

# **Spartanburg Regional Health Services District, Inc.**

---

**Combined Financial Statements**  
**Years Ended September 30, 2019 and 2018**

## **Table of Contents**

<b>Independent Auditors' Report .....</b>	<b>1</b>
<b>Management's Discussion and Analysis.....</b>	<b>3</b>
<b>Combined Financial Statements:</b>	
Combined Balance Sheets .....	10
Combined Statements of Revenues, Expenses, and Changes in Net Position .....	12
Combined Statements of Cash Flows .....	13
Notes to the Combined Financial Statements .....	15
<b>Required Supplementary Information:</b>	
Schedule of Proportionate Share of the Net Pension Liability.....	36
Schedule of Contributions.....	37



## **Independent Auditors' Report**

Board of Directors  
Spartanburg Regional Health Services District, Inc.  
Spartanburg, South Carolina

We have audited the accompanying combined financial statements of Spartanburg Regional Health Services District, Inc. (the "District"), which comprise the combined balance sheets 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 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 from 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 entity'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 District'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 financial position of Spartanburg Regional Health Services District, Inc. as of September 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



***Other Matters***

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 9 be presented to supplement the basic combined financial statements. Additionally, accounting principles generally accepted in the United States of America require that the schedule of proportionate share of net pension liability and schedule of contributions on pages 36 and 37 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic 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 basic combined financial statements, and other knowledge we obtained during our audit of the basic 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*

**Charlotte, North Carolina**  
**March 11, 2020**

## **Spartanburg Regional Health Services District, Inc. Management's Discussion and Analysis**

---

This section of Spartanburg Regional Health Services District, Inc.'s (the "District") combined financial statements presents management's analysis of the District's financial performance during the fiscal year that ended on September 30, 2019. Please read it in conjunction with the combined financial statements, which follow this section.

### ***Financial Highlights***

Some highlights of the District's financial performance in fiscal year 2019 include:

- On December 31, 2018, the District acquired the assets of Mary Black Healthcare system ("Mary Black"), primarily consisting of the 207 bed Mary Black hospital in Spartanburg South Carolina and the 125-bed hospital in Gaffney, South Carolina, as well as physician offices and outpatient services.
- Net patient service revenues increased from fiscal year 2018 to 2019 by approximately \$210.8 million or 18.9%. Mary Black acquisition accounted for about half of this increase. The remainder was due to increased volumes at Spartanburg Medical Center Church street campus and Medical Group of the Carolinas, as well as increased governmental payments.
- Net nonoperating expenses increased by approximately \$12 million from fiscal year 2018 to fiscal year 2019, primarily due to an increase in net investment income of \$19.7 million, offset by the one-time costs associated with the Mary Black acquisition of \$4.6 million.
- Operating expenses increased from fiscal year 2018 to fiscal year 2019 by \$216.5 million or 19.4%. Salary expense increased \$90.9 million due to the addition of full-time employees (\$56.6 million due to the Mary Black acquisition), merit increases, and market adjustments.
- Benefits increased \$27.6 million primarily due the increase in employees due to the Mary Black acquisition.
- Supply expense increased \$38.9 million in total, due to the Mary Black acquisition, an increase in pharmaceutical spend (primarily due to increased usage of cancer drugs), and an increase in surgical supplies.
- The District's cash and cash equivalents, short term investments, and board designated cash and investments increased by approximately \$22.2 million or 5.3% due to timing of accounts payable payments and the reduction in capital spending during the last 6 months of the fiscal year, while the organization was focused on the integration of the Mary Black hospitals.
- Patient accounts receivable increased \$73.5 million due to the acquisition of Mary Black as well as the increase in volume and reimbursement rates.

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

The combined financial statements consist of two parts: Management's Discussion and Analysis and the Required Basic Combined Financial Statements. The required basic combined financial statements also include notes that explain in more detail some of the information in the combined financial statements.

### ***Required Basic Combined Financial Statements***

The District is reported as an enterprise fund under Governmental Accounting Standards Board ("GASB") pronouncements and therefore uses accounting methods similar to those used by private sector companies. These combined financial statements offer short-term and long-term financial information about its activities. The Combined Balance Sheets include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. These combined financial statements also provide the bases for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

**Spartanburg Regional Health Services District, Inc.**  
**Management's Discussion and Analysis**

All of the current year's revenues and expenses are accounted for in the Combined Statements of Revenues, Expenses, and Changes in Net Position. These combined statements measure the performance of the District's operations for the years ended September 30, 2019 and 2018.

The final required statements are the Combined Statements of Cash Flows. The primary purpose of these combined statements is to provide information about the District's cash receipts and cash payments during the reporting period. The statements report cash receipts, cash payments, and net changes in cash resulting from operating, investing, noncapital financing, and capital and related financing activities and information concerning sources and uses of cash.

**Financial Analysis**

**Table A-1**

*Condensed Combined Balance Sheets (In Thousands of Dollars)*

	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>	<b>Dollar Increase (Decrease)</b>	<b>Percentage Increase (Decrease)</b>
Current assets	<b>\$ 494,712</b>	\$ 409,400	\$ 85,312	20.84%
Capital assets, net	<b>670,062</b>	545,027	125,035	22.94%
Other long-term assets	<b>252,437</b>	263,082	(10,645)	(4.05)%
Total assets	<b>1,417,211</b>	1,217,509	199,702	16.40%
Deferred outflows	<b>30,886</b>	49,075	(18,189)	(37.06)%
Total assets & deferred outflows	<b>\$ 1,448,097</b>	\$ 1,266,584	\$ 181,513	14.33%
Current liabilities	<b>\$ 241,706</b>	\$ 193,462	\$ 48,244	24.94%
Long-term liabilities	<b>1,082,711</b>	995,807	86,904	8.73%
Total liabilities	<b>1,324,417</b>	1,189,269	135,148	11.36%
Deferred inflows	<b>49,724</b>	45,759	3,965	8.66%
Total liabilities & deferred inflows	<b>1,374,141</b>	1,235,028	139,113	11.26%
Net investment in capital assets	<b>164,784</b>	144,180	20,604	14.29%
Restricted	<b>25</b>	27,907	(27,882)	(99.91)%
Unrestricted	<b>(90,853)</b>	(140,531)	49,678	(35.35)%
Total net position	<b>73,956</b>	31,556	42,400	134.36%
Total liabilities & net position	<b>\$ 1,448,097</b>	\$ 1,266,584	\$ 181,513	14.33%

- Net position increased \$42.4 million to \$74.0 million in fiscal year 2019 due to operating income of \$30.6 million as well as a nonoperating net income of \$11.8 million.
- Current assets increased \$85.3 million primarily due to an increase in patient accounts receivable offset by a decrease in short term investments. Patient accounts receivable increased \$73.5 million due to the acquisition of Mary Black as well as the increase in volume and reimbursement rates.
- Net capital assets increased \$125.0 million primarily due to the Mary Black acquisition (\$66.5 million) and the master facility renovation plan and expansion projects.
- Total deferred outflows decreased by \$18.2 million as a result of pension asset activity related to the District's share of employer allocations of the South Carolina Retirement System ("SCRS"), in accordance with Statement No. 68 of the GASB.
- Current liabilities increased \$48.2 million due to the timing of accounts payable and accrued expense payments, which increased in volume due to the Mary Black acquisition.
- Long-term liabilities increased \$86.9 million primarily due to the issuance of a Line of credit which funded the purchase of the Mary Black hospitals and the subsequent integration of the staff and facilities.

**Spartanburg Regional Health Services District, Inc.**  
**Management's Discussion and Analysis**

- Total deferred inflows increased by \$4.0 million as a result of pension deferral activity related to the District's share of employer allocations of the SCRS, in accordance with GASB 68.

**Financial Analysis**

**Table A-2**

*Condensed Combined Balance Sheets (In Thousands of Dollars)*

	Fiscal Year 2018	Fiscal Year 2017	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Current assets	\$ 409,400	\$ 345,143	\$ 64,257	18.62%
Capital assets, net	545,027	510,409	34,618	6.78%
Other long-term assets	263,082	255,165	7,917	3.10%
Total assets	<b>1,217,509</b>	1,110,717	106,792	9.61%
Deferred outflows	49,075	75,484	(26,409)	(34.99)%
Total assets & deferred outflows	<b>\$ 1,266,584</b>	\$ 1,186,201	\$ 80,383	6.78%
Current liabilities	\$ 193,462	\$ 196,342	\$ (2,880)	(1.47)%
Long-term liabilities	995,807	975,864	19,943	2.04%
Total liabilities	<b>1,189,269</b>	1,172,206	17,063	1.46%
Deferred inflows	45,759	11,203	34,556	308.45%
Total liabilities & deferred inflows	<b>1,235,028</b>	1,183,409	51,619	4.36%
Net investment in capital assets	144,180	180,980	(36,800)	(20.33)%
Restricted	27,907	6,087	21,820	358.47%
Unrestricted	(140,531)	(184,275)	43,744	(23.74)%
Total net position	<b>31,556</b>	2,792	28,764	1,030.23%
Total liabilities & net position	<b>\$ 1,266,584</b>	\$ 1,186,201	\$ 80,383	6.78%

- Net position increased \$28.8 million to \$31.6 million in fiscal year 2018 due to operating income of \$29.3 million as well as a nonoperating net expense of \$0.5 million.
- Current assets increased \$64.3 million primarily due to short term investments. Short term investments increased \$62.4 million due to an increase in operating cash generated from the issuance of Hospital Revenue and Refunding bonds in December 2017.
- Net capital assets increased \$34.6 million due to the net activity of additions, deductions and depreciation. Additions primarily relate to capitalizing costs for the master facility renovation plan and expansion projects.
- Other long-term assets increased \$8.4 million due to the remaining proceeds acquired from the issuance of Hospital Revenue and Refunding bonds in December 2017 held in a project fund by the Bond Trustee.
- Total deferred outflows decreased by \$26.4 million as a result of pension asset activity related to the District's share of employer allocations of the SCRS, in accordance with Statement No. 68 of the Governmental Accounting Standards Board.
- Long-term liabilities increased \$19.9 million primarily due to the issuance of Hospital Revenue and Refunding bonds in December 2017 offset by a \$57.0 million decrease in the District's share of the SCRS net pension liability, in accordance with GASB 68.
- Total deferred inflows increased by \$34.6 million as a result of pension deferral activity related to the District's share of employer allocations of the SCRS, in accordance with GASB 68.

