

Beaufort Memorial Hospital and Other Combined Entity

Combined Financial Statements

Years Ended September 30, 2020 and 2019

Table of Contents

Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 8
Combined Statements of Net Position.....	9
Balance Sheets – Component Unit.....	10
Combined Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Activities and Changes in Net Assets – Component Unit	12
Combined Statements of Cash Flows	13 – 14
Statements of Cash Flows – Component Unit.....	15
Notes to Combined Financial Statements	16 – 37
Required Supplementary Information:	
Schedules of Proportionate Share of the Net Pension Liability.....	38
Schedules of Contributions	39
Other Supplemental Information:	
Combining Statement of Net Position.....	40
Combining Statement of Revenues, Expenses, and Changes in Net Position	41

Independent Auditors' Report

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

We have audited the accompanying combined financial statements of Beaufort Memorial Hospital and Other Combined Entity, a public agency (the "Hospital"), and the financial statements of its discretely presented component unit, Beaufort Memorial Hospital Endowment Foundation (the "Foundation"), as of and for the years ended September 30, 2020 and 2019 and the related notes to the combined financial statements, which collectively comprise the Hospital's and the Foundation's basic financial statements as listed in the table of contents.

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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's and Foundation's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's and Foundation'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 Beaufort Memorial Hospital and Other Combined Entity and its discretely presented component unit as of September 30, 2020 and 2019, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Required Supplementary Information

Management's Discussion and Analysis, the Schedules of Proportionate Share of the Net Pension Liability and Schedules of Contributions are not required as part of the basic combined financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Other Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The supplementary combining information is presented only for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual organizations, and is not a required part of the basic combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Dixon Hughes Goodman LLP

**Greenville, South Carolina
March 18, 2021**

Annual Financial Report

The annual financial report of Beaufort Memorial Hospital ("BMH") and Other Combined Entity (the "Hospital") provides an overview of the Hospital's financial activities for the fiscal years ended September 30, 2020 and 2019. The combined financial statements include: the independent auditors' report, required combined financial statements, accompanying explanatory notes, required supplementary information and other supplemental information. The required combined financial statements include: the combined statements of net position, combined statements of revenues, expenses and changes in net position, and combined statements of cash flows. Management's discussion and analysis should be read in conjunction with the combined financial statements and notes.

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

Management's Discussion and Analysis

Mission and Organizational Structure

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

In addition to the financial statements and operations of BMH, the "Other Combined Entity" includes the information and accounts of Broad River Healthcare, Inc. ("Broad River"), which is a blended component unit of BMH. Broad River is a private, not-for-profit South Carolina corporation organized to assist BMH to meet its mission and operational goals. BMH's related entity company, Broad River, had a non-controlling interest in an outpatient surgery center, managed a mobile PET, and had a 100% interest in Beaufort Medical Imaging, LLC, which was created in 2007. Beaufort Medical Imaging, LLC ceased to operate during fiscal year 2009 due to the State of South Carolina's Certificate of Need ruling allowing the business elements of this entity to be transferred to BMH. In addition, the mobile PET was upgraded to a mobile PET CT and this business entity was also transferred to the Hospital during fiscal year 2009. In 2015, BMH purchased 100% interest in the outpatient surgery center. This included Broad River's 40% non-controlling interest in this entity.

The financial statements include the operations of all physician clinics owned by the Hospital under the designation Beaufort Physician Partners ("BPP"). BPP operates twenty (20) clinic locations consisting of specialists and primary care. BMH employs approximately fifty-four (54) physicians with locations including northern Beaufort County, Okatie and Bluffton, as well as Hampton County.

Beaufort Memorial Hospital and Other Combined Entity Management's Discussion and Analysis

Financial Highlights

Net position increased to \$40.8 million in 2020 from \$36.0 million in 2019, a \$4.8 million or 13.3% increase. The Hospital continued to feel the effects of Governmental Accounting Standards Board ("GASB") Statement No. 68 adjustments which reduced the Hospital's net position by \$1.1 million. This GASB basically requires each participant in the State Pension Plan to post its determined share of the underfunded amount of the pension program. The increase in the Hospital's net pension liability is not a cash liability, however, based on the new GASB rules we are required to post the negative impacts to our net position. In 2020, operating revenues decreased by 0.3% and operating expenses increased by 3.2%. Salaries and wages were the driving factors in the increases of expenses, increasing by \$7.8 million. This increase was driven by budgeted addition of providers and higher than expected contract labor expenses.

Required Combined Financial Statements

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

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

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

The combined statement of cash flows reports cash inflows and outflows from operations, capital and related financing activities, investing activities, and noncapital financing activities, and their effect on the change in cash from the combined statement of net position.

**Beaufort Memorial Hospital and Other Combined Entity
Management's Discussion and Analysis**

Analysis of Overall Financial Position and Results of Operations

A summary of the Hospital's condensed combined statements of net position at September 30 is presented below:

<i>(In thousands of dollars)</i>	2020	2019	2018
Current assets	\$ 145,037	\$ 119,979	\$ 121,637
Capital assets, net	115,007	107,312	104,163
Other non-current assets	17,674	25,696	15,801
Total Assets	277,718	252,987	241,601
Deferred outflows of resources	19,730	14,599	23,825
Total Assets and Deferred Outflows of Resources	297,448	267,586	265,426
Current liabilities	49,148	29,386	31,083
Long-term liabilities	195,369	184,231	191,136
Total Liabilities	244,517	213,617	222,219
Deferred inflows of resources	12,126	17,952	17,728
Net investment in capital assets	61,737	52,507	47,868
Unrestricted	(20,932)	(16,490)	(22,599)
Restricted expendable	-	-	210
Total Net Position	40,805	36,017	25,479
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 297,448	\$ 267,586	\$ 265,426

Current assets, which consist primarily of cash and cash equivalents, short-term investments and accounts receivable, totaled \$145.0 million in 2020 and \$120.0 million in 2019, representing a 20.8% increase. The Hospital's total current assets cover current liabilities 2.6 times at September 30, 2020. This indicates the Hospital's liquidity continues to remain sound. The Hospital maintains all investments in fully secured instruments such as Certificates of Deposit and United States Treasury Notes. Due to the nature of these investments, the stock market will have no impact on the Hospital's cash position other than reduction in interest earnings. The Hospital's days cash on hand increased from 183 days in 2019 to 199 days in 2020. Long-term debt decreased in 2020 to \$51.7 million from \$53.3 million in 2019. Overall, total liabilities increased from \$213.6 million in 2019 to \$244.5 million in 2020 primarily due to a \$12.7 million increase in net pension liability.

Net position represents the residual interest in the Hospital's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Total net position in 2020 increased \$4.8 million or 13.3% over 2019, and 2019 increased \$10.5 million or 41.4% over 2018. Net investment in capital assets increased from \$52.5 million in 2019 to \$61.7 million in 2020, an increase of 17.5%.

Beaufort Memorial Hospital and Other Combined Entity Management's Discussion and Analysis

BMH's current and long-term debt includes BMH Revenue and Refinancing Bonds, Series 2011B, 2014 with a combined outstanding balance of \$53.3 million as of September 30, 2020. BMH's debt service coverage is 4.67 times in 2020, down from 7.03 times in 2019. BMH's continued focus on operational improvements in Revenue Cycle and Cost Containment contributed to the improvement in this ratio over the past year.

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

<i>(In thousands of dollars)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 240,887	\$ 241,620	\$ 225,732
Operating expenses	<u>239,226</u>	<u>231,805</u>	<u>223,614</u>
Operating income	1,661	9,815	2,118
Non-operating revenues (expenses), net	<u>3,127</u>	<u>723</u>	<u>(798)</u>
Excess of revenues over expenses before capital grants and contributions	4,788	10,538	1,320
Capital grants and contributions	<u>-</u>	<u>-</u>	<u>210</u>
Increase in net position	4,788	10,538	1,530
Net Position			
Beginning of year	<u>36,017</u>	<u>25,479</u>	<u>23,949</u>
End of year	<u>\$ 40,805</u>	<u>\$ 36,017</u>	<u>\$ 25,479</u>

Patient service revenues account for 97.8% of the Hospital's operating revenues in 2020. Operating revenues for 2020 decreased 0.3% from 2019. The decrease during 2020 was driven by the coronavirus (COVID-19) pandemic. The Hospital's average daily census remained relatively flat in 2020 at 104.4 compared to 106.7 in 2019. Adult Patient Days decreased 1.8% from 38,943 in 2019 to 38,227 in 2020. Bad debts decreased 18.3% in 2020 to \$33.4 million compared to 2019 at \$40.9 million and charity care decreased 31.2% in 2020 to \$5.3 million from \$7.7 million in 2019. The percentage of gross bad debt and charity care to gross revenue was 4.7% in 2020 compared to 5.7% in 2019. Contractual adjustments decreased from 68.1% of gross patient revenue in 2019 to 66.9% in 2020. Overall, revenue deductions decreased from 72.6% in 2019 to 71.2% in 2020. The contractual model, which remained the same, is a 'fluid' model that uses a recent rolling six months of payment data to estimate future payments and revenue therefore changes are expected and those reflected are within acceptable limits.

