	392,771
Assumption changes	2,006,995	-
Differences between expected and actual experience	(81,295)	-
Benefit payments	(862,396)	(399,126)
Net change in total OPEB liability	<u>1,777,223</u>	<u>287,847</u>
Total OPEB liability - beginning	<u>9,456,685</u>	<u>9,168,838</u>
Total OPEB liability - ending	<u><u>\$ 11,233,908</u></u>	<u><u>\$ 9,456,685</u></u>
Covered-employee payroll	<u><u>\$ 70,402,596</u></u>	<u><u>\$ 71,006,062</u></u>
Net OPEB liability as a percentage of covered-employee payroll	15.96%	13.32%

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