**Spartanburg Regional Health Services District, Inc.  
Management's Discussion and Analysis**

**Table A-3**

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

	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>	<b>Dollar Increase (Decrease)</b>	<b>Percentage Increase (Decrease)</b>
Net patient service revenues	<b>\$ 1,324,137</b>	\$ 1,113,320	\$ 210,817	18.94%
Other revenues	<b>41,259</b>	34,235	7,024	20.52%
Total operating revenues	<b>1,365,396</b>	1,147,555	217,841	18.98%
Salaries, temporary personnel, and benefit expenses	<b>776,308</b>	657,762	118,546	18.02%
Supply expenses	<b>240,763</b>	201,839	38,924	19.28%
Other expenses	<b>317,724</b>	258,656	59,068	22.84%
Total operating expenses	<b>1,334,795</b>	1,118,257	216,538	19.36%
Operating income	<b>30,601</b>	29,298	1,303	4.45%
Net nonoperating revenues (expenses)	<b>11,799</b>	(534)	12,333	2,309.55%
Increase (decrease) in net position	<b>42,400</b>	28,764	13,636	47.41%
Beginning net position	<b>31,556</b>	2,792	28,764	1,030.23%
Ending net position	<b>\$ 73,956</b>	\$ 31,556	\$ 42,400	134.36%

- Total operating revenues increased by approximately \$217.8 million due to an increase of net patient service revenue of \$210.8 million and increase in other revenue of \$7.0 million.
- The increase of net patient service revenues is partially due to the Mary Black acquisition. In addition, there were increases in outpatient volume and Medicaid payments for treating a disproportionate share of low-income patients, as well as an increase in the payment rate on Medicare patients.
- Other revenues increased \$7.0 million due to an increase in performance-based incentives earned, retail pharmacy revenue due to volume, grant revenue, and SMC Ventures, LLC revenue due to increased volume at the ambulatory surgery centers.
- Total operating expenses increased by approximately \$216.5 million primarily due to a \$118.5 million increase in salaries and benefit expenses, a \$38.9 million increase in supply expenses, and a \$59.1 million increase in other expenses.
- Salaries and benefit expenses increased \$118.5 million. Salaries increased \$90.9 million due to the addition of full-time employees (primarily due to the Mary Black acquisition), market adjustments, and an annual merit wage increase. Benefits increased \$27.6 million due to the addition of full-time employees with the Mary Black acquisition. The application of GASB 68, also caused pension plan expense to increase by \$0.9 million.
- Supplies expense increased \$38.9 million. \$20.6 million of this increase was due to increased patient volume as a result of the Mary Black acquisition. The remainder was due to an increase in pharmaceutical spend, primarily due to increased volume in cancer drugs, and an increase in surgical supplies, primarily due to an increase in Ortho cases at SMC Church street campus and Pelham Medical Center.
- Other expenses increased \$59.1 million primarily consisting of \$33.5 million due to the Mary Black acquisition, \$9.6 million due to expenses related to supplemental governmental payment programs, \$5.4 million in management fees, \$2.3 million in software and hardware maintenance, and \$2.1 million in contracted services for IT and revenue cycle.
- Net nonoperating revenues (expenses) increased by \$12.3 million compared to the prior year primarily due to an increase in net investment income of \$19.7 million, offset by a decrease in other gains (losses) of \$4.7 million and an increase in interest expense of \$2.7 million. The decrease in other gains (losses) is primarily due to the one-time costs associated with the Mary Black acquisition of \$4.6 million.

**Spartanburg Regional Health Services District, Inc.  
Management's Discussion and Analysis**

**Table A-4**

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

	Fiscal Year 2018	Fiscal Year 2017	Dollar Increase (Decrease)	Percentage Increase (Decrease)
Net patient service revenues	\$ 1,113,320	\$ 1,030,954	\$ 82,366	7.99%
Premium revenues	-	3,207	(3,207)	(100.00)%
Other revenues	<b>34,235</b>	30,234	4,001	13.23%
Total operating revenues	<b>1,147,555</b>	1,064,395	83,160	7.81%
Salaries, temporary personnel, and benefit expenses	<b>657,762</b>	638,734	19,028	2.98%
Supply expenses	<b>201,839</b>	184,460	17,379	9.42%
Other expenses	<b>258,656</b>	259,480	(824)	(0.32)%
Total operating expenses	<b>1,118,257</b>	1,082,674	35,583	3.29%
Operating income (loss)	<b>29,298</b>	(18,279)	47,577	(260.28)%
Net nonoperating revenues (expenses)	<b>(534)</b>	(18,342)	17,808	(97.09)%
Increase (decrease) in net position	<b>28,764</b>	(36,621)	65,385	(178.55)%
Beginning net position	<b>2,792</b>	39,413	(36,621)	(92.92)%
Ending net position	<b>\$ 31,556</b>	\$ 2,792	\$ 28,764	1,030.23%

- Total operating revenues increased by approximately \$83.2 million due to an increase of net patient service revenue of \$82.4 million, a decrease of premium revenues of \$3.2 million, and increase in other revenue of \$4.0 million.
- The increase of net patient service revenues is due to outpatient volume increases, Medicaid DSH payments, and other governmental supplemental payment programs.
- In 2017, Advicare received trailing premium revenues of \$3.2 million. No additional premium revenues were received in 2018.
- Other revenues increased \$4 million due to an increase in recognition of payor incentives earned and revenue from physicians leased to other healthcare systems.
- Total operating expenses increased by approximately \$35.6 million primarily due to a \$19.0 million increase in salaries, temporary personnel, and benefit expenses and a \$17.4 million increase in supply expenses.
- Salaries and benefit expenses increased approximately \$19.0 million. Salaries increased \$32.7 million due to the addition of full-time employees, market adjustments, and an annual merit wage increase. Benefits decreased \$13.7 million due to a decrease in pension plan cost of \$24.1 million due to application of GASB 68, offset by increases in retirement related expenses and health insurance expense.
- Supply expenses increased \$17.4 million primarily due to pharmaceutical pricing and an increase in surgical supplies due to volume.
- Net nonoperating expenses decreased by \$17.8 million compared to the prior year primarily due to costs incurred in 2017 of approximately \$13.0 million in connection with the resolution of various legal matters. In addition, also in 2017, costs were incurred of \$7.5 million due to the final year of District support of Guardian Research Network. There were no expenditures of this nature in 2018.

**Spartanburg Regional Health Services District, Inc.  
Management's Discussion and Analysis**

**Capital Assets**

**Table A-5**

*Capital Assets (In Thousands of Dollars)*

	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>
Land and land improvements	\$ 79,345	\$ 69,726
Building and building fixtures	448,144	380,210
Equipment	784,100	749,063
Construction-in-progress	134,954	68,610
Equipment under capital lease obligations	12,321	12,084
Total capital assets	<u>1,458,864</u>	<u>1,279,693</u>
Less accumulated depreciation	<u>(788,802)</u>	<u>(734,666)</u>
Net capital assets	<u>\$ 670,062</u>	<u>\$ 545,027</u>

As of September 30, 2019, the District had approximately \$670 million invested in capital assets, as reflected in Table A-5, which represents a net increase (additions, deductions and depreciation) of approximately \$125 million or 22.9% from the end of last year.

**Table A-6**

*Capital Assets (In Thousands of Dollars)*

	<b>Fiscal Year 2018</b>	<b>Fiscal Year 2017</b>
Land and land improvements	\$ 69,726	\$ 68,301
Building and building fixtures	380,210	339,310
Equipment	749,063	721,913
Construction-in-progress	68,610	51,407
Equipment under capital lease obligations	12,084	12,367
Total capital assets	<u>1,279,693</u>	<u>1,193,298</u>
Less accumulated depreciation	<u>734,666</u>	<u>682,889</u>
Net capital assets	<u>\$ 545,027</u>	<u>\$ 510,409</u>

As of September 30, 2018, the District had approximately \$545.0 million invested in capital assets, as reflected in Table A-6, which represents a net increase (additions, deductions and depreciation) of approximately \$34.6 million or 6.78% from the end of last year.

**Long-Term Debt**

As of September 30, 2019, the District had approximately \$500.7 million in outstanding long-term debt, less current portion, and as of September 30, 2018, the District had approximately \$396.5 million in outstanding long-term debt, less current portion. This represents a net increase of approximately \$104.2 million, primarily due to the acquisition of the Mary Black hospital system.

For more detailed information regarding the District's capital assets and long-term debt, refer to the accompanying notes to the combined financial statements.

**Future Outlook**

The Board of Directors and management believe that the District is well positioned to improve its strong financial condition and continue to provide excellent health care services to its service area. The acquisition of Mary Black Health system hospitals and clinics solidifies the District's position as the primary service provider in the area

**Spartanburg Regional Health Services District, Inc.  
Management's Discussion and Analysis**

---

while also providing additional space and resources to increase the volume of patients served. Further increases in volume are expected to continue as the District adds new services, expands existing services, and increases its market share.

In addition, due to the District's ownership of a diverse selection of physician practices (Medical Group of the Carolinas), advanced information technology, medical staff and employee leadership, growth of cancer research, and relationship with Regional Health Plus, LLC, management believes that the District is well positioned to address the challenges and opportunities of health care reform. The District's prudent use of financial resources, cost-control efforts, and increases in patient volume will ensure that the District will continue as the primary provider of health care service in the area.

***Requests for Information***

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District at 101 East Wood Street, Spartanburg, South Carolina 29303.