In 2020, the Hospital's total operating expenses increased 3.2% from 2019. Labor costs (salaries, benefits and contract labor) accounted for 54.9% of operating expenses during 2020, compared to 54.2% in 2019. The driving costs of labor were planned market adjustments, additions to our owned practices and challenges in contract labor due to the national nursing shortage.

Overall, supply costs as a percentage of net patient revenues totaled 19.1% in 2020, a decrease from 20.3% in 2019. Supply costs decreased due to continued efforts of management to control costs and active participation with our Group Purchasing Organization.

Excess of revenues over expenses, before capital grants and contributions, decreased from \$10.5 million in 2019 to \$4.8 million in 2020, including the pension expense posting of \$1.1 million directly related to the GASB Statement No. 68 adjustment.

Beaufort Memorial Hospital and Other Combined Entity Management's Discussion and Analysis

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

<i>(In thousands of dollars)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cash Flows			
Operating activities	\$ 7,429	\$ 21,512	\$ 25,276
Capital and related financing activities	(15,697)	(11,375)	(10,458)
Investing activities	118	(29,438)	(632)
Non-capital financing activities	20,857	329	482
Net increase (decrease) in cash	<u>12,707</u>	<u>(18,972)</u>	<u>14,668</u>
 Cash and Cash Equivalents			
Beginning of year	<u>40,280</u>	<u>59,252</u>	<u>44,584</u>
End of year	<u>\$ 52,987</u>	<u>\$ 40,280</u>	<u>\$ 59,252</u>

In 2020, the Hospital had cash provided by operating activities of \$7.4 million, a decrease of \$14.1 million from 2019 or 65.6%. From 2019 to 2020, receipts from patients and others decreased \$1.4 million while wages and benefits (payments to employees) increased \$7.4 million and payments to suppliers decreased \$228,000.

Budgets

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

Future Opportunities and Challenges

The Hospital's physician organization, Beaufort Physician Partners (BPP), currently employs 54 physicians and 41 mid-level practitioners from many different specialties. It is anticipated that fiscal year 2021 will bring additional recruits in both specialty and primary care areas.

Construction was completed on the Birthing Center and was a key factor in births increasing 16.3% in fiscal year 2020.

It is currently unknown what the new administration will bring regarding changes to the Affordable Care Act as well as potential changes to the Disproportionate Share Hospital (DSH) program although it would be anticipated that they will move in the opposite direction of the prior administration. For 2021, COVID-19 will also continue to have a major impact on our organization depressing volumes and imposing additional costs.

We continue to expect declines in inpatient services as more care moves toward outpatient models. In anticipation of this we are expanding our capabilities in Outpatient Case Management and have entered our first agreement to manage an outpatient population. Although we did experience reduction in Uncompensated Care in 2020, we do not expect this to continue in 2021.

Beaufort Memorial Hospital and Other Combined Entity Management's Discussion and Analysis

BMH owns approximately 20 acres of land (in this market) that is planned to facilitate construction of an expanded medical office building (MOB). The MOB Plans include space for the Medical University of South Carolina (MUSC) as well as a second Radiation Oncology location. We expect the MOB to be completed in 2020 allowing us to move our Bluffton providers into the building and have space for specialists from Beaufort which will allow better access to our providers for the population living south of the Broad River.

A certificate of need (CON) has been approved and is the first CON for a Micro-Hospital in the state of South Carolina. Appeals were filed by both St. Joseph Candler and Tenet but are currently in a holding pattern due to COVID-19.

We also anticipate adding bed capacity to our adult psychiatric unit. A CON has been submitted to the state and accepted to add four (4) additional beds to our psychiatric unit.

Regardless of what the future holds, our focus will remain on improving the quality and safety of the healthcare services we provide our community. In order to help us achieve this goal, we are continuing the efforts started in fiscal year 2017 to improve the financial results of the organization. Our five-year strategic plan remains in place and has been reviewed and revised for fiscal year 2021 with input from our physicians, board and senior leadership team. In addition to this plan, there remains a continued focus on revenue cycle improvements at both the hospital and the physician practices.

Contacting the Hospital's Financial Management

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

Beaufort Memorial Hospital and Other Combined Entity
Combined Statements of Net Position
September 30, 2020 and 2019

<u>Assets and Deferred Outflows of Resources</u>	<u>2020</u>	<u>2019</u>
Current assets:		
Cash and cash equivalents	\$ 52,987,763	\$ 40,280,280
Short-term investments	59,550,859	51,782,222
Patient accounts receivable, net of allowance for uncollectible accounts of \$31,917,130 in 2020 and \$32,327,435 in 2019	24,461,386	21,742,023
Other assets	30,007	6,128
Drugs and supplies	4,733,762	4,109,087
Prepaid expenses	3,273,256	2,059,476
Total current assets	<u>145,037,033</u>	119,979,216
Long-term investments	13,911,840	20,597,073
Investment in joint ventures	3,762,320	2,818,447
Assets limited as to use	-	2,262,358
Intangible assets	-	17,353
Capital assets, net	115,007,290	107,312,468
Total assets	<u>277,718,483</u>	<u>252,986,915</u>
Deferred outflows of resources:		
Excess consideration provided for acquisition	4,869,912	5,539,894
Pension deferrals	14,859,950	9,059,210
Total deferred outflows of resources	<u>19,729,862</u>	14,599,104
Total assets and deferred outflows of resources	<u>\$ 297,448,345</u>	<u>\$ 267,586,019</u>
<u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
Current liabilities:		
Current portion of long-term debt	\$ 1,585,000	\$ 1,535,000
Accounts payable	4,919,998	3,514,628
Accrued expenses	19,942,713	21,104,106
Provider relief fund advance	18,614,154	-
Estimated third-party payor settlements	4,086,233	3,231,785
Total current liabilities	<u>49,148,098</u>	29,385,519
Net pension liability	143,646,806	130,961,085
Long-term debt, less current portion	51,685,000	53,270,000
Other liabilities	37,072	-
Total liabilities	<u>244,516,976</u>	213,616,604
Deferred inflows of resources:		
Deferred pension inflows	12,126,836	17,952,530
Total deferred inflows of resources	<u>12,126,836</u>	17,952,530
Net position:		
Net investment in capital assets	61,737,290	52,507,468
Unrestricted	(20,932,757)	(16,490,583)
Total net position	<u>40,804,533</u>	36,016,885
Total liabilities, deferred inflows of resources and net position	<u>\$ 297,448,345</u>	<u>\$ 267,586,019</u>

See accompanying notes.

Beaufort Memorial Hospital and Other Combined Entity
Component Unit - Beaufort Memorial Hospital Endowment Foundation
Balance Sheets
September 30, 2020 and 2019

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 232,042	\$ 258,101
Pledges receivable, net	428,626	157,457
Investments	21,184,411	20,963,205
Other assets	18,554	36,600
Total assets	\$ <u>21,863,633</u>	\$ <u>21,415,363</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Payable to Beaufort Memorial Hospital	\$ 2,248,449	\$ 775,549
Obligations under gift annuities	16,003	23,165
Total liabilities	<u>2,264,452</u>	<u>798,714</u>
Net assets:		
Without donor restrictions	18,216,075	17,898,904
With donor restrictions	1,383,106	2,717,745
Total net assets	<u>19,599,181</u>	<u>20,616,649</u>
Total liabilities and net assets	\$ <u>21,863,633</u>	\$ <u>21,415,363</u>

See accompanying notes.