**Spartanburg Regional Health Services District, Inc.**  
**Combined Balance Sheets**  
**September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 124,012	\$ 119,980
Short term investments	70,580	69,208
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$141,765 (2019) and \$103,993 (2018)	227,566	154,079
Drugs and supplies	13,036	10,381
Other current assets	59,518	55,752
Total current assets	<u>494,712</u>	<u>409,400</u>
Assets whose use is limited:		
Board designated cash and investments	220,351	205,376
Board designated other assets	958	928
Funds held by trustee	25	27,907
Total assets whose use is limited	<u>221,334</u>	<u>234,211</u>
Other long term investments	23,855	22,068
Capital assets, net	670,062	545,027
Other assets	7,248	6,803
Total assets	<u>1,417,211</u>	<u>1,217,509</u>
<b>DEFERRED OUTFLOWS</b>		
Deferred loss on defeased debt, net	3,619	4,717
Pension deferrals	27,267	44,358
Total deferred outflows	<u>30,886</u>	<u>49,075</u>
Total assets and deferred outflows	<u>\$ 1,448,097</u>	<u>\$ 1,266,584</u>

See accompanying notes.

**Spartanburg Regional Health Services District, Inc.**  
**Combined Balance Sheets**  
**September 30, 2019 and 2018**

**(Continued)**

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 119,324	\$ 88,977
Accrued expenses	107,548	93,541
Estimated third-party payor settlements	10,215	6,621
Current portion of obligations under capital leases	215	221
Current portion of long-term debt	4,404	4,102
	<hr/>	<hr/>
Total current liabilities	241,706	193,462
Net pension liability	582,052	599,283
Long-term debt, less current portion	500,659	396,524
	<hr/>	<hr/>
Total liabilities	1,324,417	1,189,269
 <b>DEFERRED INFLOWS</b>		
Pension deferrals	49,724	45,759
	<hr/>	<hr/>
Total liabilities and deferred inflows	1,374,141	1,235,028
 <b>NET POSITION</b>		
Net investment in capital assets	164,784	144,180
Restricted- expendable for debt service	25	27,907
Unrestricted	(90,853)	(140,531)
	<hr/>	<hr/>
Total net position	73,956	31,556
	<hr/>	<hr/>
Total liabilities, deferred inflows and net position	<u>\$ 1,448,097</u>	<u>\$ 1,266,584</u>

See accompanying notes.

**Spartanburg Regional Health Services District, Inc.**  
**Combined Statements of Revenues, Expenses, and Changes in Net Position**  
**September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
Operating revenues:		
Net patient service revenues, net of provision for bad debts of approximately \$177,061 (2019) and \$131,548 (2018)	\$ 1,324,137	\$ 1,113,320
Other operating revenues	41,259	34,235
Total operating revenues	<u>1,365,396</u>	1,147,555
Operating expenses:		
Salaries	615,779	524,887
Benefits	160,529	132,875
Supplies	240,763	201,839
Fees and purchased services	136,605	108,260
Depreciation	57,228	55,496
Other	123,891	94,900
Total operating expenses	<u>1,334,795</u>	1,118,257
Operating income	30,601	29,298
Non-operating revenues (expenses):		
Interest expense	(15,442)	(12,713)
Net investment income (expense)	17,822	(1,857)
Non-capital grants and contributions	11,069	10,974
Other gain (loss)	(1,650)	3,062
Net non-operating income (expenses)	<u>11,799</u>	(534)
Excess of revenues over expenses	42,400	28,764
Net position at beginning of year	<u>31,556</u>	2,792
Net position at end of year	<u>\$ 73,956</u>	<u>\$ 31,556</u>

See accompanying notes.

**Spartanburg Regional Health Services District, Inc.**  
**Combined Statements of Cash Flows**  
**September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
Cash flows from operating activities:		
Receipts from patients	\$ 1,254,243	\$ 1,127,185
Payments to vendors	(465,302)	(399,246)
Claims and self-insurance payments	(37,174)	(33,081)
Payments for salaries and benefits	(749,733)	(646,413)
Other receipts from operations	54,551	40,620
	<u>56,585</u>	<u>89,065</u>
Net cash provided by operating activities	<u>56,585</u>	<u>89,065</u>
Cash flows from non-capital financing activities:		
Non-capital grants and contributions	11,069	10,974
Other	(1,650)	3,062
	<u>9,419</u>	<u>14,036</u>
Net cash provided by non-capital financing activities	<u>9,419</u>	<u>14,036</u>
Cash flows from capital and related financing activities:		
Purchase and construction of capital assets	(178,495)	(94,205)
Proceeds from sale of capital assets	147	158
Proceeds from issuance on long-term debt	109,300	263,056
Principal payments on long-term debt, net	(4,193)	(189,763)
Interest payments on long-term debt	(15,442)	(12,713)
Principal payments on capital lease obligations	(384)	(729)
	<u>(89,067)</u>	<u>(34,196)</u>
Net cash used in capital and related financing activities	<u>(89,067)</u>	<u>(34,196)</u>
Cash flows from investing activities:		
Net change in investments	(3,159)	(62,938)
Net change in assets whose use is limited	(10,670)	39,210
Net investment income (loss)	17,822	(1,857)
Net change in investments in joint ventures	(445)	121
	<u>3,548</u>	<u>(25,464)</u>
Net cash provided by (used in) investing activities	<u>3,548</u>	<u>(25,464)</u>
Net increase (decrease) in cash and cash equivalents	(19,515)	43,441
Cash and cash equivalents at beginning of year	<u>176,267</u>	<u>132,826</u>
Cash and cash equivalents at end of year	<u>\$ 156,752</u>	<u>\$ 176,267</u>

See accompanying notes.

**Spartanburg Regional Health Services District, Inc.**  
**Combined Statements of Cash Flows**  
**September 30, 2019 and 2018**

**(Continued)**

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents on the balance sheet	\$ 124,012	\$ 119,980
Cash and cash equivalents in assets whose use is limited	<u>32,740</u>	<u>56,287</u>
Total cash and cash equivalents	<u>\$ 156,752</u>	<u>\$ 176,267</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 30,601	\$ 29,298
Adjustments to reconcile operating income to net cash provided by operating activities:		
Amortization of bond premium	(670)	(1,146)
Provision for bad debts	177,061	131,548
Depreciation	57,228	55,496
Loss on sale of capital assets	162	1,021
Changes in operating assets and liabilities:		
Patient accounts receivable	(250,548)	(116,481)
Drugs and supplies	(2,655)	(1,246)
Other current assets	(2,668)	(17,948)
Accounts payable	26,648	4,413
Deferred outflows - pension deferrals	17,091	25,410
Estimated third-party payor settlements	3,594	(1,201)
Accrued expenses	14,007	2,340
Net pension liability	(17,231)	(56,995)
Deferred inflows- pension	<u>3,965</u>	<u>34,556</u>
Net cash provided by operating activities	<u>\$ 56,585</u>	<u>\$ 89,065</u>
Supplemental non-cash information:		
Capital assets included in accounts payable	<u>\$ 9,063</u>	<u>\$ 4,986</u>
Net unrealized gain (loss)	<u>\$ 11,170</u>	<u>\$ (4,165)</u>
Net realized gain (loss)	<u>\$ 619</u>	<u>\$ (2,377)</u>

See accompanying notes.

## **Notes to the Combined Financial Statements**

### **1. Description Of Reporting Entity And Summary Of Significant Accounting Policies**

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

Spartanburg Regional Health Services District, Inc. (the "District") is a statutory public hospital corporation and a political subdivision of the state of South Carolina, and, as such, is exempt from federal and state income tax. The District is governed by a Board of Directors (the "Board") appointed by the Spartanburg County Council, the primary government.

The District operates an integrated health care delivery system in Spartanburg, Union, and Cherokee Counties consisting of Spartanburg Medical Center ("SMC"), Cherokee Medical Center ("CMC"), Spartanburg Hospital for Restorative Care ("SHRC"), Pelham Medical Center ("PMC"), Union Medical Center ("UMC"), Ellen Sagar Nursing Center ("ESNC"), and Woodruff Manor ("Woodruff"). The District includes a network of physician practices, the Medical Group of the Carolinas ("MGC") that offer an array of medical services in the Upstate Region of South Carolina and adjacent counties in North Carolina. In addition, the District owns SMC Ventures, LLC ("Ventures") and Greer Group, LLC ("Greer Group"), which are organized as limited liability companies under South Carolina limited liability company statutes, as well as NC Network, Inc. ("NC Network"), which is organized as a North Carolina corporation. The District operates Advicare Corp. ("Advicare"), a Medicaid managed care organization and Palmetto Physician Connections, LLC ("PPC"), a previous Medicaid medical home network that converted its covered lives to Advicare in fiscal year 2014. Advicare had no active members during fiscal years 2019 and 2018.

Ventures holds investments in joint ventures as further described in this note under "Investments in Joint Ventures".

During fiscal year 2017, the District entered into a five-year Management Services Agreement (the "MSA") with Apella Health management, Inc. ("Apella"), a South Carolina nonprofit corporation, to provide executive management services for the District. The MSA was amended to a ten-year term during fiscal year 2018. Under the terms of the MSA, the District pays Apella an annual management fee. The District continues to be the licensed owner and provider of healthcare services, and retains ultimate control over assets and critical strategic, quality, and operational matters. The District also provides certain administrative services to Apella under an Administrative Services Agreement and leases certain employees from Apella under an Employee Lease Agreement. The net amount of payments from the District to Apella during fiscal years 2019 and 2018 was approximately \$152.8 million and \$72.3 million, respectively.

On December 31, 2018, Spartanburg Regional Healthcare System (the District) acquired Mary Black Hospital System (Mary Black) from Community Health System for approximately \$75 million. The purchase was financed through a revolving line of credit agreement. All acquisition costs were expensed as incurred. The acquisition was made for the purpose of expanding capacity to better serve residents and avoid future capital expenditures of greater cost. The District will operate, maintain, and account for the operations of Mary Black. The acquisition included substantially all the assets of Mary Black, consisting of the 207-bed Mary Black hospital in Spartanburg, South Carolina and the 125-bed facility in Gaffney, South Carolina, as well as all Mary Black physician offices and outpatient services. The District assumed limited liabilities of Mary Black. The acquisition value of the net working capital and real property/equipment acquired as of the acquisition date was determined to be approximately \$2.2M and \$72.7M, respectively.

The combined financial statements of the District include the accounts of SMC, CMC, PMC, SHRC, UMC, ESNC, Woodruff, MGC, Ventures, Greer Group, NC Network, Advicare, and PPC. These affiliated entities are reported as blended component units of the District. Ventures, Greer Group, Advicare, and PPC operate on a calendar year end. All intercompany transactions have been eliminated in the combined financial statements.