Beaufort Memorial Hospital and Other Combined Entity
Combined Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$33,411,888 in 2020 and \$40,893,190 in 2019	\$ 235,514,164	\$ 235,445,101
Other operating revenue	<u>5,373,194</u>	<u>6,175,225</u>
Total operating revenues	<u>240,887,358</u>	<u>241,620,326</u>
Operating expenses:		
Salaries and wages	98,842,165	91,058,420
Employee benefits	28,490,582	32,403,956
Contract labor	4,045,725	2,159,199
Supplies	44,983,558	47,681,198
Purchased services	21,055,324	21,115,634
Physician fees	8,015,292	8,603,443
Depreciation and amortization	8,398,716	7,714,420
Other	<u>25,395,660</u>	<u>21,069,395</u>
Total operating expenses	<u>239,227,022</u>	<u>231,805,665</u>
Operating income	<u>1,660,336</u>	<u>9,814,661</u>
Nonoperating revenues (expenses):		
Investment income	1,610,802	1,709,579
Interest expense	(1,670,421)	(1,676,553)
Share of income of joint ventures, net	943,873	360,843
Provider relief funding	1,203,262	-
Noncapital gifts and bequests	<u>1,039,796</u>	<u>329,020</u>
Total nonoperating revenue	<u>3,127,312</u>	<u>722,889</u>
Increase in net position	4,787,648	10,537,550
Net position, beginning of year	<u>36,016,885</u>	<u>25,479,335</u>
Net position, end of year	<u>\$ 40,804,533</u>	<u>\$ 36,016,885</u>

Beaufort Memorial Hospital and Other Combined Entity
Component Unit - Beaufort Memorial Hospital Endowment Foundation
Statements of Activities and Changes in Net Assets
For the Years Ended September 30, 2020 and 2019

	Year Ended September 30, 2020			Year Ended September 30, 2019		
	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions
Support and revenue:						
Interest, dividends and other	\$ 391,161	\$ 391,161	\$ -	\$ 523,926	\$ 523,926	\$ -
Net gains (losses) on investments	1,462,340	1,462,340	-	(5,341)	(5,341)	-
Donations, gifts and bequests	1,799,779	510,959	1,288,820	2,393,007	42,297	2,350,710
Fundraising income	50,687	50,687	-	78,237	78,237	-
Satisfaction of program restrictions	-	2,623,459	(2,623,459)	-	434,963	(434,963)
Total support and revenue	<u>3,703,967</u>	<u>5,038,606</u>	<u>(1,334,639)</u>	<u>2,989,829</u>	<u>1,074,082</u>	<u>1,915,747</u>
Expenses:						
Fundraising events	41,361	41,361	-	101,645	101,645	-
General and administrative	147,855	147,855	-	119,594	119,594	-
Grants to Beaufort Memorial Hospital	4,532,219	4,532,219	-	1,376,111	1,376,111	-
Total expenses	<u>4,721,435</u>	<u>4,721,435</u>	<u>-</u>	<u>1,597,350</u>	<u>1,597,350</u>	<u>-</u>
Increase (decrease) in net assets	(1,017,468)	317,171	(1,334,639)	1,392,479	(523,268)	1,915,747
Net assets, beginning of year	<u>20,616,649</u>	<u>17,898,904</u>	<u>2,717,745</u>	<u>19,224,170</u>	<u>18,422,172</u>	<u>801,998</u>
Net assets, end of year	<u>\$ 19,599,181</u>	<u>\$ 18,216,075</u>	<u>\$ 1,383,106</u>	<u>\$ 20,616,649</u>	<u>\$ 17,898,904</u>	<u>\$ 2,717,745</u>

See accompanying notes.

Beaufort Memorial Hospital and Other Combined Entity
Combined Statements of Cash Flows
For the Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 233,686,321	\$ 235,102,859
Other receipts and payments, net	(20,036,516)	(14,561,990)
Payments to employees	(127,434,853)	(120,014,417)
Payments to suppliers	<u>(78,786,094)</u>	<u>(79,013,966)</u>
Net cash provided by operating activities	<u>7,428,858</u>	<u>21,512,486</u>
Cash flows from capital and related financing activities:		
Decrease in assets limited as to use held by trustee for capital acquisition	2,262,358	987,888
Principal paid on long-term debt	(1,535,000)	(1,490,000)
Interest paid on long-term debt	(1,670,421)	(1,676,553)
Purchases of capital assets	<u>(14,753,622)</u>	<u>(9,196,323)</u>
Net cash used in capital and related financing activities	<u>(15,696,685)</u>	<u>(11,374,988)</u>
Cash flows from investing activities:		
Increase in investments	(416,475)	(29,798,714)
Consideration paid for acquisition of Palmetto Medical Group, LLC	(409,300)	-
Share of income of investee, net	<u>943,873</u>	<u>360,843</u>
Net cash provided by (used in) investing activities	<u>118,098</u>	<u>(29,437,871)</u>
Cash flows from noncapital financing activities:		
Noncapital gifts and bequests	1,039,796	329,020
Provider relief funding	<u>19,817,416</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>20,857,212</u>	<u>329,020</u>
Net increase (decrease) in cash and cash equivalents	12,707,483	(18,971,353)
Cash and cash equivalents, beginning of year	<u>40,280,280</u>	<u>59,251,633</u>
Cash and cash equivalents, end of year	<u>\$ 52,987,763</u>	<u>\$ 40,280,280</u>

(continued)

Beaufort Memorial Hospital and Other Combined Entity
Combined Statements of Cash Flows (Continued)
For the Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,660,336	\$ 9,814,661
Depreciation and amortization	8,398,716	7,714,420
Provision for bad debts	33,411,888	40,893,190
Loss on disposal of capital assets	9,829	24,199
Adjustments to pension	12,685,721	(5,370,794)
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Patient accounts receivable, net	(36,131,251)	(37,899,519)
Other assets	(23,879)	307,981
Prepaid expenses and drugs and supplies	(1,838,455)	(94,178)
Pension related deferred outflows and inflows	(11,626,434)	8,378,400
Accounts payable	1,152,260	639,686
Accrued expenses and estimated third-party payor settlements	(306,945)	(2,895,560)
Other liabilities	37,072	-
Net cash provided by operating activities	\$ <u>7,428,858</u>	\$ <u>21,512,486</u>
 <u>Schedule of non-cash investing and financing activities</u>		
Capital assets included in accounts payable at year end	\$ <u>253,110</u>	\$ <u>513,888</u>

Beaufort Memorial Hospital and Other Combined Entity
Component Unit - Beaufort Memorial Hospital Endowment Foundation
Statements of Cash Flows
For the Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (1,017,468)	\$ 1,392,479
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Net (gains) losses on investments	(1,462,340)	5,341
Changes in assets and liabilities:		
Pledges receivable, net	(271,169)	43,970
Investments	-	1,137,490
Certificates of deposits	1,241,134	(4,349,446)
Other assets	18,046	(28,309)
Payable to Beaufort Memorial Hospital	1,472,900	(776,181)
Net cash used in operating activities	<u>(18,897)</u>	<u>(2,574,656)</u>
Cash flows from investing activities:		
Obligations under gift annuities	<u>(7,162)</u>	<u>(8,530)</u>
Net cash used in investing activities	<u>(7,162)</u>	<u>(8,530)</u>
Net decrease in cash and cash equivalents	(26,059)	(2,583,186)
Cash and cash equivalents, beginning of year	<u>258,101</u>	<u>2,841,287</u>
Cash and cash equivalents, end of year	\$ <u><u>232,042</u></u>	\$ <u><u>258,101</u></u>

See accompanying notes.

Beaufort Memorial Hospital and Other Combined Entity Notes to Combined Financial Statements

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

Reporting Entity

The combined financial statements of Beaufort Memorial Hospital (“BMH”) and Other Combined Entity (the “Hospital”) include the accounts of Broad River Healthcare, Inc. (“Broad River”), which is a blended component unit of BMH. The Hospital’s combined financial statements are prepared using the accrual basis of accounting. All significant intercompany accounts have been eliminated.

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

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

Organization

BMH is a not-for-profit healthcare facility which owns and operates a 169-bed acute care community hospital, a 14-bed rehabilitation facility and 14 mental health beds located in Beaufort, South Carolina. BMH is governed by a nine member Board of Trustees (the “Board”), whose members are appointed by the County Council of Beaufort County. The Board appoints the Board of Directors for Broad River, which is a supporting organization for BMH. BMH is a public agency as defined in Title 44, Chapter 7, of the Code of Laws of South Carolina, 1976, as amended, and is not included in the financial statements of Beaufort County.