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

***Accounting standards and methods***

The District qualifies as a governmental organization and is subject to the pronouncements of the Governmental Accounting Standards Board ("GASB"). The District is reported as an enterprise fund under GASB pronouncements. The proprietary fund method of accounting is used whereby revenues and expenses are recognized on the accrual basis.

During 2019, the District adopted GASB No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which primarily resulted in additional disclosures in the Long-term debt Note 6, related to the District's debt, including terms specified in debt agreements related to significant events of default with related consequences. The impact of adoption of this standard was not material.

***Use of estimates***

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and cash equivalents***

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

At various times throughout the year, the District maintains deposits at financial institutions in excess of amounts covered by the Federal Deposit Insurance Corporation ("FDIC") limits. Management believes the credit risk associated with these deposits is minimal.

***Patient accounts receivable***

Patient accounts receivable are carried at net realizable value. The allowance is based upon a review of the outstanding balances aged by financial class. For patient receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for contractual adjustments. Management uses collection percentages based upon historical collection experience to determine collectability. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to provision for bad debts when received. Interest is not charged on patient accounts receivable.

***Drugs and supplies***

Drugs and supplies are stated at the lower of cost, determined using the first-in, first-out method, or net realizable value.

***Investments***

Short term and long term investments consist principally of certificates of deposit and debt securities. Investments in debt securities are reported at fair value. Interest, dividends and gains and losses, both realized and unrealized, on investments in debt securities are included in nonoperating revenues when earned.

***Assets whose use is limited***

Assets whose use is limited primarily includes assets designated by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and amounts held by Bond Trustees in accordance with indenture agreements.

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

**Capital assets**

Capital assets are stated at cost, including interest costs incurred during construction. Contributed property is recorded at its fair value at date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as determined by industry standards. Routine maintenance, repairs, and replacements are charged to expense. The District capitalizes all assets purchased individually that have a useful life of three or more years and a cost of \$2,500. Items purchased as a group are capitalized if the purchase is for the same item, the individual item cost is equal to or exceeds \$500, the total cost of the group purchase is equal to or exceeds \$25,000, and the purchase occurs at one time.

The amortization of assets under capital leases is included in depreciation expense. Assets are amortized over the shorter of the lease term or asset life.

When properties are retired or otherwise disposed of, the cost of the assets and related allowances for depreciation are removed from the accounts, and any resulting gain or loss is recognized as a non-operating activity in the combined Statements of Revenues, Expenses and Changes in Net Position.

Interest costs incurred during the period of construction of qualifying capital assets are capitalized as a component of the cost of these assets and amortized over the life of the asset.

**Investments in joint ventures**

Regional HealthPlus, LLC (“RHP”) is a limited liability company formed to organize a collaborative network of health care providers and execute and manage various contracts with third-party payors. RHP is owned 50% by SMC Ventures, LLC and 50% by area physicians. The District accounts for the investment in RHP using the equity method.

The Ambulatory Surgery Center of Spartanburg, LLC (“ASCS, LLC”) is a limited liability company formed to assist the District in serving the ambulatory surgical needs of Spartanburg County residents. ASCS, LLC is owned 50% by SMC Ventures, LLC and 50% by area physicians. The District accounts for the investment in ASCS, LLC using the equity method.

The Ambulatory Surgery Center of Pelham, LLC (“ASC Pelham, LLC”) is a limited liability company formed to assist the District in serving the ambulatory surgical needs of Spartanburg County residents. ASC Pelham, LLC is owned 50% by SMC Ventures, LLC and 50% by area physicians. The District accounts for the investment in ASC Pelham, LLC using the equity method.

The District’s investments in joint ventures included in other assets as of September 30, are as follows, in thousands:

	<u>2019</u>	<u>2018</u>
Regional HealthPlus, LLC	\$ 4,279	\$ 4,064
Ambulatory Surgery Center of Spartanburg, LLC	1,410	1,221
Ambulatory Surgery Center of Pelham, LLC	<u>1,559</u>	<u>1,518</u>
	<u>\$ 7,248</u>	<u>\$ 6,803</u>

**Net position**

Net position of the District classified as net investment in capital assets consist of capital assets, net of accumulated depreciation, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted components of net position include amounts deposited with trustees as required by revenue bond indentures. Unrestricted components of net position are remaining net position that do not meet the definition of net investment in capital assets or restricted.

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

***Net patient service revenues***

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

The District's policy does not require collateral or other security for patient accounts receivable. The District routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies such as those related to Medicare, Medicaid, Blue Cross, health maintenance organizations and commercial insurance carriers.

***Charity care***

The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the District utilizes the generally recognized poverty income levels of South Carolina, and also includes certain cases where incurred charges are significant when compared to the patient's income. Patients that qualify for the state Medically Indigent Act Program are a component of charity care. The District receives no reimbursement for services provided to these patients. Charity care is not reflected in net patient service revenues. The gross amount of charges written off to charity care under these policies for the years ended September 30, 2019 and 2018 were approximately \$100.8 million and \$78.9 million, respectively. The net cost of charity care provided for the years ended September 30, 2019 and 2018 was approximately \$26.2 million and \$21.6 million, respectively. The District uses the cost to charge ratio to estimate the cost of charity care.

***Operating revenues and expenses***

The District's combined statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the District's principal activity. Nonexchange revenues, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, is reported as other revenues.

***Grants and contributions***

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

***Income taxes***

The District is a political subdivision of the State of South Carolina and also has been granted exemption from income taxes as an organization described in Section 115 of the Internal Revenue Code. Limited liability companies combined with the District are treated as a partnership for Federal and state income tax purposes and are not taxed at the entity level. Advicare is a corporation with a tax year-end of December 31. Advicare files tax returns with appropriate Federal and state taxing authorities in compliance with Internal Revenue Service and

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

state provisions and is current on all tax payments. The District has determined that it does not have any material unrecognized tax benefits or obligations as of September 30, 2019.

***Risk management***

The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; and, natural disasters; medical malpractice claims and judgments; and employee health, dental and accident benefits. Insurance coverage is purchased to cover the majority of claims arising from such matters. The District is self-insured for amounts up to a specified level for health and medical coverages for its employees and medical malpractice claims. The estimated liability is the total estimated amount to be paid for all known claims or incidents and a reserve for incurred but not reported claims.

***Reclassification***

Certain accounts in the prior year combined financial statements have been reclassified for comparative purposes to conform to the presentation in the current year combined financial statements. Reclassifications did not impact change in net assets or net asset balances.

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

At September 30, 2019 and 2018, the District had cash on hand and deposits as follows, in thousands:

	<u>2019</u>	<u>2018</u>
Insured (FDIC)	\$ 2,948	\$ 2,431
Cash deposits not collateralized	<u>121,064</u>	<u>117,549</u>
Total	<u>\$ 124,012</u>	<u>\$ 119,980</u>

The types of securities which are permitted investments for District funds are established by the District's Investment Policy in accordance with South Carolina Statutes. As of September 30, 2019, the District's funds are permitted to be invested in certain principal protected investment vehicles. The District's investments maintain a target allocation of one-third corporate bonds, one-third U.S. Intermediate Term Treasuries, and one-third Treasury Inflation Protected Securities as established by the District's Investment Policy.

**Custodial Credit Risk** - The District's deposits are exposed to custodial credit risk to the extent they are not covered by depository insurance and are uncollateralized. The District's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. The deposit risk is that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

**Concentration of Credit Risk** - This is the risk associated with the amount of investments the District has with any one issuer that exceeds 5% or more of its total investments and assets whose use is limited. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The District's investment policy states that not more than 10% of a manager's portfolio may be invested in the securities of any one issuer, with the exception of the U.S. Government or its agencies and other sovereign government issuers.

**Credit Risk** - This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced.

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

The credit risk profile of the District's investments and assets whose use is limited as of September 30, 2019 and 2018 is as follows, in thousands:

<u>Investment Type</u>	<u>September 30,</u> <u>2019</u>	<u>Rating</u>	
		<u>AAA-BBB</u>	<u>N/A</u>
Cash and cash equivalents	\$ 32,740	\$ -	\$ 32,740
Corporate obligations	51,721	51,721	-
Foreign obligations	22,073	22,073	-
U.S. Treasury obligations	129,701	-	129,701
Certificates of deposit	2,000	-	2,000
U.S. agency obligations	76,863	-	76,863
Municipal	671	671	-
Total	<u>\$ 315,769</u>	<u>\$ 74,465</u>	<u>\$ 241,304</u>

<u>Investment Type</u>	<u>September 30,</u> <u>2018</u>	<u>Rating</u>	
		<u>AAA-BBB</u>	<u>N/A</u>
Cash and cash equivalents	\$ 56,287	\$ -	\$ 56,287
Corporate obligations	43,839	43,839	-
Foreign obligations	21,578	21,578	-
U.S. Treasury obligations	125,296	-	125,296
Certificates of deposit	2,000	-	2,000
U.S. agency obligations	75,833	-	75,833
Municipal	654	654	-
Total	<u>\$ 325,487</u>	<u>\$ 66,071</u>	<u>\$ 259,416</u>

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

The distribution of the District's investments and assets whose use is limited by maturity as of September 30, 2019 and 2018 is as follows (in thousands):

<u>Investment Type</u>	<u>September 30</u> <u>2019</u>	<u>Remaining Maturity (In Months)</u>			
		<u>Twelve Months</u> <u>to 24 Months</u>	<u>13 Months to</u> <u>60 Months</u>	<u>25 Months to</u> <u>60 Months</u>	<u>Greater Than</u> <u>60 Months</u>
Cash and cash equivalents	\$ 32,740	\$ 32,740	\$ -	\$ -	-
Corporate obligations	51,721	4,739	8,586	20,866	17,530
Foreign obligations	22,073	1,649	4,003	8,004	8,417
U.S. Treasury obligations	129,701	36,433	11,297	47,270	34,701
Certificates of deposit	2,000	2,000	-	-	-
U.S. agency obligations	76,863	3,069	2,811	7,317	63,666
Municipal	671	-	94	235	342
Total	<u>\$ 315,769</u>	<u>\$ 80,630</u>	<u>\$ 26,791</u>	<u>\$ 83,692</u>	<u>\$ 124,656</u>