Basis of Presentation

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

The Foundation is a private nonprofit organization that reports under the Not-for-Profit Entities Topic of the FASB Accounting Standards Codification. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation standards.

Beaufort Memorial Hospital and Other Combined Entity Notes to Combined Financial Statements

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. The Organizations maintain bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation (the "FDIC"). At times throughout the year, the Organizations may maintain bank account balances in excess of the FDIC insured limit. It is management's opinion that these financial institutions are financially sound and that the Organizations are not exposed to any significant credit risk related to cash.

Assets Limited as to Use

Debt service reserve funds required for the Series 2014 and Series 2011B Bonds are in segregated cash accounts limited as to use as of September 30, 2019. During the year ended September 30, 2020, this requirement was terminated in accordance with the credit agreement as the Hospital was in compliance with the Long-Term Debt Service Coverage Ratio for the two preceding fiscal years.

Patient Accounts Receivable

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

Drugs and Supplies

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

Investments

The Hospital's investments consist of certificates of deposit carried at cost plus interest with maturities less than 5 years. All other investments are carried at fair value except investments in debt securities with maturities less than one year at the time of purchase. These investments are carried at amortized cost, which approximates fair value. Investment income including realized and unrealized gains and losses are reported as nonoperating revenues.

The Foundation's investments in equity securities with readily determinable fair values and all other investments are measured at fair value on the balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in support and revenue on the statements of activities and changes in net assets. Securities or other investments donated are recorded at their market value at the date of the gift.

**Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements**

Investment in Joint Ventures

The Hospital records its interest in investments where the Hospital has a 50% and 49% interest in two separate corporations under the equity method of accounting. Under the equity method, original investments are recorded at cost and adjusted for the Hospital's share of undistributed earnings or losses, contributions, and distributions.

Capital Assets

Capital assets are recorded at cost or, in the case of donated property, at fair market value at the time of donation. It is the Organizations' policy not to capitalize any asset addition that costs less than \$1,000 or has a useful life of less than 3 years. Assets are depreciated using the straight-line method based on the estimated useful lives of the assets, which range from three to forty years. Additions and improvements are capitalized and depreciated over the estimated remaining lives of the related assets.

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

Net Position and Net Assets

Net position of the Hospital is comprised of two classes. Net investment in capital assets consists 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. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Unrestricted net position of the Hospital at September 30 included the following:

	<u>2020</u>	<u>2019</u>
Impacts of pension accruals	\$ (140,913,692)	\$ (139,854,405)
Other unrestricted net position	<u>119,980,935</u>	<u>123,363,822</u>
	<u>\$ (20,932,757)</u>	<u>\$ (16,490,583)</u>

Net assets of the Foundation are comprised of two classes. Net assets with donor restrictions are those whose use has been limited by donors to a specific time period or purpose. Net assets with donor restrictions are transferred to net assets without donor restrictions when donor restrictions as to time and purpose have been met and are shown as satisfaction of program restrictions on the accompanying statements of activities and changes in net assets. Net assets without donor restrictions are remaining net assets that do not meet the definition of net assets with donor restrictions.

Beaufort Memorial Hospital and Other Combined Entity Notes to Combined Financial Statements

Net Patient Service Revenue

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

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

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Partial payments to which the Hospital is entitled from public assistance on behalf of patients that meet the Hospital's charity care criteria are reported as net patient service revenue.

Recognition of Revenue by Component Unit Foundation

Contributions are recognized as revenue when they are received or unconditionally pledged and are measured at their fair value and are reported as an increase in net assets.

Operating Revenues and Expenses

The combined statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Revenue and Support and Restricted Revenue and Support

The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Contributions received are recorded as support or restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires or is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities and changes in net assets as satisfaction of program restrictions.

Beaufort Memorial Hospital and Other Combined Entity Notes to Combined Financial Statements

Grants and Contributions

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

Under the Not-for-Profit Entities Topic of the FASB Accounting Standards Codification, the Foundation records contribution expense and a payable to the Hospital when the Foundation's board approves the future payment of funds to the Hospital for specified purposes. The Foundation considers these restricted contributions to the Hospital because the funds must be spent for the purposes specified by the Foundation. In accordance with GASB Statement No. 33, *Accounting and Reporting for Non-exchange Transactions*, the Hospital records contribution revenue when the funds are spent for the specified purpose, that is, when the reimbursable costs have been incurred. As a result of the different accounting treatment required under the FASB Accounting Standards Codification and GASB No. 33, the Foundation has recorded a payable of approximately \$2,248,000 and \$776,000 as of September 30, 2020 and 2019, respectively, for which a corresponding receivable has not been recorded by the Hospital.

CARES Act Provider Relief Funding

The Hospital has received provider relief funding under the federal Coronavirus Aid, Relief and Economic Security (CARES) Act. These relief funds are considered non-exchange transactions subject to eligibility terms and conditions specified by the resource provider distributed by the Health Resources Service Administration (HRSA) section of the U.S. Department of Health and Human Services (HHS). These conditions create an eligibility requirement that such funds must be used to prevent, prepare for or respond to the coronavirus (COVID-19) pandemic. This grant revenue is recognized as nonoperating revenue to the extent terms and conditions/restrictions are met for allowable coronavirus related expense or lost revenues. Such funds are subject to recoupment.

Compensated Absences

Certain Hospital employees earn paid days off ("PDO") at varying rates depending on years of service. Accumulated PDO may be carried over each year up to a maximum of 360 hours. The employee may elect to use PDOs or cash in PDO hours as earned.

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

The estimated amount of the PDO payable of approximately \$4,269,000 and \$4,007,000 at September 30, 2020 and 2019, respectively, is reported in accrued expenses on the combined statements of net position.

Restricted Resources

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

Beaufort Memorial Hospital and Other Combined Entity Notes to Combined Financial Statements

Income Taxes

Beaufort Memorial Hospital, Broad River Healthcare, Inc., and Beaufort Memorial Hospital Endowment Foundation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying combined financial statements do not reflect a provision or liability for federal and state income taxes. The Organizations have determined that they do not have any material unrecognized tax benefits or obligations as of September 30, 2020.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice claims and judgments; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. The Hospital is self-insured for amounts up to a specified level for health and medical coverage for its employees. The estimated liability is the total estimated amount to be paid for all known claims or incidents and a reserve for incurred but not reported claims. The Hospital purchases professional and general liability insurance to cover medical malpractice claims. Claims under such coverage are covered based on the date of occurrence.

2. Cash and Cash Equivalents, and Investments

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

Investments at September 30 consist of the following:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 2,629,318	\$ 1,385,717
Certificates of deposit maturing within one year	25,324,663	13,629,687
US Treasury notes maturing within one year	31,596,878	36,766,818
US Treasury notes maturing within two years	8,244,120	16,858,978
US Treasury notes maturing within three years	5,667,720	3,738,095
	<u>\$ 73,462,699</u>	<u>\$ 72,379,295</u>

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the Hospital will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Investments held with third party banks are invested primarily in certificates of deposit and US Treasury notes. Investments with third party banks are fully collateralized and insured as of September 30, 2020 with securities maintained by an outside party.

Beaufort Memorial Hospital and Other Combined Entity Notes to Combined Financial Statements

Concentration of credit risk is the risk of loss attributed to the magnitude of the Hospital's investments in a single issuer. As of September 30, 2020 and 2019, the Hospital's investments consist of approximately 34% and 19%, respectively, of investments that are funded through one local financial institution that purchases CD's on behalf of the Hospital to FDIC insurance levels, all at the same rate and term. This program (Certificate of Deposit Account Registry Service) distributes the funds to numerous financial institutions throughout the country in order to limit the risk by minimizing the investments at each institution to the FDIC coverage level. Approximately 18% and 42%, respectively, of investments are held with one financial institution as of September 30, 2020 and 2019. Approximately 48% and 39%, respectively, of investments are held with another financial institution as of September 30, 2020 and 2019.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital minimizes its interest rate risk by investing in certificates of deposit with maturities of five years or less.

The carrying values of cash and cash equivalents, assets limited as to use and investments are included on the combined statements of net position as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 52,987,763	\$ 40,280,280
Assets limited as to use	-	2,262,358
Short-term investments	59,550,859	51,782,222
Long-term investments	13,911,840	20,597,073
	<u>\$ 126,450,462</u>	<u>\$ 114,921,933</u>

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

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

Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements

For assets carried at fair value, the following table provides fair value information as of September 30, 2020 and 2019:

	<u>Fair value measurements at September 30, 2020 using</u>			
	Fair value at September 30, 2020	Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
<u>Assets measured at fair value</u>				
Cash and cash equivalents	\$ 2,629,318	\$ 2,629,318	\$ -	\$ -
Certificates of deposit	25,324,663	25,324,663	-	-
US Treasury Notes	<u>45,508,718</u>	<u>45,508,718</u>	-	-
Total assets at fair value	<u>\$ 73,462,699</u>	<u>\$ 73,462,699</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Fair value measurements at September 30, 2019 using</u>			
	Fair value at September 30, 2019	Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
<u>Assets measured at fair value</u>				
Cash and cash equivalents	\$ 1,385,717	\$ 1,385,717	\$ -	\$ -
Certificates of deposit	13,629,687	13,629,687	-	-
US Treasury Notes	<u>57,363,891</u>	<u>57,363,891</u>	-	-
Total assets at fair value	<u>\$ 72,379,295</u>	<u>\$ 72,379,295</u>	<u>\$ -</u>	<u>\$ -</u>

3. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at September 30, 2020 and 2019 consisted of the following amounts:

	<u>2020</u>	<u>2019</u>
<u>Patient Accounts Receivable</u>		
Receivable from patients	\$ 31,450,462	\$ 30,779,586
Receivable from third-party payors and other	8,742,862	6,944,973
Receivable from Medicare	11,403,723	10,230,499
Receivable from Medicaid	<u>4,781,469</u>	<u>6,114,400</u>
Total patient accounts receivable	<u>56,378,516</u>	54,069,458
Less: Allowance for uncollectible accounts	<u>(31,917,130)</u>	<u>(32,327,435)</u>
Net patient accounts receivable	<u>\$ 24,461,386</u>	<u>\$ 21,742,023</u>

**Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements**

	<u>2020</u>	<u>2019</u>
<u>Accounts Payable and Accrued Expenses</u>		
Payable to suppliers	\$ 13,080,416	\$ 11,334,539
Payable to employees (including payroll taxes)	<u>11,782,295</u>	<u>13,284,195</u>
Total accounts payable and accrued expenses	<u>\$ 24,862,711</u>	<u>\$ 24,618,734</u>

4. Liquidity and Availability

The Foundation's liquidity management structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation's financial assets available within one year of September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 232,042	\$ 258,101
Investments without donor restrictions	<u>19,801,305</u>	<u>18,245,460</u>
	<u>\$ 20,033,347</u>	<u>\$ 18,503,561</u>

5. Investments in Joint Ventures

The Hospital's ownership percentage and investments at September 30, 2020 and 2019 for entities recorded under the equity method are as follows:

	Percentage of Ownership		Investment		Share of Earnings	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
South of Broad Healthcare	50%	50%	\$ 1,866,638	\$ 1,907,455	\$ (40,815)	\$ 518,992
Broad River Oncology, LLC	49%	49%	<u>1,895,682</u>	<u>910,992</u>	<u>984,688</u>	<u>(158,149)</u>
			<u>\$ 3,762,320</u>	<u>\$ 2,818,447</u>	<u>\$ 943,873</u>	<u>\$ 360,843</u>

The Hospital and Broad River Oncology, LLC entered into an agreement under which the Hospital provides billing services for the joint venture. Each month the Hospital bills and collects patient payments on behalf of Broad River Oncology, LLC, of which 95% is remitted to the joint venture. The remaining 5% is retained by the Hospital as an administrative billing fee.

6. Foundation Investments

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

Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements

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

Among the Foundation's assets, various investments and certificates of deposit were reported at their fair values on a recurring basis. For assets carried at fair value, the following table provides fair value information as of September 30, 2020 and 2019:

	Fair value measurements at September 30, 2020 using			
	Fair value at September 30, 2020	Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
<i>Assets measured at fair value</i>				
Cash and cash equivalents	\$ 2,360,361	\$ 2,360,361	\$ -	\$ -
Equities	11,969,352	11,969,352	-	-
US Treasury Notes	3,040,712	3,040,712	-	-
Corporate bonds	3,554,995	3,554,995	-	-
Other	242,316	242,316	-	-
Total assets at fair value	\$ 21,167,736	\$ 21,167,736	\$ -	\$ -

Not included in the table above is a deposit in transit of \$16,675 related to a transfer outstanding at September 30, 2020 to one of the Foundation's investment accounts. This amount was not received by the Foundation's investment account until after September 30, 2020.

	Fair value measurements at September 30, 2019 using			
	Fair value at September 30, 2019	Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)	Quoted prices for similar assets and liabilities (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
<i>Assets measured at fair value</i>				
Cash and cash equivalents	\$ 1,877,483	\$ 1,877,483	\$ -	\$ -
Mutual funds ⁽¹⁾	194,188	194,188	-	-
Equities	12,845,861	12,845,861	-	-
US Treasury Notes	2,403,390	2,403,390	-	-
Corporate bonds	3,512,739	3,512,739	-	-
Other	129,544	129,544	-	-
Total assets at fair value	\$ 20,963,205	\$ 20,963,205	\$ -	\$ -

⁽¹⁾ These assets at September 30, 2019 consist of: 100% large blend

**Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements**

Prices for assets are readily available in the active markets in which those securities are traded, and the resulting fair values are shown in the "Level 1 input" column.

Investment income is comprised of the following at September 30:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 391,161	\$ 523,926
Net unrealized gains	480,222	801,944
Net realized gains (losses)	982,118	(807,285)
Total investment income	<u>\$ 1,853,501</u>	<u>\$ 518,585</u>

7. Capital Assets

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

	<u>September 30, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>September 30, 2020</u>
Land	\$ 24,631,408	\$ -	\$ -	\$ -	\$ 24,631,408
Land improvements	2,434,225	-	-	-	2,434,225
Buildings	136,223,866	2,441,708	-	3,465,927	142,131,501
Equipment	90,966,620	3,229,756	(669,197)	3,258,835	96,786,014
Construction in progress	3,469,892	9,335,268	-	(6,724,762)	6,080,398
Total at historical cost	<u>257,726,011</u>	<u>15,006,732</u>	<u>(669,197)</u>	<u>-</u>	<u>272,063,546</u>
Less accumulated depreciation:					
Land improvements	1,910,149	90,708	-	-	2,000,857
Buildings	67,049,035	4,389,915	-	-	71,438,950
Equipment	81,454,359	2,821,458	(659,368)	-	83,616,449
Total accumulated depreciation	<u>150,413,543</u>	<u>7,302,081</u>	<u>(659,368)</u>	<u>-</u>	<u>157,056,256</u>
Capital assets, net	<u>\$ 107,312,468</u>	<u>\$ 7,704,651</u>	<u>\$ (9,829)</u>	<u>\$ -</u>	<u>\$ 115,007,290</u>

	<u>September 30, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>September 30, 2019</u>
Land	\$ 24,631,408	\$ -	\$ -	\$ -	\$ 24,631,408
Land improvements	2,434,225	-	-	-	2,434,225
Buildings	123,769,957	32,848	-	12,421,061	136,223,866
Equipment	89,775,366	1,242,156	(183,373)	132,471	90,966,620
Construction in progress	7,588,217	8,435,207	-	(12,553,532)	3,469,892
Total at historical cost	<u>248,199,173</u>	<u>9,710,211</u>	<u>(183,373)</u>	<u>-</u>	<u>257,726,011</u>
Less accumulated depreciation:					
Land improvements	1,800,613	109,536	-	-	1,910,149
Buildings	63,475,004	3,574,031	-	-	67,049,035
Equipment	78,760,476	2,853,057	(159,174)	-	81,454,359
Total accumulated depreciation	<u>144,036,093</u>	<u>6,536,624</u>	<u>(159,174)</u>	<u>-</u>	<u>150,413,543</u>
Capital assets, net	<u>\$ 104,163,080</u>	<u>\$ 3,173,587</u>	<u>\$ (24,199)</u>	<u>\$ -</u>	<u>\$ 107,312,468</u>

**Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements**

8. Excess Consideration Provided for Acquisition

Effective December 1, 2014, Broad River acquired the remaining 60% of the Surgery Center of Beaufort, LLC for approximately \$9,912,000 in cash. Broad River then transferred its ownership of the Surgery Center of Beaufort, LLC to BMH. This transaction resulted in a gain on the Hospital's investment in the Surgery Center of Beaufort, LLC of approximately \$5,455,000 as of the transaction date. Consideration in excess of the assets acquired resulted in a deferred outflow of resources of approximately \$10,722,000 which is included in deferred outflows of resources on the combined statements of net position. This amount is being amortized into future periods over a period of 10 years.