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

<b>Investment Type</b>	<b>September 30 2018</b>	<b>Remaining Maturity (In Months)</b>			
		<b>Twelve Months to 24 Months</b>	<b>13 Months to 60 Months</b>	<b>25 Months to 60 Months</b>	<b>Greater Than 60 Months</b>
Cash and cash equivalents	\$ 56,287	\$ 56,287	\$ -	\$ -	-
Corporate obligations	43,839	2,141	6,251	18,413	17,034
Foreign obligations	21,578	1,550	2,323	10,104	7,601
U.S. Treasury obligations	125,296	34,259	16,609	43,303	31,125
Certificates of deposit	2,000	2,000	-	-	-
U.S. agency obligations	75,833	2,244	2,255	9,350	61,984
Municipal	654	-	-	329	325
<b>Total</b>	<b>\$ 325,487</b>	<b>\$ 98,481</b>	<b>\$ 27,438</b>	<b>\$ 81,499</b>	<b>\$ 118,069</b>

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

	<u>2019</u>	<u>2018</u>
Short term investments	\$ 70,580	\$ 69,208
Assets whose use is limited	221,334	234,211
Other long-term investments	<u>23,855</u>	<u>22,068</u>
	<u>\$ 315,769</u>	<u>\$ 325,487</u>

For the years ended September 30, 2019 and 2018, net investment income (expense) is comprised of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends, net of fees	\$ 6,033	\$ 4,685
Net unrealized gain (loss)	11,170	(4,165)
Net realized gain (loss)	<u>619</u>	<u>(2,377)</u>
	<u>\$ 17,822</u>	<u>\$ (1,857)</u>

### 3. Fair Value of Financial Instruments

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 System categorizes its fair value measurements within the fair value hierarchy established by this standard.

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

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

	<b>Assets at Fair Value as of September 30, 2019</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Corporate obligations	\$ -	\$ 51,721	\$ -	\$ 51,721
Foreign obligations	-	22,073	-	22,073
U.S. Treasury obligations	129,701	-	-	129,701
U.S. agency obligations	-	76,863	-	76,863
Municipal	-	671	-	671
Investments at fair value	<u>\$ 129,701</u>	<u>\$ 151,328</u>	<u>\$ -</u>	<u>\$ 281,029</u>

	<b>Assets at Fair Value as of September 30, 2018</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Corporate obligations	\$ -	\$ 43,839	\$ -	\$ 43,839
Foreign obligations	-	21,578	-	21,578
U.S. Treasury obligations	125,296	-	-	125,296
U.S. agency obligations	-	75,833	-	75,833
Municipal	-	654	-	654
Investments at fair value	<u>\$ 125,296</u>	<u>\$ 141,904</u>	<u>\$ -</u>	<u>\$ 267,200</u>

The District has approximately \$34.7 million and \$58.3 million of cash and cash equivalents included in assets limited as to use as of September 30, 2019 and 2018, respectively, which were not classified as a level.

The District recognizes transfers between the levels as of the actual date of the event or change in circumstances that caused the transfer. There were no gross transfers between the levels for the years ended September 30, 2019 and 2018.

**4. Accounts Receivable and Payable**

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the District at September 30, 2019 and 2018 consisted of these amounts, in thousands:

Patient Accounts Receivable

	<b>2019</b>	<b>2018</b>
Receivable from patients and their insurance carriers	\$ 249,839	\$ 182,031
Receivable from Medicare	89,616	56,749
Receivable from Medicaid	<u>29,876</u>	<u>19,292</u>
Total patient accounts receivable	369,331	258,072
Less: allowance for uncollectible amounts	<u>(141,765)</u>	<u>(103,993)</u>
Patient accounts receivable, net	<u>\$ 227,566</u>	<u>\$ 154,079</u>

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

Accounts Payable and Accrued Expenses

	<u>2019</u>	<u>2018</u>
Payable to employees (including payroll taxes)	\$ 65,626	\$ 63,122
Payable to suppliers	86,380	66,913
Payable for Medicaid Upper Payment Limit program	16,372	7,270
Payable for Advicare medical claims	223	259
Other	<u>58,270</u>	<u>44,954</u>
Total accounts payable and accrued expenses	<u>\$ 226,871</u>	<u>\$ 182,518</u>

**5. Capital Assets**

A summary of capital assets and the related accumulated depreciation for 2019 and 2018 is as follows, in thousands:

	<u>Balance September 30, 2018</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Balance September 30, 2019</u>
Land and land improvements	\$ 69,726	\$ 9,481	\$ 138	\$ -	\$ 79,345
Buildings and building fixtures	380,210	51,433	16,503	(2)	448,144
Fixed equipment	280,538	-	2,046	(174)	282,410
Major movable equipment	468,525	11,843	24,259	(2,937)	501,690
Equipment under capital lease obligations	12,084	378	-	(141)	12,321
Construction-in-progress	<u>68,610</u>	<u>109,290</u>	<u>(42,946)</u>	<u>-</u>	<u>134,954</u>
	1,279,693	182,425	-	(3,254)	1,458,864
Less accumulated depreciation	<u>(734,666)</u>	<u>(57,228)</u>	<u>-</u>	<u>3,092</u>	<u>(788,802)</u>
Capital assets, net	<u>\$ 545,027</u>	<u>\$ 125,197</u>	<u>\$ -</u>	<u>\$ (162)</u>	<u>\$ 670,062</u>

  

	<u>Balance September 30, 2017</u>	<u>Additions</u>	<u>Transfers</u>	<u>Disposals</u>	<u>Balance September 30, 2018</u>
Land and land improvements	\$ 68,301	\$ 702	\$ 732	\$ (9)	\$ 69,726
Buildings and building fixtures	339,310	2,048	38,852	-	380,210
Fixed equipment	280,512	-	1,050	(1,024)	280,538
Major movable equipment	441,401	-	30,706	(3,582)	468,525
Equipment under capital lease obligations	12,367	-	-	(283)	12,084
Construction-in-progress	<u>51,407</u>	<u>88,543</u>	<u>(71,340)</u>	<u>-</u>	<u>68,610</u>
	1,193,298	91,293	-	(4,898)	1,279,693
Less accumulated depreciation	<u>(682,889)</u>	<u>(55,496)</u>	<u>-</u>	<u>3,719</u>	<u>(734,666)</u>
Capital assets, net	<u>\$ 510,409</u>	<u>\$ 35,797</u>	<u>\$ -</u>	<u>\$ (1,179)</u>	<u>\$ 545,027</u>

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

Construction commitments at September 30, 2019 consisted of remaining project costs relating to the clinical expansion and renovations of the Pelham Medical Center, the Gibbs Cancer Center and the Boiling Springs Medical Office Building of approximately \$10,998,000 to the project contractor.

## **6. Long-Term Debt and Capital Lease Obligations**

### Series 2017A

Hospital Revenue and Refunding bonds, Series 2017A were issued on December 21, 2017 in the amount of \$192.5 million consisting of: (i) \$19.0 million of term bonds with an interest rate of 3.63% maturing in 2039; (ii) \$69.2 million of term bonds with an interest rate of 4.0% due in 2043; and (iii) \$52.0 million of term bonds with an interest rate of 4.0% due in 2048 and (iv) \$52.3 million of term bonds with an interest rate of 5.0% due in 2048. Interest is payable semi-annually on October 15 and April 15. The bonds are secured by a pledge of the revenues of the District. The term bonds maturing in 2039 are subject to mandatory sinking fund redemption from 2038 to 2039 ranging in amounts from approximately \$3.4 million to \$15.7 million. The term bonds maturing in 2043 are subject to mandatory sinking fund redemption from 2040 to 2043 ranging in amounts from approximately \$16.3 million to \$18.3 million. The term bonds maturing in 2048 and bearing interest at 4% are subject to mandatory sinking fund redemption from 2044 to 2048 ranging in amounts from approximately \$9.6 million to \$11.2 million. The term bonds maturing in 2048 and bearing interest at 5% are subject to mandatory sinking fund redemption from 2044 to 2048 ranging in amounts from approximately \$9.5 million to \$11.5 million.

The Series 2017A Bonds were issued with a premium of approximately \$9.3 million of which approximately \$8.8 million remains unamortized at September 30, 2019.

The refunding of the Series 2008A and Series 2008D bonds from the issuance of Series 2017A Bonds resulted in losses on refunding of approximately \$1.8 million and \$0.7 million, respectively. This difference, reported in the combined balance sheets as a deferred outflow of resources, is being charged as a component of interest expense through the years 2022 and 2025 using the straight-line method, which approximates the effective interest method. At September 30, 2019, the total unamortized loss on refunding is approximately \$1.6 million.

As a result of the advance refunding of a portion of the Series 2008A and the Series 2008D Bonds, the difference between the future cash flows of the refunded debt of approximately \$52.0 million and the future cash flows of the replacement debt of approximately \$80.4 million totals future cash outflows of approximately \$28.4 million. The economic gain on the refunding, which represents the difference between the present values of the refunded debt service requirements and the replacement debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid, total approximately \$4.1 million.

### Series 2017B

Hospital Revenue and Refunding bonds, Series 2017B were issued on December 21, 2017 in the amount of \$57.3 million consisting of: (i) \$25.5 million of serial bonds with interest rates ranging from 3.2% to 3.7% maturing in 2027; (ii) \$31.8 million of term bonds with an interest rate of 4.23% due in 2038. Interest is payable semi-annually on October 15 and April 15. The bonds are secured by a pledge of the revenues of the District. The term bonds maturing in 2038 are subject to mandatory sinking fund redemption from 2032 to 2038 ranging in amounts from approximately \$3.1 million to \$11.7 million.

As a result of the advance refunding of a portion of the Series 2008A, the difference between the future cash flows of the refunded debt of approximately \$18.8 million and the future cash flows of the replacement debt of approximately \$21.8 million totals future cash outflows of approximately \$3.0 million. The economic gain on the refunding, which represents the difference between the present values of the refunded debt service requirements and the replacement debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid, total approximately \$1.3 million.