Effective July 1, 2020, the Hospital acquired Palmetto Medical Group, LLC for approximately \$503,000 in cash to grow its physician practices. Consideration in excess of the assets acquired resulted in a deferred outflow of resources of approximately \$409,000, which is included in deferred outflows of resources on the combined statements of net position. This amount is being amortized into future periods over a period of 10 years. The remaining \$94,000 was recorded to capital assets, net.

9. Long-term Debt

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

	September 30, 2019	Additions	Reductions	September 30, 2020	Amounts due within one year
Revenue bonds	\$ 54,805,000	\$ -	\$ (1,535,000)	\$ 53,270,000	\$ 1,585,000
	September 30, 2018	Additions	Reductions	September 30, 2019	Amounts due within one year
Revenue bonds	\$ 56,295,000	\$ -	\$ (1,490,000)	\$ 54,805,000	\$ 1,535,000

On December 1, 2011, BMH issued \$36,700,000 of Series 2011B Bonds. The net proceeds, which were drawn over the 15-month construction and acquisition period, were used to (i) finance land acquisition, site improvements, construction of an administrative building, and emergency room renovations for BMH, (ii) fund interest payments on a portion of the Series 2011B Bonds during the 15-month construction and acquisition period, and (iii) pay all of the expenses associated with the issuance of the 2011B Bonds. The Series 2011B Bonds are secured by revenues of BMH. Interest is payable monthly at 3.28% and principal is payable annually starting in December 2018 through December 2042.

A financial institution directly purchased the Series 2011B Bonds from Beaufort County. The financial institution advanced the principal amount of the 2011B Bonds to BMH from December 2011 through March 2013. The advances were used to pay for the project. BMH pays interest on the advanced principal amounts on the first day of each month, until the Series 2011B Bonds have been paid in full. The initial mandatory purchase date from the financial institution is December 1, 2021.

On November 14, 2014, BMH issued \$21,000,000 of Series 2014 Bonds bearing an initial interest rate of 2.69%. The net proceeds were used to (i) finance land acquisition, site improvements, and certain additions, improvements and renovations to the Hospital's facilities, including the acquisition of equipment, (ii) reimburse BMH for certain prior capital expenditures, and (iii) pay all of the expenses associated with the issuance of the 2014 Bonds. A financial institution directly purchased the Series 2014 Bonds from Beaufort County. The Series 2014 Bonds are secured by revenues and receipts of BMH. Interest is payable monthly

**Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements**

starting January 2015, and principal is payable annually starting in December 2015 through December 2044. The initial mandatory purchase date from the financial institution is December 1, 2029.

The financing arrangements contain several covenants, the most restrictive of which requires the Hospital to maintain certain debt service coverage ratios. The Hospital was in compliance with these financial covenants.

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

Year Ending September 30:	<u>Principal</u>	<u>Interest</u>
2021	\$ 1,585,000	\$ 1,623,108
2022	1,630,000	1,572,483
2023	1,680,000	1,520,325
2024	1,725,000	1,470,702
2025 – 2029	9,445,000	6,474,199
2030 – 2034	10,945,000	4,868,674
2035 – 2039	12,685,000	3,006,699
2040 – 2044	12,560,000	901,813
2045	1,015,000	6,902
	<u>\$ 53,270,000</u>	<u>\$ 21,444,905</u>

10. Endowment Funds

Board designated for endowment net assets are a subset of net assets without donor restrictions whose use has been limited by the Foundation's Board of Trustees. The Foundation's board designated net assets consist of three board designated endowment funds. The endowments are to be used at the discretion of the Foundation's Board of Trustees for the benefit of the Hospital.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

**Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements**

Spending Policy

The Foundation has a policy of requesting annual withdrawals of 5% of the three year running average of the fiscal year end total value of the endowment unless otherwise approved by the Foundation Board of Trustees.

Changes in Board designated endowment net assets, included in net assets without donor restrictions, for the years ended September 30, 2020 and 2019 are as follows:

	<u>Without Donor Restrictions</u>
Board designated endowment net assets, September 30, 2018	\$ 16,267,619
Investment income	458,912
Contributions	313,235
Reclassifications	49,877
Amounts appropriated for expenditure	<u>(812,022)</u>
Board designated endowment net assets, September 30, 2019	\$ 16,277,621
Investment income	1,849,572
Contributions	295,394
Reclassifications	(63,728)
Amounts appropriated for expenditure	<u>(1,014,369)</u>
Board designated endowment net assets, September 30, 2020	<u>\$ 17,344,490</u>

11. Net Patient Service Revenue

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

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed under a prospective payment system called the Ambulatory Payment Classification System ("APCs"). Inpatient non-acute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2013.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are reimbursed at prospectively determined rates per procedures. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2013.

**Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements**

Revenue from Medicare and Medicaid programs accounted for approximately 46% and 9%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2020, and 45% and 12%, respectively, of the Hospital's net patient service revenue, for the year ended September 30, 2019. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term as a result of third party reviews. The 2020 and 2019 net patient service revenue did not change significantly due to changes in the allowances previously estimated for tentative cost report settlements.

Other

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

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

	<u>2020</u>	<u>2019</u>
Gross patient charges at established rates	\$ 817,983,321	\$ 857,816,478
Medicaid disproportionate share	3,850,908	10,498,015
Contractual adjustments	(547,603,049)	(584,299,798)
Provision for bad debts	(33,411,888)	(40,893,190)
Charity care	(5,305,128)	(7,676,404)
Net patient service revenue	<u>\$ 235,514,164</u>	<u>\$ 235,445,101</u>

During 2020, the Hospital paid and received monies under the DSH Program (the "Program"). Under the Program, the Hospital recognized an increase in net patient service revenues related to net DSH funding totaling approximately \$3,851,000 in 2020. During 2019, the Hospital recognized an increase in net patient service revenues related to net DSH funding totaling approximately \$10,498,000. The Hospital paid approximately \$3,939,000 and \$4,042,000 in South Carolina hospital license fees in 2020 and 2019, respectively, included in other expenses. The payments made and revenue received under the Program are determined by state Medicaid guidelines, which are subject to change, thereby causing volatility in the payments made or revenue received under the Program. Payments of disproportionate share funds in the future may be impacted by Medicaid reform initiatives.

Beaufort Memorial Hospital and Other Combined Entity Notes to Combined Financial Statements

South Carolina Medicaid interim DSH payments are subject to audit and a final settlement process. The South Carolina Department of Health and Human Services (“SCDHHS”) has selected the option to redistribute all Medicaid DSH funds to/from all hospitals based on final audit findings. Audit results and redistribution by facility for fiscal year 2015 were communicated by SCDHHS to each facility during 2019 and recorded by the Hospital. In 2019, the Hospital received notification from SCDHHS that the anticipated redistribution associated with the 2014 Medicaid DSH audit resulted in a repayment to the Hospital by SCDHHS of approximately \$80,000. As a result, the Hospital reduced the previously recorded liability of approximately \$2,300,000 and recognized the related change in net patient service revenue. The Hospital has recorded a reserve for DSH years 2017 through 2020 of approximately \$1,960,000, which are included in estimated third-party payor settlements. There is a reasonable possibility that these DSH estimates could materially change for fiscal years after 2016 due to the uncertainty of audit results for all hospitals in the state pertaining to each particular year and the related redistribution by facility. The Hospital anticipates recognition of any Medicaid DSH audit results in the period of notification of such findings and anticipated settlements from SCDHHS, which may result in significant impacts to net patient service revenue in the year of recognition.

12. Professional Liability and Workers Compensation Insurance

The Hospital purchases professional medical liability insurance with coverage up to \$300,000 per individual and an aggregate of \$600,000 on an occurrence basis. The coverage for physicians employed by the Hospital is \$1,200,000 per occurrence. Management believes that any pending claims or unasserted claims would be settled within the limits of coverage and is not aware of any potential claims not filed with the carrier as of September 30, 2020.

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

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

In 2006, the Hospital obtained commercial worker’s compensation insurance subject to a deductible provision of \$100,000. The Hospital is responsible for all costs associated with each incident until the deductible limit is reached.