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

Series 2012A

Hospital Revenue and Refunding bonds, Series 2012A were issued on July 19, 2012 in the amount of \$132.5 million consisting of: (i) \$27.8 million of serial bonds with interest rates ranging from 2.0% to 5.0% maturing in 2027; (ii) \$55.9 million of term bonds with an interest rate of 5.0% due in 2032; and (iii) \$48.8 million of term bonds with an interest rate of 5.0% due in 2037. Interest is payable semi-annually on October 15 and April 15. The bonds are secured by a pledge of the revenues of the District. The term bonds maturing in 2032 are subject to mandatory sinking fund redemption from 2028 to 2032 ranging in amounts from approximately \$8.3 million to \$12.7 million. The term bonds maturing in 2037 are subject to mandatory sinking fund redemption from 2033 to 2037 ranging in amounts from approximately \$8.9 million to \$10.7 million.

The Series 2012A Bonds were issued with a premium of approximately \$8.5 million of which approximately \$5.9 million remains unamortized at September 30, 2019.

The advance refunding of the Series 2008B and Series 2002 bonds from the issuance of Series 2012A Bonds resulted in losses on refunding of approximately \$4.5 million and \$1.1 million, respectively. This difference, reported in the combined balance sheets as a deferred outflow of resources, is being charged as a component of interest expense through the years 2022 and 2032 using the straight line method, which approximates the effective interest method. At September 30, 2019, the total unamortized loss on refunding is approximately \$1.8 million.

On February 12, 2018, in order to remediate the Series 2012A bonds, the District irrevocably deposited from its general unrestricted funds approximately \$1.4 million for the sole purpose of providing resources to purchase United States Obligations that will produce total matured principal and interest in the amount of approximately \$1.6 million in order to partially defease Series 2012A. As a result, the Series 2012A bonds are considered between the amount placed into trust and the amount of the defeased bonds, approximately \$0.01 million, is recognized as a loss. After this partial defeasement, the remaining balance of this debt as of September 30, 2019 is approximately \$119.1 million.

Series 2012B

Hospital Revenue and Refunding bonds, Series 2012B were issued on July 19, 2012 in the amount of \$20.0 million. Interest is payable monthly at an annual fixed rate of 1.93%, commencing on August 15, 2012. Principal is paid annually on April 15, commencing on April 15, 2013. The bonds are secured by a pledge of the revenues of the District. The Series 2012B bonds mature on April 15, 2023.

The advance refunding of the Series 2008C from the issuance of the Series 2012B Bonds resulted in a loss on refunding of approximately \$0.4 million. This difference, reported in the combined balance sheets as a deferred outflow of resources, is being charged as a component of interest expense through the year 2023 using the straight-line method, which approximates the effective interest method. At September 30, 2019, the unamortized loss on refunding is approximately \$0.1 million.

Series 2009

Hospital Revenue bonds, Series 2009 were issued on May 21, 2009 in the amount of \$15.0 million. The Series 2009 bonds are term bonds bearing interest at an annual rate of 4.11%. Principal and interest installments are payable semi-annually on October 15 and April 15, commencing October 15, 2009. The bonds are secured by a pledge of the revenues of the District. The Series 2009 bonds were refunded with the issuance of the Series 2017B bonds.

Series 2008A

Hospital Revenue and Refunding bonds, Series 2008A were issued on June 25, 2008 in the amount of \$49.5 million consisting of: (i) \$23.3 million of serial bonds with interest rates ranging from 4.0% to 5.25% maturing in 2022; (ii) \$10.3 million of term bonds with an interest rate of 5.25% due in 2025; and (iii) \$15.9 million of term bonds with an interest rate of 4.5% due in 2027. Interest is payable semi-annually on October 15 and April 15.

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

The bonds are secured by a pledge of the revenues of the District. The term bonds maturing in 2025 are subject to mandatory sinking fund redemption from 2023 to 2025 ranging in amounts from approximately \$1.1 million to \$4.7 million. The term bonds maturing in 2027 are subject to mandatory sinking fund redemption for 2026 and 2027 in the amount of approximately \$7.8 million and \$8.1 million, respectively. The Series 2008A bonds were refunded with the issuance of the Series 2017A bonds and the Series 2017B bonds.

Series 2008B

Hospital Revenue and Refunding bonds, Series 2008B were issued on June 25, 2008 in the amount of \$90.8 million. The Series 2008B are variable rate bonds initially bearing interest determined weekly by the remarketing agent under prevailing market conditions. In accordance with the Series 2008B bond indenture, the District converted the weekly interest rate to a long-term variable interest rate as defined by the bond indenture and interest is payable semi-annually on October 15 and April 15. The bonds are secured by a pledge of the revenues of the District and are subject to mandatory sinking fund redemption annually from 2010 to 2037 ranging in amounts from approximately \$0.1 million to \$8.9 million. The Series 2008B Bonds were refunded with the issuance of the Series 2012A Bonds.

A portion of the proceeds from the issuance of the Series 2008B bonds refunded in advance of their maturity approximately \$18.9 million of the Series 2002 bonds. The partial advance refunding of the Series 2002 bonds resulted in a loss on refunding of approximately \$0.2 million. This difference, reported in the combined balance sheets as a deferred outflow of resources, is being charged as a component of interest expense through the year 2032 using the straight line method, which approximates the effective interest method. At September 30, 2019, the unamortized loss on refunding is approximately \$0.04 million.

Series 2008C

Hospital Revenue and Refunding bonds, Series 2008C, were issued in the amount of \$20.0 million on June 25, 2008. The Series 2008C are variable rate bonds initially bearing interest determined weekly by the remarketing agent under prevailing market conditions. In accordance with the Series 2008C bond indenture, the District converted the weekly interest rate to a long-term variable interest rate as defined by the bond indenture and interest is payable semi-annually on October 15 and April 15. The bonds are secured by a pledge of the revenues of the District and are subject to mandatory sinking fund redemption annually from 2009 to 2023 ranging in amounts from approximately \$0.6 million to \$4.8 million. The Series 2008C Bonds were refunded with the issuance of the Series 2012B Bonds.

A portion of the proceeds of the Series 2008C bonds was deposited in an irrevocable trust with an escrow agent to provide future debt service payments on the Series 1998 bonds. The advance refunding of the Series 1998 bonds resulted in a loss on refunding of approximately \$0.4 million. This difference, reported in the combined balance sheets as a deferred outflow of resources, is being charged as a component of interest expense through the year 2023 using the straight-line method, which approximates the effective interest method. At September 30, 2019, the unamortized loss on refunding is approximately \$0.1 million.

Series 2008D

Hospital Revenue and Refunding bonds, Series 2008D in the amount of \$32.6 million were issued on July 30, 2008 consisting of: (i) \$16.4 million of serial bonds with interest rates ranging from 4.0% to 5.0% maturing in 2018; (ii) \$4.0 million of term bonds with an interest rate of 5.25% due in 2020; (iii) \$4.5 million of term bonds with an interest rate of 5.25% due in 2022; and (iv) \$7.7 million of term bonds with an interest rate of 4.5% due in 2025. Interest is payable semi-annually on October 15 and April 15. The bonds are secured by a pledge of the revenues of the District. The term bonds maturing in 2020 are subject to mandatory sinking fund redemption for 2019 and 2020 in the amount of \$2.0 million and \$2.2 million, respectively. The term bonds maturing in 2022 are subject to mandatory sinking fund redemption for 2021 and 2022 in the amount of approximately \$2.2 million and \$2.3 million, respectively. The Series 2008D bonds were refunded with the issuance of the Series 2017A bonds.

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

Series 2002

Hospital Revenue and Refunding Bonds, Series 2002 in the amount of \$49.5 million were issued on May 15, 2002, consisting of: (i) \$19.8 million of serial bonds with interest rates ranging from 3.5% to 5.5% maturing in 2022; (ii) \$2.2 million of term bonds with an interest rate of 5.25% due in 2027; and (iii) \$27.5 million of term bonds with an interest rate of 5.25% due in 2032. Interest is payable semi-annually on October 15 and April 15. The Series 2002 are secured by a pledge of revenues of the District. The Series 2002 Bonds were refunded with the issuance of the Series 2012A Bonds.

Trust agreements for Series 2017 A and B and Series 2012 A and B contain certain restrictive covenants which, among other matters, require the District to maintain its rates, fees and charges to the extent necessary in order for the District to maintain certain earnings levels as defined.

Lines of Credit Agreements

On June 17, 2014, the District entered into a revolving line of credit agreement, with a financial institution. Under the revolving line of credit agreement, the District can borrow up to \$75 million with an adjusted LIBOR rate equal to one-month LIBOR plus 0.55%. On December 21, 2017, the revolving line of credit was paid in full with the issuance of the Series 2017A and Series 2017B bonds.

On September 17, 2015, the District entered into a revolving line of credit agreement, with a financial institution. Under the revolving line of credit agreement, the District can borrow up to \$50 million with an adjusted LIBOR rate equal to one-month LIBOR plus 0.65%. On December 21, 2017, the revolving line of credit was paid in full with the issuance of the Series 2017A and Series 2017B bonds.

On February 15, 2018, the District entered into a revolving line of credit agreement, with a financial institution. Under the revolving line of credit agreement, the District can borrow up to \$50 million with an adjusted LIBOR rate equal to one-month LIBOR plus 0.65%. On December 17, 2018, the revolving line of credit was retired.

On December 17, 2018, the District entered into a revolving line of credit agreement, with a financial institution. Under the revolving line of credit agreement, the District can borrow up to \$125 million with an adjusted LIBOR rate equal to one-month LIBOR plus 0.65%. The line of credit matures on December 17, 2021. As of September 30, 2019, the District had drawn \$109.3 million on the revolving line of credit.

Loan Agreements

On October 1, 2017, the District entered into a promissory note agreement with Caman Group, Inc. for \$3.9 million with a fixed interest rate of 3.00%. The note is unsecured. The proceeds of the note were used to purchase the real property and furniture, fixtures and equipment of Woodruff Manor skilled nursing facility. After the initial payment to the lender of \$0.5 million paid November 1, 2017, the note is being repaid over four years in equal monthly installments of interest and principal, commencing December 1, 2017, and maturing on October 1, 2021. Approximately \$1.8 million of the principal balance remained outstanding as of September 30, 2019.