13. Expenses by Nature

The Foundation’s Statements of Actives and Changes in Net Assets report certain categories of expenses that are attributable to grant programs, supporting functions, or fundraising events. Costs not directly attributable to such programs, supporting functions or fundraising events, including professional services and other expenses are considered general and administrative.

**Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements**

The natural expense breakout for the years ended September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Investment management fees	\$ 141,098	\$ 114,557
Grants to and fundraising for the Hospital	4,573,580	1,477,756
Other	-	195
Bank service charges	6,757	4,842
	<u>\$ 4,721,435</u>	<u>\$ 1,597,350</u>

14. Pension Plan

Plan Description and Benefits Provided

The Hospital contributes to the South Carolina Retirement System (“SCRS”). SCRS is a cost-sharing multiple-employer defined-benefit pension plan administered by South Carolina Retirement Systems, a Division of the State Budget and Control Board. Under SCRS, employees who retire at or after age sixty-five (65) or have twenty eight (28) years of service are entitled to an annual retirement benefit, payable monthly for life equal to 1.82% of their Average Final Compensation times years of credited service. Benefits are fully vested on reaching five (5) years of earned service. Vested employees may retire at or after age sixty (60) and receive reduced retirement benefits. SCRS also provides death and disability benefits. Benefits are established by state statute. A Comprehensive Annual Financial Report containing financial statements and required supplementary information of SCRS is issued and publicly available by writing the South Carolina Retirement System, P.O. Box 11960, Columbia, SC 29211-1960 or at www.peba.sc.gov.

Contributions

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 years ended June 30, 2020 and 2019, respectively. The Hospital is required to contribute 15.41% and 14.41% of earnable compensation for the plan years ended June 30, 2020 and 2019, respectively. In addition, the Hospital is required by the same statute to contribute an additional 0.15% for group life insurance coverage for the plan years ended June 30, 2020 and 2019. Contributions to the pension plan from the Hospital were approximately \$9,900,000 and \$9,000,000 for the plan years ended June 30, 2020 and 2019, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2020, the Hospital reported a liability of approximately \$143,647,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing updated procedures incorporating the actuarial assumptions. The Hospital’s proportion of the net pension liability was calculated on the basis of historical employer contributions. At June 30, 2020 and June 30, 2019, the Hospital’s proportion was 0.50% and 0.51%, respectively.

For the years ended September 30, 2020 and 2019, the Hospital recognized pension expense of approximately \$10,944,000 and \$11,982,000, respectively.

**Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements**

The Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at September 30, 2020:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 2,236,069	\$ -
Liability experience	1,659,528	(543,320)
Assumption changes	178,289	-
Change in proportion and differences between employer contributions and proportionate share of plan	213,598	(11,583,516)
Investment experience	10,572,466	-
Total	<u>\$ 14,859,950</u>	<u>\$ (12,126,836)</u>

The Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at September 30, 2019:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to the measurement date	\$ 2,113,847	\$ -
Liability experience	93,465	(940,837)
Assumption changes	2,642,433	-
Change in proportion and differences between employer contributions and proportionate share of plan	3,049,359	(17,011,693)
Investment experience	1,160,106	-
Total	<u>\$ 9,059,210</u>	<u>\$ (17,952,530)</u>

\$2,236,069 reported as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date that will be recognized as a decrease of the net pension liability in the year ended September 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30:

2021	\$ (5,620,263)
2022	\$ 418,208
2023	\$ 3,000,862
2024	\$ 2,698,238

**Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements**

Actuarial Assumptions

The total pension liability in the July 1, 2019 and 2018 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary increases	levels off at 3.0% - 12.5%
Investment rate of return	7.25 percent

The mortality assumption is dependent upon the member's job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

The long-term expected rate of return on pension plan investments for actuarial purposes is based upon the 30 year capital market outlook. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflations and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgement. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	51%	.36% - 2.73%
Real Assets	12%	.07% - .44%
Opportunistic	8%	.04% - .25%
Credit	15%	.14% - .40%
Conservative Fixed Income	14%	.01% - .21%
Totals	100%	

For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized above. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 5 percent real rate of return and a 2.25 percent inflation component.

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in the SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State code of Laws. Based on those assumptions, each plan member's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Beaufort Memorial Hospital and Other Combined Entity
Notes to Combined Financial Statements**

Sensitivity of the Hospital's Proportionate Share of the Net Pension Asset to Changes in Discount Rate

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the Hospital's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
Hospital's proportionate share of the net pension liability	\$ 178,050,286	\$ 143,646,806	\$ 114,921,660

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of South Carolina.

15. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than their established rates. The Hospital does not pursue collection of amounts determined to qualify as charity care so they are not reported as net patient service revenue. The amounts of direct and indirect costs incurred for services and supplies furnished under the Hospital's charity care policy totaled approximately \$1,121,000 and \$1,660,000 the years ended September 30, 2020 and 2019, respectively. The Hospital uses a cost to charge ratio to estimate the cost of charity care.

16. Commitments Under Noncancelable Operating Leases

The Hospital leases certain equipment under operating leases, which expire over the next seven years. Rent expense was approximately \$2,112,000 and \$2,151,000 for the years ended September 30, 2020 and 2019, respectively.

At September 30, 2020, future minimum lease payments under the noncancelable operating leases are as follows:

2021	\$ 1,598,507
2022	1,468,892
2023	1,455,836
2024	1,390,556
2025	1,390,556
Thereafter	4,988,170
	<u>\$ 12,292,517</u>

Beaufort Memorial Hospital and Other Combined Entity Notes to Combined Financial Statements

17. COVID-19 Pandemic

In response to the global coronavirus disease pandemic across the United States of America, the federal government and a large number of state governments, including South Carolina, have imposed strict measures to curtail aspects of public life in an effort to control further spreading of COVID-19, including limitations on public gatherings, wearing of masks in public, and restrictions on restaurant and other businesses operating capacity.

An outbreak of an infectious disease, including the growth in the magnitude or severity of COVID-19 cases in the Hospital's service area, could result in an abnormally high demand for health care services, potentially inundating hospitals with patients in need of intensive care services. The treatment of this highly contagious disease could also result in a temporary shutdown of areas of the Hospital, diversion of patients, or staffing shortages. Additionally, elective services were deferred in the spring of 2020, which resulted in reduced patient volumes and operating revenues. Further, the changing global economic conditions or potential global health concerns surrounding the COVID-19 pandemic may also affect the Hospital's partners, suppliers, distributors and payors, potentially disrupting or delaying the Hospital's supply chain and delaying reimbursement by governmental, commercial or private payors, as well as impacting their creditworthiness and ability to pay. At this time, it is not possible to accurately predict the significance of the duration of the COVID-19 pandemic, the impact on operating income, the costs associated with responding to this pandemic, or what federal funds may continue be made available to help recover from this crisis. The Hospital has implemented various cost saving measures to help mitigate any financial impact.

In addition to the direct impact to the health care industry, global investment and financial markets have experienced substantial volatility, with significant declines attributed to COVID-19 concerns and associated economic impacts of the curtailment of public life described above. As with nearly all industries and companies operating through the COVID-19 pandemic, the Hospital expects to encounter further volatility and disruption in its operations and in the local, national and global economies.

Although the Hospital has activated plans to address the COVID-19 threat and is operating pursuant to infectious disease protocols and its emergency preparedness plan, the potential impact of the COVID-19 pandemic is difficult to predict and could materially adversely impact the Hospital's financial condition, liquidity and results of operations in the future.

On March 27, 2020, the federal Coronavirus Aid, Relief and Economic Security Act was signed into law, which is intended to provide economic relief and emergency assistance for individuals, families and businesses affected by COVID-19. Various state governments are also taking action to provide economic relief and emergency assistance. The Hospital received CARES Act provider relief funding of approximately \$19,817,000 during the year ended September 30, 2020. The Hospital has recognized nonoperating revenue of approximately \$1,203,000 related to this funding for the year ended September 30, 2020 to the extent the eligibility requirements with the terms and conditions for entitlement to such funding for healthcare related expenses or lost revenues to prevent, prepare for or respond to COVID-19, have been met. The remaining funds of approximately \$18,614,000 are reflected as a provider relief funds advance on the accompanying combined statement of net position. The Hospital has until June 30, 2021 to utilize remaining funds toward expenses attributable to coronavirus but not reimbursed by other sources or to lost revenues per the terms and conditions.

Beaufort Memorial Hospital and Other Combined Entity Notes to Combined Financial Statements

In October and November 2020, as well as January 2021, HHS issued Post-Payment Notices of Reporting Requirements (PPNRR) which established the reporting criteria for providers which received Provider Relief Fund (PRF) distributions under the CARES Act. The PPNRR also provided guidance related to the determination of lost revenues and COVID-19 related expenses under the terms and conditions of the PRF funding received by the Hospital. Due to the nature and extent of the guidance that existed as of September 30, 2020, the issuance of the PPNRR is a substantial change from the initial guidance that the Hospital operated under when attesting to the terms and conditions of the awards and the subsequent guidance HHS had previously issued through its "Frequently Asked Questions" on the PRF website through September 30, 2020. The guidance provided in the PPNRR is advisory in nature, and subject to change, and it is unknown at the report date what impacts this and future guidance will have on PRF funding and revenue recognition. Management has determined that the issuance of this PPNRR guidance is a non-recognized subsequent event that does not provide additional information about the facts and circumstances that existed as of September 30, 2020. As a non-recognized subsequent event, the Hospital has not changed its methodology for recognizing revenue during the year ended September 30, 2020, which was based on the guidance that was available and in effect as of year-end. As such, amounts recognized as nonoperating revenue for the year ended September 30, 2020 are subject to change and those changes could be material. The funds are also subject to future audits and potential adjustment and certain amounts may need to be repaid to the government.

18. Subsequent Event

In October 2020, the Hospital entered into a \$20,000,000 non-revolving credit agreement for a term of one year in order to maintain financial strength given the impact of COVID-19. Interest on the borrowings is based on the one-month LIBOR rate.

Subsequent to year-end, the Series 2011B bond with an outstanding balance of \$34,680,000 and the Series 2014 bond with an outstanding balance of \$18,590,000 were paid in full.

Subsequent events have been evaluated through March 18, 2021, which is the date the combined financial statements were available to be issued.

Beaufort Memorial Hospital
Schedules of Proportionate Share of the Net Pension Liability
For the Years Ended September 30

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability	0.500%	0.510%	0.540%	0.640%	0.590%	0.570%	0.550%
Proportionate share of the net pension liability	\$ 143,646,806	\$ 130,961,085	\$ 136,331,879	\$ 161,610,434	\$ 141,068,727	\$ 121,009,390	\$ 94,585,195
Covered-employee payroll	\$ 62,686,304	\$ 60,570,604	\$ 71,656,661	\$ 71,656,661	\$ 63,952,905	\$ 59,863,440	\$ 49,893,675
Proportionate share of the net pension liability as a percentage of its covered-employee payroll	229.2%	216.2%	190.3%	225.5%	220.6%	202.1%	189.6%
Plan fiduciary net position as a percentage of total pension liability	50.7%	54.4%	54.1%	53.3%	52.9%	57.0%	59.9%

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

Beaufort Memorial Hospital
Schedules of Contributions
For the Years Ended September 30

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 9,762,212	\$ 8,821,480	\$ 7,900,913	\$ 8,377,787	\$ 7,333,988	\$ 6,523,006	\$ 5,289,101
Contributions in relation to the contractually required contribution	<u>9,762,212</u>	<u>8,821,480</u>	<u>7,900,913</u>	<u>8,377,787</u>	<u>7,333,988</u>	<u>6,523,006</u>	<u>5,289,101</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	\$ 63,468,335	\$ 60,685,025	\$ 62,137,975	\$ 68,032,670	\$ 65,497,061	\$ 60,960,016	\$ 52,522,671
Contribution as a percentage of the covered-employee payroll	15.38%	14.54%	12.72%	12.31%	11.20%	10.70%	10.07%

Beaufort Memorial Hospital and Other Combined Entity
Combining Statement of Net Position
September 30, 2020

Assets and Deferred Outflows of Resources	BMH	Broad River	Combined
Current assets:			
Cash and cash equivalents	\$ 52,542,368	\$ 445,395	\$ 52,987,763
Short-term investments	59,550,859	-	59,550,859
Patient accounts receivable, net of allowance for uncollectible accounts of \$31,917,130	24,461,386	-	24,461,386
Other assets	30,007	-	30,007
Drugs and supplies	4,733,762	-	4,733,762
Prepaid expenses	3,273,256	-	3,273,256
Total current assets	<u>144,591,638</u>	<u>445,395</u>	<u>145,037,033</u>
Long-term investments	13,911,840	-	13,911,840
Investments in joint ventures	-	3,762,320	3,762,320
Capital assets, net	<u>115,007,290</u>	<u>-</u>	<u>115,007,290</u>
Total assets	<u>273,510,768</u>	<u>4,207,715</u>	<u>277,718,483</u>
Deferred outflows of resources:			
Excess consideration provided for acquisition	4,869,912	-	4,869,912
Pension deferrals	<u>14,859,950</u>	<u>-</u>	<u>14,859,950</u>
Total deferred outflows of resources	<u>19,729,862</u>	<u>-</u>	<u>19,729,862</u>
Total assets and deferred outflows of resources	<u>\$ 293,240,630</u>	<u>\$ 4,207,715</u>	<u>\$ 297,448,345</u>
Liabilities, Deferred Inflows of Resources and Net Position			
Current liabilities:			
Current portion of long-term debt	\$ 1,585,000	\$ -	\$ 1,585,000
Accounts payable	4,919,998	-	4,919,998
Accrued expenses	19,942,713	-	19,942,713
Provider relief fund advance	18,614,154	-	18,614,154
Estimated third-party payor settlements	4,086,233	-	4,086,233
Total current liabilities	<u>49,148,098</u>	<u>-</u>	<u>49,148,098</u>
Net pension liability	143,646,806	-	143,646,806
Long-term debt, less current portion	51,685,000	-	51,685,000
Other liabilities	37,072	-	37,072
Total liabilities	<u>244,516,976</u>	<u>-</u>	<u>244,516,976</u>
Deferred inflows of resources:			
Deferred pension inflows	<u>12,126,836</u>	<u>-</u>	<u>12,126,836</u>
Total deferred inflows of resources	<u>12,126,836</u>	<u>-</u>	<u>12,126,836</u>
Net position:			
Net investment in capital assets	61,737,290	-	61,737,290
Unrestricted	<u>(25,140,472)</u>	<u>4,207,715</u>	<u>(20,932,757)</u>
Total net position	<u>36,596,818</u>	<u>4,207,715</u>	<u>40,804,533</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 293,240,630</u>	<u>\$ 4,207,715</u>	<u>\$ 297,448,345</u>

Beaufort Memorial Hospital and Other Combined Entity
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2020

	<u>BMH</u>	<u>Broad River</u>	<u>Combined</u>
Operating revenues:			
Net patient service revenue, net of provision for bad debts of \$33,411,888	\$ 235,514,164	\$ -	\$ 235,514,164
Other operating revenue	<u>5,373,194</u>	<u>-</u>	<u>5,373,194</u>
Total operating revenues	<u>240,887,358</u>	<u>-</u>	<u>240,887,358</u>
Operating expenses:			
Salaries and wages	98,842,165	-	98,842,165
Employee benefits	28,490,582	-	28,490,582
Contract labor	4,045,725	-	4,045,725
Supplies	44,983,558	-	44,983,558
Purchased services	21,054,324	1,000	21,055,324
Physician fees	8,015,292	-	8,015,292
Depreciation and amortization	8,398,716	-	8,398,716
Other	<u>25,385,901</u>	<u>9,759</u>	<u>25,395,660</u>
Total operating expenses	<u>239,216,263</u>	<u>10,759</u>	<u>239,227,022</u>
Operating income (loss)	<u>1,671,095</u>	<u>(10,759)</u>	<u>1,660,336</u>
Nonoperating revenues (expenses):			
Investment income	1,610,802	-	1,610,802
Interest expense	(1,670,421)	-	(1,670,421)
Share of income of investee, net	-	943,873	943,873
Provider relief funding	1,203,262	-	1,203,262
Noncapital gifts and bequests	<u>1,039,796</u>	<u>-</u>	<u>1,039,796</u>
Total nonoperating revenues	<u>2,183,439</u>	<u>943,873</u>	<u>3,127,312</u>
Increase in net position	3,854,534	933,114	4,787,648
Net position, beginning of year	<u>32,742,284</u>	<u>3,274,601</u>	<u>36,016,885</u>
Net position, end of year	<u>\$ 36,596,818</u>	<u>\$ 4,207,715</u>	<u>\$ 40,804,533</u>