The terms of the Series 2017A, 2017B, 2012A, and 2012B bonds include certain restrictive covenants including the following: 1) failure to make any required payment; 2) failure of the obligated group to maintain minimum days cash on hand of 75 and debt service coverage ratio of not less than 1.15. As a continuing requirement, the audited financial statements of the District must be provided within five months of fiscal year end. The District is in compliance with these debt covenants as of September 30, 2019 and 2018.

Future principal and interest payments, excluding the unamortized losses on refundings and the unamortized bond premium of the Series 1998, 2002, 2008B&C and 2008A&D under the District's long-term debt agreements for the year ending September 30, are, in thousands:

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

<b>Year Ending September 30,</b>	<b>Principal Payments</b>	<b>Interest Payments</b>	<b>Total Debt Service</b>
2020	\$ 4,404	\$ 16,574	\$ 20,978
2021	4,654	16,421	21,075
2022	113,290	16,272	129,562
2023	7,034	16,104	23,138
2024	7,734	15,982	23,716
2025 – 2029	25,047	75,485	100,532
2030 – 2034	65,270	67,483	132,753
2035 – 2039	89,508	50,747	140,255
2040 – 2044	88,240	30,520	118,760
2045 – 2049	85,208	9,805	95,013
	<u>\$ 490,389</u>	<u>\$ 315,393</u>	<u>\$ 805,782</u>

Activity related to long-term debt excluding capital lease obligations for the years ended September 30, 2019 and 2018, is summarized as follows (in thousands):

	<u>2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>2019</u>	<u>Amount Due Within 1 Year</u>
Hospital Revenue and Refunding Bonds, Series 2017A	\$ 192,530	\$ -	\$ -	\$ 192,530	\$ -
Hospital Revenue and Refunding Bonds, Series 2017B	57,332	-	-	57,332	-
Hospital Revenue and Refunding Bonds, Series 2012A	120,850	-	(1,750)	119,100	1,850
Hospital Revenue and Refunding Bonds, Series 2012B	11,982	-	(1,606)	10,376	1,694
Lines of Credit	-	109,300	-	109,300	-
Notes Payable	2,588	-	(837)	1,751	860
Add: Unamortized bond premium	15,344	-	(670)	14,674	-
Total	<u>\$ 400,626</u>	<u>\$ 109,300</u>	<u>\$ (4,863)</u>	<u>\$ 505,063</u>	<u>\$ 4,404</u>

	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Amount Due Within 1 Year</u>
Hospital Revenue and Refunding Bonds, Series 2017A	\$ -	\$ 192,530	\$ -	\$ 192,530	\$ -
Hospital Revenue and Refunding Bonds, Series 2017B	-	57,332	-	57,332	-
Hospital Revenue and Refunding Bonds, Series 2012A	123,780	-	(2,930)	120,850	1,730
Hospital Revenue and Refunding Bonds, Series 2012B	13,504	-	(1,522)	11,982	1,606
Hospital Revenue Bonds, Series 2009	3,494	-	(3,494)	-	-
Hospital Revenue and Refunding Bonds, Series 2008A	37,440	-	(37,440)	-	-
Hospital Revenue and Refunding Bonds, Series 2008D	18,065	-	(18,065)	-	-
Lines of Credit	125,000	-	(125,000)	-	-
Notes Payable	-	3,900	(1,312)	2,588	766
Add: Unamortized bond premium	7,196	9,294	(1,146)	15,344	-
Total	<u>\$ 328,479</u>	<u>\$ 263,056</u>	<u>\$ (190,909)</u>	<u>\$ 400,626</u>	<u>\$ 4,102</u>

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

**7. Net Patient Service Revenues**

Net patient service revenues for the years ended September 30, 2019 and 2018 consisted of the following in thousands:

	<u>2019</u>	<u>2018</u>
Gross patient charges at established rates, including charges foregone for charity care	\$ 4,732,384	\$ 3,781,262
Deductions:		
Contractual adjustments	(3,130,386)	(2,457,429)
Charity care provided at established billing rates	(100,800)	(78,965)
Provision for bad debts	<u>(177,061)</u>	<u>(131,548)</u>
Net patient service revenues	<u>\$ 1,324,137</u>	<u>\$ 1,113,320</u>

The District has agreements with third-party payors for health care services that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. A summary of the payment arrangements with major third-party payors follows:

***Medicare***

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed under a prospective payment system called the Ambulatory Payment Classification System (“APCs”). Inpatient non-acute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits by the Medicare administrative contractor. The SMC cost reports have been settled with or without audit by the Medicare administrative contractor through 2013. Additionally, SMC has Medicare cost reports from 2007 through 2011 in a reopening status. The PMC cost reports have been settled with or without audit by the Medicare administrative contractor through 2015. Additionally, PMC Medicare cost reports from 2007 through 2009 and 2011 in a reopening status. Final settlement has not been reached for any of the reopened periods. The SHRC Medicare cost reports have been settled with or without audit by the Medicare administrative contractor through 2014. The UMC Medicare cost reports beginning with 2016 through 2018 have not been audited or settled. Approximately 39% and 37% of the District’s net patient service revenues for the years ended September 30, 2019 and 2018, respectively, were derived from Medicare.

***Medicaid***

Inpatient reimbursement is based upon prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under various reimbursement methodologies. The District is reimbursed for outpatient services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the fiscal intermediary. The SMC and PMC Medicaid cost reports have been audited and final settlements have been determined by the Medicaid fiscal intermediary through 2013. The Medicaid cost reports for SHRC have been audited by the Medicaid fiscal intermediary through 2006. Approximately 16% of the District’s net patient service revenues for both of the years ended September 30, 2019 and 2018, were derived from Medicaid, excluding revenues derived from the Medicaid Upper Payment Limit program.

The District receives payments for serving a disproportionately high volume of Medicaid patients. The District recognized approximately \$42.0 million and \$34.1 million related to the Medicaid disproportionate share program for the years ended September 30, 2019 and 2018, respectively. During the year ended September 30, 2018, the

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

South Carolina Department of Health and Human Services (SCDHHS) provided notification of a redistribution of Medicaid disproportionate share program funds (DSH) from federal fiscal year 2014. Approximately \$0.8 million of the DSH recognized during 2018 related to the 2014 redistribution. These amounts have been included in net patient service revenues. South Carolina requires that the District pay a Hospital Tax that is used as matching funds for the Medicaid disproportionate share program. The amount of Hospital Tax paid by the District was approximately \$20.3 million and \$16.7 million for the years ended September 30, 2019 and 2018, respectively. The Hospital Tax is included as a fiscal and administrative expense.

The SCDHHS has audited the Medicaid DSH hospital results through fiscal year 2015 with audit results communicated in May 2019. Under the current audit methodology for Medicaid DSH 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. Medicaid DSH settlements are recognized in the period of SCDHHS audit results.

During the year ended September 30, 2014, the State of South Carolina implemented the Medicaid Upper Payment Limit ("UPL") program for certain providers participating in the state Medicaid program. The District has a receivable of \$24.6 million and \$15.5 million from the UPL program as of September 30, 2019 and 2018, respectively, included in other current assets on the combined balance sheets. The District recorded a corresponding liability of \$16.4 million and \$7.3 million to the program as of September 30, 2019 and 2018, respectively, included in accrued expenses on the combined balance sheets. The net receivable to the District associated with its participation in the UPL program totaled \$8.2 million for both the years ended September 30, 2019 and 2018. There can be no assurance that the District will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

***Other***

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The District believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to further government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in allowances for prior years' cost reports had an immaterial impact on net patient service revenue for year ending September 30, 2019, but caused net patient service revenue to increase by approximately \$1.2 million for the year ending September 30, 2018.

**8. Retirement Plans**

Retirement System

The District contributes to the South Carolina Retirement System ("SCRS"). SCRS is a cost-sharing multiple-employer defined benefit pension plan administered by the South Carolina Public Employee Benefit Authority.

Under SCRS, employees who entered the plan before July 1, 2012, who retire at or after age sixty-five (65) or have twenty eight (28) years of service are entitled to an annual retirement benefit, payable monthly for life equal to 1.82% of their final compensation times years of credited service. Benefits are fully vested on reaching five (5) years of earned service. Employees who entered the plan on or after July 1, 2012, who retire at or after age sixty-five (65) or whose age plus years of service total at least ninety (90) years are also entitled to an annual retirement benefit, payable monthly for life equal to 1.82% of their final compensation times years of credited

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

service. Benefits are fully vested on reaching eight (8) years of earned service. Vested employees may retire at or after age fifty-five (55) with at least twenty-five (25) years of service and receive reduced retirement benefits. Vested employees may also retire at or after age sixty (60) and receive reduced retirement benefits. SCRS also provides death and disability benefits. Benefits are established by state statute. A Comprehensive Annual Financial Report containing financial statements and required supplementary information of SCRS is issued and publicly available by writing the South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960 or at [www.retirementsc.gov](http://www.retirementsc.gov).

The employee and employer contribution rates are actuarially determined for SCRS. Covered employees are required by state statute to contribute 9.00% of their total earnings for the plan’s fiscal year 2019 and 2018, respectively. The District is required to contribute 14.41% and 13.41% of earnable compensation for the plan’s fiscal year 2019 and 2018, respectively.

Net Pension Liability

The most recent annual actuarial valuation reports are as of July 1, 2018. The net pension liability was therefore determined based on the July 1, 2018 actuarial valuations, using membership data and financial information of the pension funds as of July 1, 2018, projected forward to the end of the plan’s fiscal year, June 30, 2019, using generally accepted actuarial procedures. There was no legislation enacted during the 2019 legislative session that had a material change in benefit provisions or any change in assumptions since the actuarial valuation date. Information included in the following schedules is based on the certification provided by SCRS actuary, Gabriel Roeder Smith & Company.

At September 30, 2019 and 2018, the District reported a net pension liability of \$582.0 million and \$599.3 million, respectively. The net pension liability at September 30, 2019 and 2018 was measured as of June 30, 2019 and 2018, respectively.

For the years ended September 30, 2019 and 2018, the District recognized pension expense of approximately \$43.7 million and \$40.9 million, respectively.

The following represents the sensitivity of the net pension liability to changes in the discount rate based on values as of September 30, 2019 in thousands:

	<u>1% Decrease 6.25%</u>	<u>Current Rate 7.25%</u>	<u>1% Increase 8.25%</u>
Net pension liability	\$ 733,406	\$ 582,052	\$ 455,748

***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 July 1, 2019 and 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	7.25%
Inflation	2.25%
Expected return on plan assets	7.25%
Mortality	Males - 2016 Public Retirees of South Carolina Mortality Tables multiplied by 100%
	Females – 2016 Public Retirees of South Carolina Mortality Table multiplied by 111%

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

The discount rate adopted by the District for valuing plan liabilities was determined by the methods prescribed under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* 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 for each major asset class as of September 30, 2019 are summarized in the following table:

	<u>Target Asset Allocation</u>
Global equity	51%
Real assets	12%
Opportunistic	8%
Diversified credit	15%
Conservative fixed income	<u>14%</u>
	<u>100%</u>

***Deferred outflows and deferred inflows related to pensions***

At September 30, 2019, the District reported deferred outflows and inflows related to pensions from the following sources in thousands:

	<u>Deferred Outflow</u>	<u>Deferred Inflow</u>
Differences between expected and actual experience	\$ 429	\$ 4,182
Assumption changes	11,758	-
Net difference between projected and actual earnings on pension plan investments	5,158	-
Changes in proportion and differences between District contributions and proportionate share of contributions	482	45,542
District contributions subsequent to the measurement date	<u>9,440</u>	<u>-</u>
	<u>\$ 27,267</u>	<u>\$ 49,724</u>

The \$9.4 million reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2019. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized in pension expense as follows in thousands:

2020	\$ (3,017)
2021	(23,667)
2022	(7,196)
2023	<u>1,983</u>
Net balance of deferred inflows	<u>\$ (31,897)</u>

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

Alternative retirement plans

Employees are eligible for alternative retirement plans, which include a 401(k) plan and a 457(b) plan. The 401(k) plan is provided through the South Carolina Deferred Compensation Program. Employees can contribute as much as the maximum allowed by the Internal Revenue Service (“IRS”) and employees age 50 or older can contribute an additional amount per year under the “catch-up” provisions provided by the IRS. The District may elect to make a matching contribution equal to 100% of employee deferrals up to 4% of compensation deferred. Employees that are not members of SCRS are eligible for a District match. Employees are immediately vested in their contributions and the District’s matching contributions. The 457(b) plan is provided by Transamerica. Employees may contribute as much as their pre-tax earnings as allowed annually by the IRS. There is no District match associated with the 457(b) plan. The 457(f) plan is a nonqualified retirement plan available for employees whose compensation exceeds \$275,000 and are not members of SCRS. The 457(f) plan is 100% funded by the District, and discretionary contributions are made annually on all earnings exceeding \$275,000, up to a cap.

**9. Commitments and Contingencies**

***Operating Leases***

The District leases certain equipment and facilities used in its operations under operating leases that have noncancellable terms in excess of one year. Future minimum lease payments as of September 30, 2019 under leases classified as operating leases are as follows in thousands:

2020	\$	3,898
2021		3,670
2022		3,412
2023		3,388
2024		1,903
Thereafter		<u>3,240</u>
Total minimum lease payments	\$	<u>19,511</u>

Lease expense relating to operating leases was approximately \$3.6 million and \$3.1 million in 2019 and 2018, respectively.

***Lease and operations transfer***

On August 2, 2015, the District entered into a Lease and Operations Transfer Agreement with Union Hospital District (UHD), a special purpose governmental healthcare provider, whereby certain specified assets and operations were transferred from UHD to the District so that healthcare services will continue to be available to residents of Union County while UHD goes through bankruptcy proceedings and in the future. The transferred operating assets included inventory and supplies, software and systems, books and records (including patient and employee records), trade names and trademarks, licenses and permits (excluding Medicare and Medicaid provider numbers), and other tangible and intangible assets not specifically excluded. Excluded assets include cash and equivalents, patient accounts receivable, leased property and equipment (discussed below), third-party settlements, and nursing home and EMS assets.

The District assumed certain ongoing contracts and expenses and agreed to participate in the Medicare and Medicaid programs and provide charity and indigent care, but otherwise did not assume any liabilities or obligations of UHD in connection with the lease and transfer agreement.

The agreement included an interim arrangement whereby UHD leases to the District specified real estate and related facilities, fixtures, and improvements for a period of six years (or upon occupancy of the new facilities discussed below), with a nominal rent of \$1 per annum. The lease arrangement also includes all equipment, vehicles, machinery, furniture and other tangible personal property used in connection with the leased facilities. During the lease term the District will acquire real property in Union County for no less than \$10 million and

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

construct a new health care facility. UHD will transfer certain services to the new healthcare facility at the commencement of the lease.

***Professional malpractice liability insurance***

The District is self-insured for professional and general liability insurance coverage. The self-insurance program is responsible for payment of all claims and costs not to exceed \$0.6 million on an individual case basis. A liability of \$18.2 million and \$14.8 million has been established for payment of all claims reported as of September 30, 2019 and 2018, respectively, including an accrual of estimated incurred but not reported claims. Stop-loss or excess liability insurance is in effect for any single claim in excess of \$0.6 million or in the aggregate of \$10 million.

At September 30, 2019, management is aware of no claims that might lead to significant amounts not adequately funded by the District or covered by insurance that would have a material adverse effect on the combined financial position of the District.

***Self-insurance plan***

The District's health insurance plan (Plan) is a self-insured plan that provides certain benefits for covered employees. The employee pays a monthly premium and the Plan will pay for certain medical expenses, as defined in the Plan document. The District has an accrual of approximately \$4.4 million and \$4.6 million for estimated incurred but not reported claims as of September 30, 2019 and 2018, respectively. In addition, the District has a stop loss insurance policy should a member's annual claims exceed \$850,000. The member's claims exceeding this dollar threshold will be covered by the stop loss insurance plan for the remainder of the plan year.

***Workers' compensation***

The District participates in a workers' compensation self-insurance pool operating as Palmetto Hospital Trust (PHT). Beginning in January 2008, the District elected to accept legal and financial responsibility for a per claim deductible of \$350,000 in exchange for a deductible credit against its deposit premium. In order to facilitate the efficient administration of the program and the payment of claims and expenses, PHT from time to time will advance funds on behalf of the District equal to the deductible obligation of the District.

***Industry***

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Management believes the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

**10. Related Party Transactions**

The amounts due from Regional HealthPlus, LLC ("RHP") are approximately \$6.8 million and \$4.4 million as of September 30, 2019 and 2018, respectively, included in other current assets on the combined balance sheets. The amounts due to RHP are approximately \$1.4 million and \$2.3 million as of September 30, 2019 and 2018, respectively, included in accounts payable on the combined balance sheets. The District pays operating expenses for RHP for which RHP reimburses the District.

**Spartanburg Regional Health Services District, Inc.**  
**Notes to the Combined Financial Statements**

---

The District pays substantially all the operating expenses on behalf of Spartanburg Regional Healthcare System Foundation (the "Foundation"). The District paid approximately \$1.9 million and \$1.7 million as of September 30, 2019 and 2018, respectively, on behalf of the Foundation. The Foundation issues grants to the District with approximately \$0.5 million granted during both 2019 and 2018, respectively. The grant revenue is included in nonoperating revenues.

The District has entered into an agreement to lease medical office space to the Ambulatory Surgery Center of Pelham, LLC initially expiring on September 30, 2015. The lease was extended through May 31, 2022 with monthly payments of approximately \$57,000 increasing up to 5% per year. Future lease revenue will be approximately \$0.7 million per year.

**11. Fair Value of Financial Instruments**

The fair value of the Series 2017A, 2017B and 2012A bonds were estimated using discounted cash flows based on market yield on comparable bonds for a similar type of borrowing arrangement. The carrying amount approximates fair value for the 2012B bonds and the other long-term notes payable. The carrying values of the District's long-term debt at September 30, 2019 and 2018 are approximately \$505.1 million and \$400.6 million, respectively. The fair values are approximately \$413.2 million and \$389.3 million, respectively.

**12. Subsequent Events**

The District evaluated the effect subsequent events would have on the combined financial statements through March 11, 2020, which is the date the combined financial statements were available for issuance.

***Required Supplementary Information***

**Spartanburg Regional Health Services District, Inc.**  
**Schedule of Proportionate Share of the Net Pension Liability**  
**September 30, 2019, 2018, 2017, 2016, 2015 and 2014**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<i>(In Thousands)</i>					
Proportionate share of the net pension liability	<b>3%</b>	3%	3%	3%	3%	3%
Proportionate share of the net pension liability	\$ <b>582,052</b>	\$ 599,283	\$ 656,278	\$ 620,593	\$ 568,567	\$ 522,697
Covered-employee payroll	<b>271,698</b>	280,691	286,963	287,255	284,073	281,946
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	<b>214%</b>	214%	229%	216%	200%	185%
Plan fiduciary net position as a percentage of total pension liability	<b>54%</b>	54%	53%	53%	57%	60%

\* The amounts presented for each fiscal year were determined as of the plan's fiscal year ended June 30.

**See accompanying notes.**

**Spartanburg Regional Health Services District, Inc.**  
**Schedule of Contributions**  
**September 30, 2019, 2018, 2017, 2016, 2015 and 2014**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
	<i>(In Thousands)</i>					
Contractually required contribution	\$ 39,260	\$ 37,660	\$ 34,034	\$ 31,732	\$ 30,683	\$ 29,703
Contributions in relation to the contractually required contribution	<u>39,260</u>	<u>37,660</u>	<u>34,034</u>	<u>31,732</u>	<u>30,683</u>	<u>29,703</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	271,698	280,691	286,963	287,255	284,073	281,946
Contribution as a percentage of the covered-employee payroll	14%	13%	12%	11%	11%	11%

See accompanying notes.